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UNIVERSAL
CREDIT: HERE TO
STAY?

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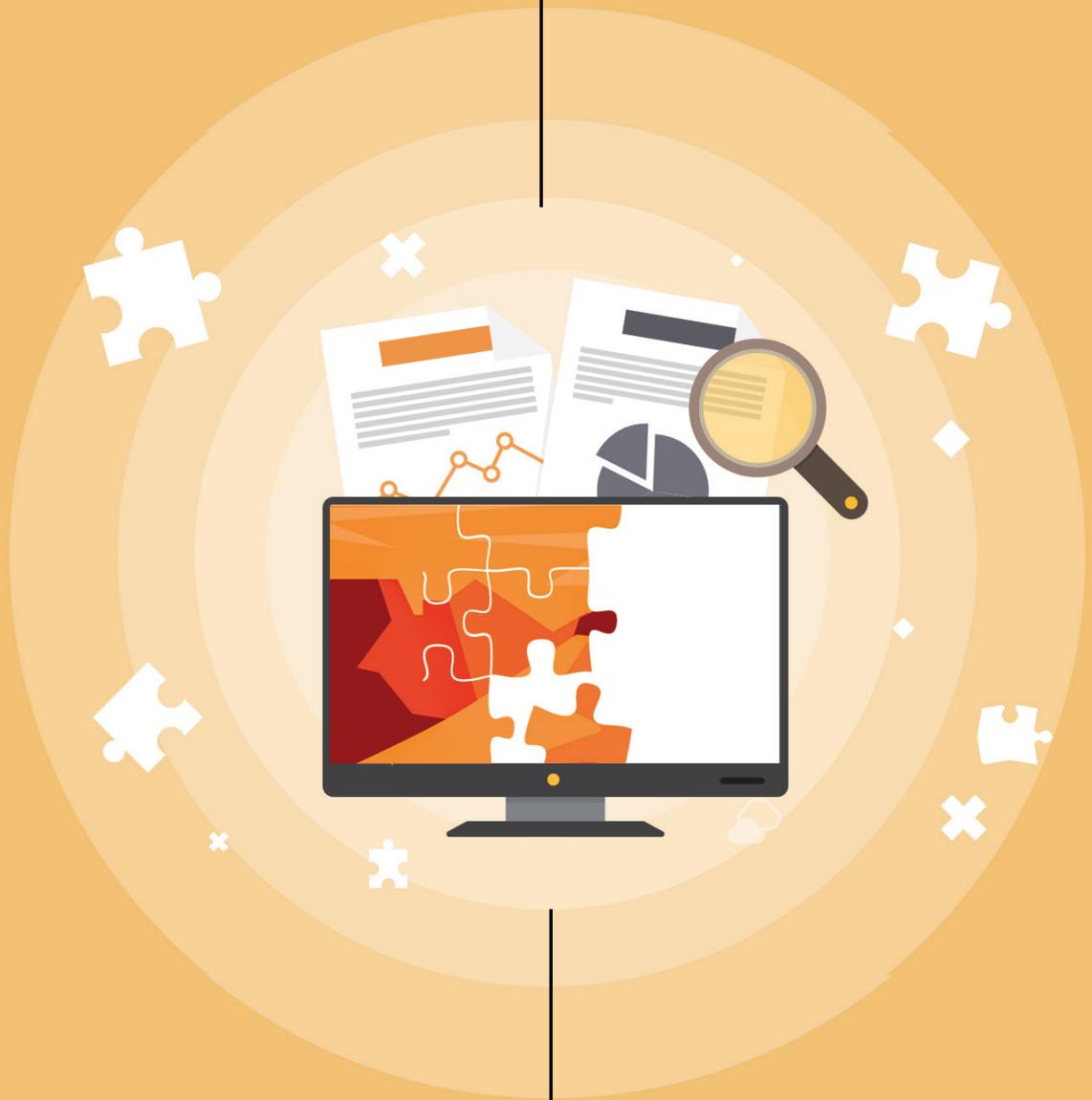
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50 Senior Editorial Team

Dear Reader,

After an intense first term at university, I'm delighted to welcome you to our Winter Edition. This term has been one of success for the Tribune, having accomplished a number of our key goals. Firstly, our team is back up to full strength after a competitive recruitment process, representing each year group from first year up to Master's level. In addition to this, we successfully organised the first ever Drayton Research Skills Session, in collaboration with the department, providing our correspondents with exclusive insights into how to enhance their research and writing. And lastly, I'm proud to now count not one, but two, Nobel Prize winners among our audience, following the successful Nobel Laureates Series run by The Economist's Society. If you enjoyed meeting Jean Tirole and Robert Shiller, then fear not – more is to come!



Our Economics section, in this edition, touches upon issues ranging from finance to welfare. Crowdfunding is becoming an increasingly popular method of sourcing investment, so here we undertake a critical examination of its place in the modern economy, particularly in comparison to venture capital. Another issue at

the forefront of discourse is rampant consumerism: buying and selling has become as easy as a few clicks of the mouse. What are the consequences of this? By investigating the 'fast fashion' industry, we hope to shed light on this matter. Next up, we have a review into emerging markets, analysing the historical lessons learned from the Asian Financial Crisis and applying them to the case studies of Turkey, Brazil and Venezuela. Another issue featured prominently in the media is Universal Credit: most notably its failings. Although based upon sound principles, the rollout of this welfare reform has been mired in controversy, so we take a closer look at the issue here. Lastly, we face up to the realities of an aging economy. Despite scientific advances allowing us to live longer than ever before, socio-economic policy is, in many cases, failing to keep pace. Using Japan as a case study, we investigate this issue further.

This edition also features two Politics articles on the topics of civil war & nation-building in South Sudan and the role of technology in modern democracies, respectively. The former of these begins by telling the story of Jacob Atem, a young Sudanese boy displaced by conflict. This extended article goes on to outline the events leading up to South Sudanese independence, and discusses issues of national identity, ethnicity, structural deficiency and more – for all those with an interest in international development, this is a must-read. The second article builds upon the recent events involving fake news and the Cambridge Analytica scandal, noting that political parties have traditionally been cautious around the use of new technology. However, tech start-ups have been attempting to provide innovative solutions to perceived flaws in modern democracies, so here we discuss a number of existing platforms which claim they have the answer.

Our Research section has grown in size since last year, and this issue provides an overview of the projects being undertaken by our correspondents over the duration of this year. We open with a data-heavy piece aiming to dispel a multitude of common misconceptions about Africa, ranging from GDP growth, to peacekeeping, to women's parliamentary representation. Then, we feature a thorough literature review of austerity urbanism and its related issues, with a view to contributing to contemporary

research into the matter. Deviating slightly from economic to social matters, we begin an investigation into whether or not criminalising indecent images of children reduces child sexual abuse, using panel data.

Moving back to traditional economic theory, we next have an introductory piece on the optimism bias in game theory, with plans to soon instigate real experiments at UCL. We also feature research into the ‘opt-out’ provision of the EU’s Working Time Directive, regarding working hours, aiming to use comparative national data to review its effects on productivity and wellbeing. After this, we have a continuation of the research into China’s One-child policy from our Summer Edition, this time delving further into the perspectives and ideas to consider when dynamically modelling wealth distribution. Last but not least, we have another piece of research focussed on China – this time, we investigate the impact of a universal basic income on income inequality in particular: both its direct and indirect effects.

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Before I end, I wish to notify the reader that the deadline to submit a project proposal for Explore Econ 2019 is still open until 18th January. This is a fantastic opportunity to undertake a piece of independent economic research and present it in the March conference, and having done so last year I can confirm that this is a highly rewarding experience. First year students are eligible to produce a poster when working alone, whereas second years and above may produce a paper or a poster. Do also note that collaboration between students both within and across year groups is permitted, and that pairing up with an older student would allow a first year applicant to enter a paper. If you wish to submit an entry for the conference but have not attended the relevant Skills Lab session, then you will need to visit a committee member first – all details are also available on the website. Good luck!

Kind regards,

James Kinder

Editor-in-Chief 2018/19



EXPLORE ECON



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Economics



Universal Credit: Here to Stay?

Alberto Minghetti

A Brief Overview of the Biggest Welfare Reform since the 1940s

“TRAPPED AT THE HEART of this nexus is the benefit claimant, caught in a mire of bureaucracy and complexity and given little reason or encouragement to advance in work.”¹ This is how the Centre for Economic Justice, the think-tank chaired by Conservative MP Iain Duncan Smith, described the allegedly clunky British welfare system. Their proposal to overcome such perverseness and inefficiency, Universal Credit, was eventually included in the Welfare Reform Act of 2012, passed by the Coalition Government; since then, its implementation has been slow and

riddled with errors. The fact that the above statement can be applied just as well to the new system is bitterly ironic.

Universal Credit is meant to incorporate six different working-age benefits into a single wage-like monthly payment. Such an approach should reduce administrative costs and increase efficiency. Moreover, the claimant would also have greater incentives to work; in fact, refusing employment paid off in some circumstances under the legacy system, thus trapping many people in redundancy and misery. The architects of UC tried to reverse the situation by making the reduction of the monthly amount gradual and in line with income: for every pound earned, the benefit payment is

reduced by 63p. The scheme might then resemble a negative income tax, a concept made famous by the free marketer Milton Friedman such that people earning below a specific threshold would be paid by the government and not vice versa.

A Wobbly Introduction

Reality shattered this rosy picture, as signalled by the eighth delay in the rollout of Universal Credit; its full implementation is set out for December 2023², now six years late. As of June 2018, only 800,000 people have switched to Universal Credit, out of an expected cohort of 8.5 million³. Furthermore, many cuts altered the program structure, making it far less generous for the majority of claimants in reality. Even the Work and Pensions Secretary, Esther McVey, has admitted that “some will be worse off”⁴. Her statement is nothing short of a euphemism: a report by The Resolution Foundation shows that while 2.2 million families will experience a £2,132 annual

² (HM Treasury, 2018) p. 78

³ (National Audit Office, 2018) p. 6

⁴ (BBC, 2018)

¹ (The Centre for Economic Justice, 2009) p. 306

increase in their income, 3.2 million families are expected to lose an average of £2,496 a year, with 600,000 of them losing their benefit entitlement altogether⁵.

Although the rollout so far has been concentrated to the least complex cases, such as single adults with no children, the estimated cost for its implementation has inflated more than six-fold, from £2 billion to £13.6 billion in 2017⁶. However, this increase did not prevent mismanagements and errors. Once a (strictly) online application is made, claimants should receive their first payment in 5 weeks. However, 40% of applicants had to wait 11 weeks since their first claim, while one in ten had to wait up to 130 days⁷. Obviously, these large delays have awful consequences, for instance causing arrears for over a third of claimants, while pushing around 20% of total applicants into debt⁸. Correlation does not always imply causation but, knowing that food bank usage has risen four times faster in areas where UC has been fully implemented⁹, this does ring some bells.

Unfortunately, the shaky rollout of Universal Credit is not the only element to blame for its perverseness. For instance, payments are given to a single adult in the household, thus concentrating welfare access in a single member of the family; as this is typically a man, women are at risk of having their financial independence substantially reduced. Consequently, such an arrangement yields a fertile soil for domestic abuse, while making

it harder to get a divorce. This is because a change in circumstances (e.g. a divorce) would require claimants to submit a new request, thus leaving them penniless for at least five weeks, an outcome most women on benefits prefer to avoid. A report shows that 52% of women living with an abuser feel this way¹⁰. In addition to that, a 2015 £5bn a year cut announced by the former Chancellor George Osborne limited the child credit per family to two: now, a family with four children receives the same amount as one with two.

A Little Less Cloudy

This grim scenario is no reason for worrying at all: the Chancellor, Phillip Hammond, recently announced that the “era of austerity is finally coming to an end”¹¹ and that the 2018 Budget would reflect this. Sarcasm aside, he was not lying. Now, households making the transition to UC will enjoy greater financial protection (though a change in circumstances will still trigger the loss of such protection, possibly causing a return of the problems cited above). Moreover, the amount claimants can earn before any deduction is made to their monthly payment, i.e. “work allowance”, will be increased by £1,000 beginning from April 2019; given the 63% taper rate, this translates to an extra £630 2.4 million households will get to keep each year¹². In all, the former measure will cost £1bn over five years, while the latter £1.7bn annually¹³. The careful reader will have surely noticed that the increased spending is not nearly enough to

reverse Osborne’s 2015 cuts.

Even governmental agencies have concluded that Universal Credit is not “value for money”¹⁴ in comparison to the previous system. However, it has also been recognised that no viable alternatives are possible¹⁵, despite its numerous shortcomings and calls from the Shadow Chancellor to get rid of it altogether¹⁶. Therefore, the only logical conclusion is to try to make Universal Credit a little less dysfunctional than it already is, especially considering that the material wellbeing of a little more than one in ten citizens depends on it (or the fact that it accounts for 7% of all state spending¹⁷). The government’s intention to address some of its critical issues in this year’s budget is warmly welcomed, but a lot more needs to be done in terms of spending and efficiency. For instance, the two-child credit limit and the one-adult-per-household-takes-all policies could be scrapped, while the taper rate could be lowered selectively, thus reducing the number of those who are still better off refusing extra work¹⁸. This is the case for some new parents, since looking after their child becomes costlier as they spend more time away from home to work.

On the one hand, Universal Credit has the potential to be the most successful welfare reform in decades; on the other, it could be one of the worst bets a government has ever taken. Given the Conservatives’ previous attitudes towards risky political gambles, one is safer in resorting to blind optimism.

5 (Brewer, et al., 2017) p. 8

6 (Cabinet Office, HM Treasury, and Infrastructure and Projects Authority, 2018) cell BI12

7 (National Audit Office, 2018) p. 39

8 (Keen, 2018)

9 (Tighe, 2018)

10 (Howard & Skipp, n.d.) p. 8

11 (BBC, 2018)

12 (HM Treasury, 2018) p. 77

(Wright, 2018)

13 (Wright, 2018)

14 (National Audit Office, 2018) p. 63

15 Ibidem

16 (Sabbagh, 2018)

17 (The Economist, 2018)

18 (Ross, 2012)

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Fast Fashion: The Consequences and the Changes

Helen Sun

Fast Fashion: A Briefing

In the age of digitalisation, everything is instant; from multinational fast food chains, to next day deliveries for those fortunate enough to have Amazon Prime. Given the pace of our current lifestyles, it is no surprise that the fashion industry has also been hit by this wave of accelerated consumerism. This is recognised as fast fashion: the phenomenon of ever-changing trends and never-ending wardrobe clear-outs.

In the past two decades, global clothing consumption per year has increased four-fold¹. This increase

in consumption has led to growing pressures on natural resources across the world; the copious amounts of textile-production-advancing land consumption and water pollution poses some serious threats to our climate. Furthermore, the predicted growth of the global population to 8.5 billion by 2030² implies that these issues will magnify if major structural reforms are not introduced and implemented in the industry.

The Consequences of Fast Fashion

1. Land shortages

Materials, such as cotton and leather, used in the production of apparel require a large amount of land in order to be farmed and produced. This creates a trade-off between land used for textiles and land used for food production. With the population on the rise, and demand for the two outputs increasing, it is likely that the price of arable land will inflate in the future.

This may result in decreases in income for small- to medium-scale cotton farmers, but simultaneously create incentives for textile producers to switch to materials that use less land-intensive production techniques. Innovation and research into the development of new materials and synthetics to use in clothing may arise as corporates look for ways to reduce costs. For instance, Singtex, a Taiwanese textiles firm, are using the particles of used coffee grounds and recycled plastic bottles to produce new fabrics³.

The high demand for new fashion also means that older items of clothing are being discarded at a faster pace than before. The Global Fashion Agenda's (GFA) review of the fashion landscape predicts that the waste produced by the industry will rise by 60% between 2015 and 2030⁴ - most of which will end up in landfill sites or be incinerated, as only 20% of all textiles waste is recycled. This has devastating consequences on the environment, as landfill sites disrupt local ecosystems, create groundwater pollution, and increase the health risks of nearby residents -

1 Hogarth, B (2015) '5 crazy facts from the new fashion documentary "the true cost"', Accessed: 06.11.18, <https://www.1millionwomen.com.au/blog/5-crazy-facts-new-fashion-documentary-true-cost/>

2 Global Fashion Agenda and BCG (2017), 'Pulse of the Fashion Industry', Accessed: 09.11.18, https://globalfashionagenda.com/wp-content/uploads/2017/05/Pulse-of-the-Fashion-Industry_2017.pdf

3 Chaboune, A. (2015), 'Alternatives to cotton', Accessed: 09.11.18, <https://www.dandc.eu/en/article/clothing-industry-looking-alternatives-cotton>

4 Global Fashion Agenda and BCG (2017), 'Pulse of the Fashion Industry', Accessed: 09.11.18, https://globalfashionagenda.com/wp-content/uploads/2017/05/Pulse-of-the-Fashion-Industry_2017.pdf

with studies showing that increased exposure may lead to higher chances of lung cancer⁵.

2. Water Consumption and Quality

Currently, the world's consumption of freshwater is within the planetary boundary, indicating that it is at a sustainable level. However, with projections of the growth rates in the population and water-intensive textiles production (e.g. cotton farming) as a result of the fast fashion fad, it is estimated that by 2030, regions with high levels of cotton farming will experience severe water shortages. Countries such as China and India will have to choose between continuing production and supplying enough clean drinking water⁶. This is because the consumption and production of textiles is very water-intensive: the average household uses an astounding 12,000 gallons of water per year for their washing machine⁷.

Additionally, the cultivation of cotton makes heavy use of insecticides and herbicides that pollute the water system. This has severe health consequences, as the chemicals that infiltrate our water supply are consumed by households - allowing toxins to build up in the body. Not only is this bad from a household perspective, but the GFA calculated an annual cost of \$7 billion in healthcare damages incurred by the

5 Newton, J. (2018), 'The Effects of Landfills on the Environment', Accessed: 09.11.18, <https://sciencing.com/effects-landfills-environment-8662463.html>

6 Global Fashion Agenda and BCG (2017), 'Pulse of the Fashion Industry', Accessed: 09.11.18, https://globalfashionagenda.com/wp-content/uploads/2017/05/Pulse-of-the-Fashion-Industry_2017.pdf

7 Portland Water Bureau, 'Indoor Washing Efficiency', Accessed: 09.11.18 <https://www.portlandoregon.gov/water/article/305154>



global economy⁸.

3. Labour and Working Conditions

The key to fast fashion is low prices. The rise of high street stores such as H&M and Zara over the last few decades, selling the latest fashion trends at budget-friendly prices, undoubtedly fueled the acceleration of fashion cycles. More consumers can now afford to change their wardrobe in accordance with the latest styles. However, the low prices that consumers enjoyed were a result of low costs and wages from the producer side; fashion retailers outsourced production to emerging markets, with cheap labour and low health and safety regulations. In developing Asian markets, the minimum labour wage is around 50% of the average living wage, with similar salary patterns occurring in Eastern European countries⁹. The GFA reports that the clothing industry on average has 5.6 injuries per 100 workers per year. This illustrates the implications of a low-cost t-shirt, and sparks debate around the fast fashion industry - is it really worth it?

8 Global Fashion Agenda and BCG (2017), 'Pulse of the Fashion Industry', Accessed: 09.11.18, https://globalfashionagenda.com/wp-content/uploads/2017/05/Pulse-of-the-Fashion-Industry_2017.pdf

9 Global Fashion Agenda and BCG (2017), 'Pulse of the Fashion Industry', Accessed: 09.11.18, https://globalfashionagenda.com/wp-content/uploads/2017/05/Pulse-of-the-Fashion-Industry_2017.pdf

The Changing Scene

Aside from time efficiencies, the new 'instant' generation has a heavy social conscience. More and more retailers are recognising this, as they re-brand to become more sustainable both within and outside of the fashion industry.

New initiatives have been taken by high street brands such as Zara to 'do their bit' for the environment, introducing schemes such as their 'Join Life' campaign: where they help their customers to up-cycle their unwanted clothing by providing recycling bins in their stores. The company then organises the donated items, and either donates or recycles the clothes¹⁰. Similar campaigns can be seen with other retailers such as 'Urban Renewal' for Urban Outfitters and ASOS' 'Eco Edit'.

Despite the fashion industry having a long way to go in terms of sustainability, from these initiatives we can see that there is movement towards a sustainable future for the industry. Retailers are becoming more conscious of the consequences of fast fashion.

10 Zara, Accessed: 09.11.18, <https://www.zara.com/uk/en/sustainability-collection-program-11452.html>

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Why living longer is bad for the economy: Lessons from Japan

Khalif Pradansyah

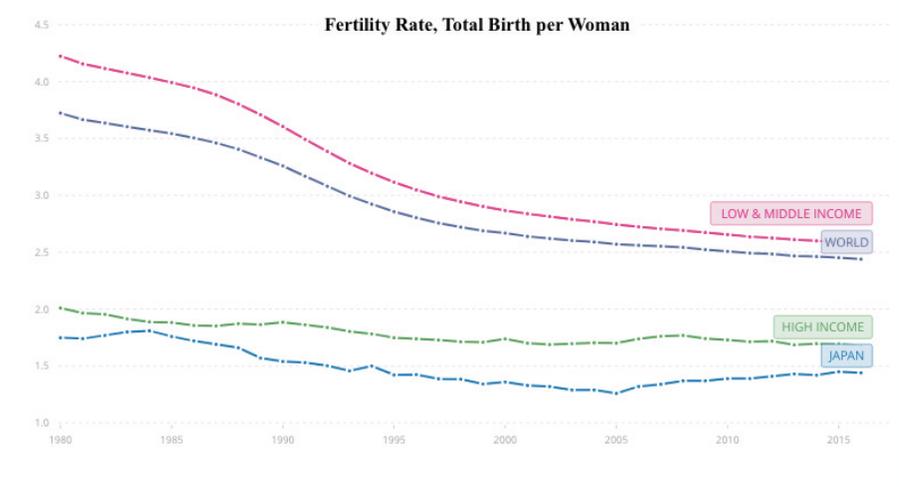
“There are now more adult diapers sold than baby diapers in Japanese supermarkets.” – Business Insider

10

In 1870, one could only dream about living up to 40 years old. Now, it is regarded as the peak of one's productivity. Attempts to live a longer life have shown positive results thus far, with global life expectancy reaching 71.5 in 2015 (Riley & Rosner, 2015). Given this trajectory, living to 100 years old may soon cease to be exceptional.

Even if the field of science has shown good progress, the development of socio-economic policy is still struggling to keep pace. In many More Economically Developed Countries, this higher life expectancy comes together with a lower fertility rate, and it increases the proportion of elderly in the community. This so-called demographic time bomb has led to several issues in productivity, public spending and growth.

Out of all the 'ageing' nations, the impact on Japan is arguably the most obvious so far. The country is faced with numerous challenges from a



slowing economic growth rate to rising levels of dementia. The lessons from Japan will be crucial for other ageing countries to prepare their institutions to embrace this change.

Background

As we can see in the diagram above, Japan has a relatively lower fertility rate compared to the rest of the world. Its rate is falling gradually as the number of marriages decline over time in the country (The Economist, 2014). The Japanese tend to postpone marriage until later in their life or opt not to be bounded in the commitment at all.

Furthermore, inadequate child support aggravates the challenges of raising a child inherent to a country with such high costs of living. Likewise, the support toward women in the labour force is minimal and many are forced to resign should they decide to be a mother. Given these social conditions, couples that choose to have babies will be disadvantaged and many will, in the end, choose not to have one.

Responding to the Demographic Change

Scientific development has successfully helped us to live a

healthier and longer life. But it has not yet found a significant way to sustain our productivity as we age. The data shown by the Nikkei Asian Review (2017) forecasts that the working population in Japan will plunge 40% from 2015 levels by 2065. This shrinking workforce pushed Shinzo Abe to raise Japan's retirement age beyond 65 (Financial Times, 2018). Besides maintaining stability in the labour force, allowing the elderly to enter the labour force could potentially increase the spending rate in the economy and give a desperately needed push to generate growth.

However, encouraging spending in an ageing nation is not that simple. According to Professor Naoyuki Yoshino from the Asian Development Bank Institute (2018), the elderly in Japan spend less than the younger population due to their different consumption preferences. Their spending becomes primarily concentrated on basic necessities such as food and healthcare, making the impact of higher incomes amongst the elderly on aggregate expenditure more tenuous.

This also places increased strain on government policy, as lower consumption by the elderly makes it more difficult for the government

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to achieve their policy goals. At the macro level, the Japanese government has pursued a grand policy blueprint, the three arrows of Abenomics, to spur the economy. This package includes fiscal stimulus through huge infrastructure spending, monetary easing and structural reformation. Abenomics has made some progress, pushing Japan's nominal GDP back into a positive trend as shown below. Still, the inflation rate remains below the 2% target and the Bank of Japan is still very pessimistic about achieving this aim (Japan Times, 2018). This may force the Japanese government to pursue ever higher levels of spending, increasing their budget deficit, exacerbating already high levels of debt.

Spending aside, it is equally important to consider the effect of the change on social welfare. Most of the Japanese elderly rely on government support, resulting in two-thirds of Japan's budget for social benefits going to the elderly population (The Economist, 2017). This transfer payment works well in maintaining the welfare of the older demographic but it brings about harmful and unsustainable consequences in return. First of all, the government is not investing productively as the transfer payments are a reward given without output

produced in return. As a result, it will escalate the burden placed on the working-population to fund this spending, as mentioned by Hikariko Ono, a Japanese government spokesperson (101 East Al Jazeera, 2012). Besides that, economically productive individuals will also bear the social responsibility of taking care of their elder dependences and it often means that they need to compromise on their career. This is shown in the country's rapidly increasing dependency ratio over the past 10 years, exceeding the world average in 2009.

Structural Reformation

As the problem influences the economy in both the short and long term, the solutions should just as well cover both time dimensions. Though Abenomics has shown some progress, the main issues ailing the economy are neither fiscal nor monetary in nature, but are instead structural deficiencies. Hence, it has not yet established a credible and sustainable solution for the country's longevity.

The key towards sustainable and long-term improvement lies in the success of the third Abenomics arrow, structural reformation. The Government of Japan (2017) has



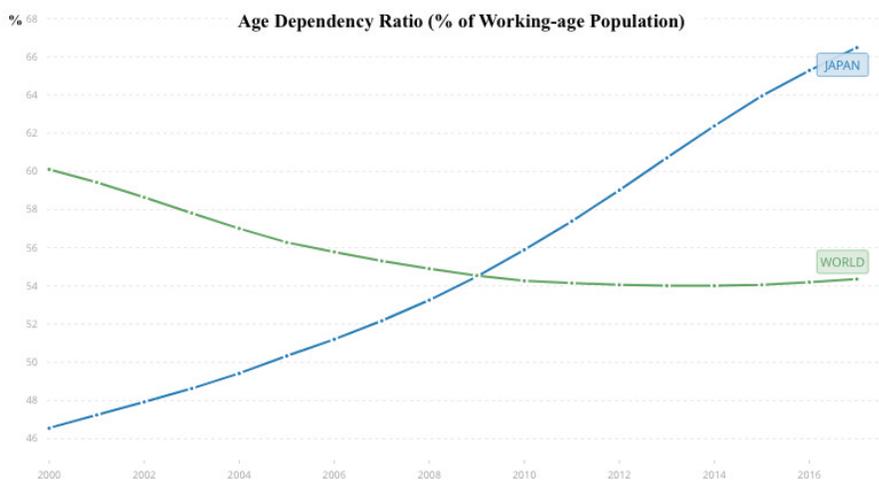
onomist.com

released different growth strategies that it will implement in various different sectors.

Firstly, investment on innovation and technology, which will play a major role in bringing Japan back on track (East 101 Al Jazeera, 2012). Assistance from robotics and artificial intelligence provides support for the elderly to live independently as well as replacing the loss in labour force potential. They also give opportunities for younger individuals to pursue their careers by lessening the social burden placed on them to care for the elderly. Along with larger fiscal spending on education, Japan can hope to improve both its capital and labour, and – ultimately – economic productivity.

Secondly, the government introduced a scheme to empower women in the workforce. According to The Government of Japan (2017), from 2012 to 2016, 1.5 million additional female workers joined the workforce, which can substantially increase the economy's productive capacity.

Subsequently, the strategy also includes a few measures on market liberalization. This includes slashing corporation tax and deregulating, in order to encourage business start-ups. This measure, if successful, will produce more domestic enterprises



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and investment, which will be beneficial in inducing economic growth.

In addition, measures were actually proposed to capture international opportunities to build the economy. It encourages more Foreign Direct Investment (FDI) inflows by providing a business-friendly environment and pushing for more Foreign Trade Agreements (FTA), such as the TPP. According to The Government of Japan (2017), inward FDI is expected to reach 35 trillion yen in 2020, a 43% increase from the comparative amount in 2015. The government also forecasts that Japan's FTA coverage ratio, which is below 40%, will rise further to 45.5% by 2018. However, of course, the success of this will depend on progress in trade negotiations and the ongoing trade war. Engaging with the international market remains crucial for the Japanese, considering the country's deteriorating domestic markets.

Naturally, structural reform entails

a time lag before the Japanese economy sees the benefits of these policies. One immediate alternative to structural reform is increasing net migration to the economy. However, it seems like the government is not in favor of this proposal. Dallin Jack from The University of Chicago (2016) argues that strong nationalist sentiments amongst Japanese people makes large-scale immigration politically unpopular. Furthermore, an interview by 101 East Al-Jazeera with Miyoko Miyazawa, a local nurse in Japan, also shows that the language and culture are two potential barriers that make it difficult to let more people in. Furthermore, even with an optimistic increase in the fertility rate, Japan still needs at least 200,000 immigrants a year in order to meet its lowest population benchmark of 100 million people (Jack, 2016).

Conclusion

Slowly but surely, Japan's economy is catching up. Its growth in the second

quarter of 2018 reached 1.9%, exceeding its 1.4% target (BBC News, 2018). However, the reformation needed in order to sustain higher growth and escape economic stagnation will take a significant amount of time and considerable changes in the society.

The cases occurring in Japan can be used by many developed economies that are on the verge of a similar situation to reassess their preparations to embrace this demographic change. Equivalently, the consequences of an ageing population in Japan could be better handled now if previous governments possessed adequate foresight to target the structural flaws of the economy before they became entrenched.

In the end, instead of addressing the question of whether we will be able to live a longer life, it is time to start thinking whether we will have all the tools necessary to support a longer, better life.

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Crowding Out of the VC Funds

Tom Gray

*'Lots of small contributions are aggregated online to support artistic or creative endeavours'*¹

The Economist's first attempt at describing crowdfunding in 2010 may have lacked a certain creativity, but to a readership still living in the Venture Capital desert created by the financial crash, this new phenomenon was an exciting prospect.

A fairly standard formula has now emerged as the norm for crowdfunding campaigns². Aspiring

entrepreneurs post their idea on a platform like Kickstarter, with flashy promotional videos and posters. They can also offer different reward tiers, which backers who pledge money to the project can access by giving differing amounts. Every individual project has its own funding goal and deadline, by which it will either be successfully backed or banished to the ever-growing scrapheap of failed startups.

Kickstarter is undoubtedly the flagship brand of the crowdfunding movement and, while it provides a convenient marketplace for backers and entrepreneurs to meet, the true genius of the platform is in its interface. Upon opening the Kickstarter website, you are asked what you want to 'explore'. Individual projects have a pulsating

¹ https://ac-els-cdn-com.libproxy.ucl.ac.uk/S088390261300058X/1-s2.0-S088390261300058X-main.pdf?_tid=aa9cfc3d-5b7e-40b8-8c59-

² <https://www.inc.com/guides/2010/04/using-kickstarter-for-business.html>

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'percentage funded' bar with an ominous countdown to the deadline next to it. The entire experience has a sense of urgency mixed with a fear of missing out that is especially enticing to impulse buyers. It is no surprise then that while repeat backers make up only 24% of the overall Kickstarter population, they contribute on average 63% of the funding to each project³.

*'The promo video is a bit too slick and looks like the project is already done'*⁴

This was the rejection feedback received by the entrepreneurial duo behind a 2010 Kickstarter campaign which sought funding for their US\$15 iPhone 4 tripod. Although they eventually raised \$70,000⁵ from strangers looking for an easier alternative to hands, the pair had to comply with the Kickstarter ethos of 'journey building'. The crowdfunding platform's team made it clear in their first mission statement that they didn't simply

3 <https://www.statista.com/statistics/288345/number-of-total-and-repeat-kickstarter-project-backers/>

4 <https://www.economist.com/babbage/2010/10/06/an-atom-based-product-developed-in-bits>

5 <https://www.kickstarter.com/projects/danprovost/glif-iphone-4-tripod-mount-and-stand>

want Kickstarter to be an Amazon for startups. The goal was to be an alternative for creative innovators and artists who could not access venture capital through hedge funds or traditional 'big whale' investors. As such, they wanted Kickstarter campaigns to be the 'diamonds in the rough' which backers could see potential in.

A lot has changed since 2010.

In 2015, 'Pebble Time' posted what many would recognise as a sporty precursor to the Apple Watch on Kickstarter. It turned out to be the most highly funded project to date and reached its funding goal of \$1M in 43 minutes, hitting \$20.4M by the end of its 30-day sponsorship deadline⁶. The lowest contribution, of \$159, gave backers access to the basic model while optional extras could run backers up to \$5000. At the time of posting, Pebble Time was a finished product with production deals already in place, set up by a company which had already released several successful products. The 43-minute record is undoubtedly impressive, but was the result of months of hype building

6 <https://www.kickstarter.com/projects/getpebble/pebble-time-awesome-smartwatch-no-compromises>

on social media which the already well-established company spent thousands of dollars on, including a promo video that was nothing if not slick. The project was by no means alone in its professionalism and represented a shift in Kickstarter's philosophy; 'startups' were effectively using the platform as a payment facilitator along the same lines as PayPal.

While it could be argued that the company is simply expanding its business model, more cynical observers point towards the company's fee structure. Like any investor, Kickstarter works in percentages. Although its compensation varies slightly from project to project, the platform generally takes an 8% cut from the pot of crowdfunded money that entrepreneurs are able to raise. In an environment where only 36% of projects reach their funding goal⁷, Kickstarter is unlikely to object to projects like 'Pebble Time' even if they are not startups in the traditional sense, especially when they bring in \$1.6M in commission.

*'Crowdfunding may turn out to be a fad'*⁸

In a 2010 interview with The Economist, financial commentator Cory Doctorow predicted that crowdfunding was unlikely to become a viable alternative to venture capital, but the numbers really speak for themselves. Kickstarter alone has raised nearly \$4bn across 150,000 funded projects⁹, but beyond crowdfunding's success in

7 <https://www.statista.com/statistics/235405/kickstarter-project-funding-success-rate/>

8 <https://www.economist.com/technology-quarterly/2010/09/02/putting-your-money-where-your-mouse-is>

9 <https://www.kickstarter.com/help/stats>

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opening up new streams of capital for startups, it has the potential to help developing economies in ways which traditional government policy and foreign aid have been incapable of.

The factors hindering economic growth in developing countries are many, but whether you believe that the solution lies in improving healthcare, education, or something else, the problem connecting them all is a lack of available funds. The productivity problem especially prevalent in rural Africa and South East Asia is a direct result of the region's poorly developed formal banking system¹⁰. Farmers and small business owners who could exponentially increase their output through relatively minor investment in capital equipment face interest rates exceeding 50% from small local lenders¹¹. These lenders must charge such high rates because of the risk involved in informal lending, where collateral is non-existent.

Peer-to-peer lending like this shares many characteristics with loan sharking and can have similarly

violent debt collection methods. While other, limited, opportunities in equity-based investment exist, many entrepreneurs with the technical knowledge to make improvements to their businesses lack the financial skills necessary to evaluate proposals¹². Instead, crowdfunding with a charitable intent opens up new opportunities for small businesses to expand, with funds raised through a mix of loans and donations.

One platform, 'Kiva', which specialises in raising funds for small businesses in developing countries, has also seen remarkable growth in the crowdfunding sector. Self-proclaimed 'innovative charities' come and go, but since its conception in 2010, Kiva has facilitated over \$1bn in loans to small business owners in Africa, Asia, and South America¹³. By choosing which projects to invest in directly, the effects of contributions are a lot more visible to backers than simply donating to an established charity. Furthermore, the small scale of contributions to individual

projects means that risk is better dispersed than in peer-to-peer lending. UNICEF prides itself on its low operational budget, where only 11.6% of donations are used for administrative purposes, however even this is still high compared to Kiva's 2.9% transaction fee - the bare minimum, it claims, to keep its servers operational.

'The VC ecosystem appears healthy and driven'¹⁴

While crowdfunding has made an impressive impact in a short timeframe, traditional venture capital funds are as strong as ever; 2017 saw the highest investment in startups since the dotcom bubble, with \$84.2bn going towards entrepreneurs in the United States alone¹⁵. But the rising popularity of crowdfunding does represent a milestone in the democratisation of the modern economy. Countless hours of media coverage have been given to new employment opportunities in the gig economy, but in many ways Kickstarter and its peers are the next stage in the consumer revolution; where the consumer role deepens from merely browsing shop shelves to having a say in the very conception of products. Maybe one day, large firms with development departments and test groups will be a distant memory.

10 <http://www.undp.org/content/sdfinance/en/home/solutions/template-fiche12.html>

11 Beck, Demircuc-Kunt, Laeven, and Levine, (2006)

12 Collier, Gunning (1999) Why Has Africa Grown Slowly?

13 https://assets.brandfolder.com/pd9l7g-arj040-fwfyop/original/Kiva%202017%20Annual%20Report%20-%20Large_Updated.pdf

14 <http://uk.businessinsider.com/venture-capital-funding-peaked-in-2017-2018-1>

15 <https://www.bvca.co.uk/Portals/0/Documents/Research/Industry%20Activity/BVCA-RIA-2017.pdf?ver=2018-07-05-190000-180×tamp=1530813602675>



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Have emerging markets learned their lessons from the Asian Financial Crisis?

Zaar Khan

Emerging Markets have always been seen as a lucrative growth opportunity for investors, but with high returns come high risks. What may seem like an attractive investment on the surface may have many unforeseen structural issues underneath. Global markets learnt this the hard way just over twenty years ago, as the Asian financial crisis struck and many South East Asian countries fell into recession. Twenty years on, I will now examine what happened and look to see whether emerging markets have learned from Asia's mistakes.

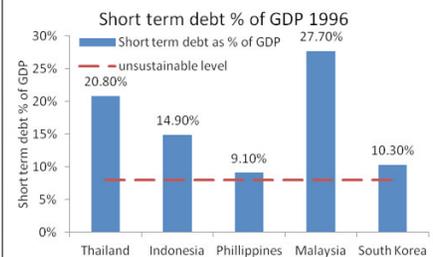
A note on economics

In order to better understand the analysis I am about to present, it is important to recognize some fundamentals of international economics. Firstly, a lot of my

analysis will be around emerging market debt. Typically, due to better liquidity, emerging markets tend to issue dollar denominated debt. This is not an issue when interest rates are low, however during the Asian crisis and in the last few years, rising US interest rates coupled with falling domestic currencies mean it is harder for companies and governments to repay debt. As investors realise this, they end up pulling more money out of the economy leading to further pressure on the currency and it makes it even harder for the emerging market country to service its debt. This leads to a vicious cycle and partly explains why you tend to see currency and debt crises together. These problems can further be exacerbated by a few more factors. Short term debt can be problematic because foreign lenders can refuse to refinance it. This can create a



policy dilemma for governments who may want to raise domestic interest rates to help the currency; however this may harm domestic borrowers and banks' loan returns. You may be asking at this point – given all these risks, why do so many countries pursue these strategies? What must be understood, however, is that these countries are still developing, meaning they may not have the appropriate institutions in place to facilitate large amounts of international finance. This may mean for example that the correct due diligence is not done before proceeding with an investment, therefore it may be riskier than originally perceived. This will be the case for some of the examples examined here and this phenomenon does, in fact, have its own name – irrational exuberance.



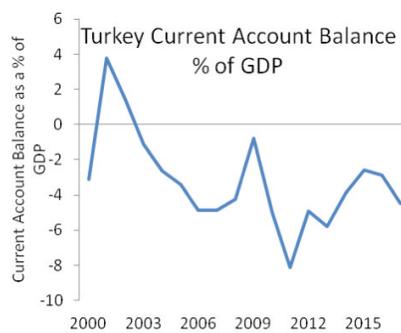
What happened 20 years ago?

In the 1980s and early 90s East Asia was experiencing an unprecedented export-led boom in growth. Although one should be careful lumping all the countries together, their success during this period

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can generally be attributed to a combination of a relatively cheap and well-educated labour supply, falling external barriers and (in some cases) heavy inward investment. These strong economic conditions, coupled with a period of relatively low US interest rates, fuelled an investment boom into the region which led to rising asset prices and eventually bubbles. This proved to be a ticking time bomb however, as a lot of investment in the region had been done by borrowing cheaply in dollars and lending in the more profitable domestic currencies. While interest rates were low this was not an issue, but in the latter part of the 90s the US started raising interest rates and many firms struggled to repay their foreign currency debt. Figure 1 shows how indebted these countries were; 30% is typically seen as a benchmark beyond which the debt is unsustainable.

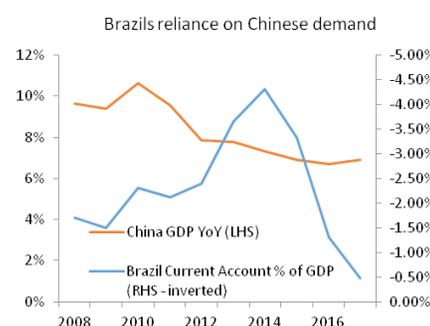
With the currencies fixed (either partially or fully) against the dollar, many of these countries started racking up large current account deficits which weighed heavily on their FX reserves. Each year that a country had a deficit on its balance of payments, in order to maintain balance, it would lose some of its foreign currency reserves. This meant it had less money in order to maintain its currency peg. As one can see, this is far from sustainable. Coupled with these issues, a lot of borrowing that was done in the region was short-term debt. This was problematic as it had to be repaid quickly and was similar to how a company may face cash flow issues; rising interest rates made these countries suffer repayment issues. Figure 2 demonstrates how unsustainable this was.



This mixture of foreign debt reliance, fickle short-term lending and current account woes lead to a perfect storm for a textbook currency crisis. On July 2nd 1997, the crisis officially started when the Thai Baht broke its peg with the US dollar as they were lacking in reserves to support the currency. This led to massive hot money flows out of the region, which then lead to a contagion effect across other countries. Eventually, the IMF had to step in and issue rescue packages to support the region's currencies and economies as long as they followed certain economic conditions. I will now look at a few recent crises and see if parallels can be drawn.

Turkey

Delving deeper, it is easy to draw parallels with Asia to understand what happened. Turkey's economy has had a turbulent time in the past 20 years, suffering a few major crises. Most recently earlier this year, similar to the Asian crisis, investor sentiment turned sour and

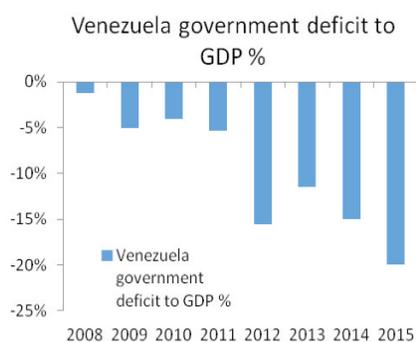


the country was plunged into a debt and currency crisis. This can be attributed to deteriorating economic fundamentals and the president's increasingly unorthodox economic views. Although in the past investors may have shrugged off his rhetoric, Erdogan has recently questioned the independence of the central bank and gone as far as to say that "interest is the mother of all evil". This shift in tone shocked many, and coupled with increasingly aggressive rhetoric against the US, has led to the most recent sell-off. From a longer-term perspective, ever since the authoritarian leader Erdogan took power; the region has been running growing current account deficits (see Figure 3). As with the Asian countries, Turkey was forced to fund the deficit through its FX reserves. It had been managing somewhat well, however this was again unsustainable due to its reliance on foreign capital inflows. Once again, there was a large reliance on foreign debt as well, with over 53% of debt (as a % of GDP) coming from external sources – well above the 30% threshold of Figure 1. One could argue that Turkey's situation is far more dire, however. The Turkish Central Bank (TCB) has been in a battle to tame inflation, much to the dismay of Erdogan. Prices have risen almost 25% on a yearly basis, causing the central bank to raise interest rates to a staggering 24% from 4.5% just a few months prior. The crisis itself is still ongoing; therefore more time will be needed to see how the country will manage.

Brazil

The economy of Brazil has oscillated between incredible highs and lows of economic growth, reaching heights of over 8% and lows of

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-6%. This is another example of reliance on international markets. However, Brazil is different in that it relies heavily on commodities. The most recent post-crisis growth spurt has been driven by demand from China for Brazilian commodities, so when China started slowing down, Brazil felt the pressure (see Figure 4). This deterioration is reflected in the current account balance, which has slowly become more negative, reaching a low of -4.2% in 2014. The worsening trade balance and lower demand for Brazilian exports has put significant pressure on Brazil's currency, the real, pushing it to its lowest level in over 20 years against the dollar. This alone was not the only reason for Brazil's demise; as with Turkey, political woes were rife as a former president was removed from office, and a far right leader has just been elected. Poor fiscal management has also plagued the nation, with government debt (as a % of GDP) ballooning from around 50% in 2013 to close to 75% in 2018 – nearly a 50% increase in just 5 years.

Venezuela

The crisis in Venezuela is one of the worst economic crises to hit emerging markets in modern history. Similar to Brazil, Venezuela depends heavily on commodities – in particular oil – with one of the richest oil reserves globally.

Oil revenue has helped sustain the economy for a number of years, but it also makes it rather vulnerable to fluctuations. The government used the surplus oil money in the past to fund social programmes and food subsidies, however as the oil price fell these policies became unsustainable and the government built up a substantial deficit (Figure 5). The poor economic conditions have led to investors scrambling to pull funds out of the region and the currency has tumbled dramatically. To try and combat this, the government has tried to enforce currency controls; however, these have put a strain on supply, as imports were cut significantly. This inability to pay for imports, coupled with the decline in oil revenues, has led to a momentous shortage of goods. Extreme government intervention to curb the currency has led to the government trying to control the exchange rate. In trying to fix the value at a rate which makes it significantly overvalued, a black market was created. This in turn, coupled with the extreme shortage of goods, has meant the country also suffers from significant hyperinflation.

Conclusion

After reviewing a number of case studies, I believe it is fair to say that emerging markets have some way to go. Although many Asian countries have now recovered, poor institutions and political instability make many developing countries susceptible to the mismanagement of public finances. Although one cannot draw direct parallels between the Asian investment boom which preceded their crisis, it is easy to see how structural deficiencies, coupled with political issues, have

led to some of the crises described above. Looking ahead, Turkey is still muddling through its crisis and Brazil has just elected a new leader - only time will tell as to how these nations will cope in the future.

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VOTE

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A Recurrent Nightmare in South Sudan

Sam Asher

20

Nation building and peacemaking in sub-Saharan Africa

Jacob Atem is a young boy in the southern reaches of Sudan. While his mother and sisters prepare meals and gather water, Jacob tends to a herd of cattle in nearby fields. Later, Jacob will describe his settled, nomadic existence by the River Nile as “beautiful”¹. It will not last. In the distance he hears his life change, in a series of loud pops and screams. Jacob turns to see his village alight.

Jacob’s cousin pulls him to the neighboring woods to hide. Days later, having found a small cohort of other, child, survivors, Jacob

begins to walk. His journey will see him chased by the militia forces that destroyed his home, attacked by wild animals, and literally starved blind. Eventually- forced to flee from an Ethiopian refugee camp and return to danger in Sudan - Jacob learns that his parents were slaughtered, and his sisters enslaved². Once again, he begins to walk.

The story of Jacob Atem’s childhood takes place in the early 90s. It is tragic in that it is not unique; so torn by conflict is South Sudan that a similar tale could be chosen from any decade since Sudanese independence in 1956.

Freed from British-Egyptian rule, Sudan lasted six years without a civil

war³. Long governed by its colonial masters as two separate regions - the predominantly Arabic north and multiethnic south - the British consolidated them in 1946, and this carried over post-rule. The southern separatists Anya-Nya (“snake venom” in Madi) were the first to demand autonomy from the north. In 1972 the government conceded to a degree, signing an armistice in Addis Ababa.

The peace could not endure. After oil was discovered in the south, President Jaafar Nimeriri abolished the Addis Ababa accord⁴. The Sudanese People’s Liberation Movement took the lead in the nation’s second fracture in as many

¹ Jensen, Brennen. "How A Lost Boy from Sudan Found His True Calling in The U.S." NPR. November 03, 2018.t

² "Health Knows No Boundaries." SSHCO

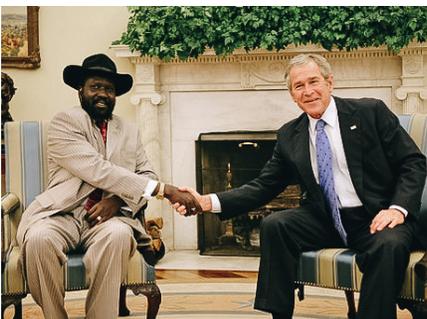
³ "South Sudan Profile - Timeline." BBC. August 06, 2018

⁴ "Brief History of South Sudan." Water For South Sudan.t

decades. It was this fracture which stole Jacob Atem's family from him.

Sudan's second civil war lasted 22 years, one of the longest recorded anywhere in the world⁵. Its legacy was one of death and misery - more than two million perished, and four million were displaced. Respite came close in the late 80s, but the violence-averse President al-Mahdi (having himself deposed Nimeiri) had his tenure end in a coup. The new regime, supported by Islamic fundamentalists, banned political parties and trade unions.

The conflict continued to worsen throughout the 1990s. al-Qaeda bombings of US embassies in Kenya and Tanzania turned the eyes of America to African rebellions, leading to missile attacks near the Sudanese capital of Khartoum. In 2001 - days before the atrocities in New York - President Bush appointed a Special Envoy for Peace in Sudan.



Years of careful negotiation saw one of Bush's greatest foreign policy achievements - the end of war in Sudan. The south was granted a 6-year period of autonomy, at the end of which they would have the option to secede, in return for an immediate ceasefire. The new

⁵ Sudan: Nearly 2 million dead as a result of the world's longest running civil war." U.S. Committee for Refugees, 2001

arrangement faced an enormous test months later, as the new Vice President John Garang - leader of the SPLM - died in a helicopter crash.

The infant Southern Sudanese institutions held firm, despite the loss of one of their chief peacemakers. In 2010, in the first Sudanese elections in 20 years, Salva Kiir was elected as President of the Government of Southern Sudan. In 2011, after a landslide referendum, South Sudan became the world's newest country. After almost 50 years of war, famine, and destruction, South Sudan hoped for robust amity.

The immediate threat to that amity was ethnic conflict⁶. Merely one month after achievement of independence, the UN said that at least 600 had died in ethnic violence in Jonglei state.⁷ South Sudan is home to over 60 ethnic groups, notably the Dinka and Nuer. Kiir, a Dinka, briefly seemed intent on preventing racial tension from submerging the new republic, and appointed Nuer Riek Machar as his vice president.⁸

The significance of this cannot be understated. Machar admitted to leading the massacre of 2000 Dinka civilians in Bor. His presence at the height of South Sudanese legislature was symbolic of a healing, unity government. In a display of disunity, in 2013, Machar announced his intention to challenge for presidency in the 2015 elections. Kiir responded by firing Machar - and the rest of his

⁶ Copnall, James. "South Sudan's Enemy within." BBC. July 01, 2011.

⁷ "South Sudan Attacks 'leave 600 Dead.'" BBC. August 23, 2011.

⁸ Williams, Jennifer. "The Conflict in South Sudan, Explained." Vox.com. January 09, 2017. Accessed November 09, 2018.t

own cabinet.

Months later, Machar-loyal and Kiir-loyal forces fired on one another, amidst still-disputed circumstances. South Sudan's great optimistic peace had lasted a little over 2 years.

Fledgling nations in Africa, especially those whose borders were created by European powers in the late 19th century, face great challenges in rooting strong states. Their obstacles are many - a lack of persistent national identity, the struggle to expand capacity, and the extractive systems instituted by imperial overlords.

In Europe, national identity developed through centuries of combat.⁹ Crucially, this came from external wars - cultural unity was bred through a narrative of the Self and the Other. An opponent makes it much easier to establish a singular, unified protagonist. In post-colonial Africa, this process has never occurred - national identity was imposed through borders drawn in ivory towers.

In fact, this process will likely never occur in Africa. Warfare in early formers is one thing, but in late formers it is another matter entirely. European nations emerged from small, culturally homogeneous groups battling, expanding, and integrating in the face of further threats. This created "common-interest states", with broad political distribution.

African nations are often culturally heterogeneous from the beginning, with no greater uniting identity.

⁹ Herbst, Jeffrey. "War and the State in Africa." International Security 14, no. 4 (1990): 117

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War there tends to lead to dominant classes capturing the executive. These “special-interest states” are doomed to weak institutional strength, even when fiscal capacity is high.¹⁰

Many African nations were predisposed to special-interest governance from birth. Colonial jurisdictional structures favoured a system of highly centralised and unaccountable political power¹¹. For imperial masters, this allowed for maximum extraction from subservient peoples. In a modern context, this fundamentally undermines the goals of institutional inclusivity: broad political distribution and high state capacity¹².

These powerful executives are hard

10 Dincecco, Mark, James E. Fenske, and Massimiliano Gaetano Onorato. "Is Africa Different? Historical Conflict and State Development." SSRN Electronic Journal, 2014

11 Acemoglu, Daron, Simon Johnson, and James A. Robinson. "The Colonial Origins of Comparative Development: An Empirical Investigation." *American Economic Review* 91, no. 5 (2001): 1369-401

12 Acemoglu, Daron, Simon Johnson, and James A. Robinson. "Chapter 6 Institutions as a Fundamental Cause of Long-Run Growth." *Handbook of Economic Growth*, 2005, 385-472

to shift. Institutions are endogenous - those with de facto power in one period choose the institutional arrangement in the next. Without an incentive to change, exclusive institutional arrangements will not self-correct.

This problem, in fact, often limits the development of state capacity also. Without broad political distribution, building a stable fiscal base is near impossible. When people do not believe that their interests will ever be considered or represented, they have little interest in supporting state formation¹³.

Thus, broad political distribution and expanded state capacity must come together. Without one, the other is impossible. Together, they can reinforce and strengthen each other. In Europe this happened gradually. In nations such as South Sudan, this has already failed.

The result is often civil war. Poor institutional arrangements mean that in the exit-voice-loyalty game,

13 Acemoglu, Daron, and James A. Robinson. "Paths to Inclusive Political Institutions." *Economic History of Warfare and State Formation Studies in Economic History*, 2016, 3-50

loyalty is low and voice near impossible. Exit becomes the only choice.

A vicious cycle ensues. Where external conflict is a transient scourge, civil conflict is a chronic disease, a self-sustaining curse. Civil strife destroys political institutions - eroding the legitimacy of the state, and forcing winners, losers, and victims to coexist. The nature of this destruction is hard to pin down - wars are inherently heterogeneous - but the empirical fact remains that one of the strongest predictors of civil war is past civil war¹⁴.

Internal conflict is especially common in low-income environments. Low opportunity costs to joining local militia makes them more attractive options¹⁵; experiments show that participation in organised violence is sensitive to small changes in economic opportunity¹⁶. Of course, it is worth noting the massive economic cost of domestic wars - yet another mechanism by which they are self-supporting.

The final great risk factor for civil conflict is ethnic segregation. Although a localisation of ethnicity results in fewer race-based violent interactions on the individual level, it also reduces positive interethnic interactions. The result is the erosion of interethnic trust - leading to an increase in racial violence overall¹⁷.

14 Blattman, Christopher, and Edward Miguel. "Civil War." *Journal of Economic Literature* 48, no. 1 (2010): 3-57

15 Collier, P. "Greed and Grievance in Civil War." *Oxford Economic Papers* 56, no. 4 (2004): 563-95.

16 Blattman, Christopher, and Jeannie Annan. "Can Employment Reduce Lawlessness and Rebellion? A Field Experiment with High-Risk Men in a Fragile State." *American Political Science Review* 110, no. 01 (2016): 1-17

17 Kasara, Kimuli. "Does Local Ethnic Segrega-

This brings us back to ethnically-diverse South Sudan. Although South Sudan was forged in the flames of an “external” conflict with the Arabic north, ethnic identity competes with national identity in the populace. In Libya, dual national-tribal identities coexist to strengthen the state¹⁸. In South Sudan, ethnic identity is more geographically rigid, and less ideologically flexible than that of Libyan tribes. In the absence of their unifying external war, ethnic identities have superseded the national.

Almost every other risk factor of civil strife and weak institutions is present in South Sudan. The post-independence executive was too powerful and too poorly distributed. Tensions dictated that South Sudan establish a broad political coalition. Although nominal power was shared, de facto power resided firmly with President Kiir - demonstrated perfectly by the 2013 cabinet purge. This was special-interest state-building in all but name.

Furthermore, Southern Sudanese incomes have always been very low¹⁹- due in part to a lack of industrialisation, but also the negative impact of the decades of preceding turmoil. One of the most robust findings of research into civil wars is that they occur most often in low income environments. The opportunity cost of violence is not just low for a young Sudanese man - it is virtually nil.

tion Lead to Violence?: Evidence from Kenya." SSRN Electronic Journal, February 25, 2014

18 Cherstich, Igor. "When Tribesmen Do Not Act Tribal: Libyan Tribalism as Ideology (not as Schizophrenia)." Middle East Critique 23, no. 4 (2014)

19 "World Development Indicators." The World Bank

Is South Sudan doomed, then, to an eternal cycle of self-ruination? The most recent conflict reaches the heights of barbarous cruelty: children gang-raped by soldiers, the elderly burned alive, and reports of people forced at gunpoint to eat the charred flesh of the dead²⁰. Once one the world's greatest achievements in negotiated peace, South Sudan now rests on a mass grave.

Yet on the 31st of October 2018, in Addis Ababa, Salva Kiir and Riek Machar signed a ceasefire. They agreed to share power in the same arrangement as they had before - Kiir as President, and Machar as his vice²¹. Could this be the start of the path to sustained order?

Autonomous recovery is possible²². When wars end either in decisive victory, with one group strong enough to hold control, or when all parties are so battle-weary that they are willing to accommodate each other, stability can be a lasting conclusion. Furthermore, war can generate new state capacity and infrastructure, aiding governance in peacetime.

However, early ceasefires can simply freeze existing, unstable power distributions. They provide only a brief remission, before recurrence once combatants have caught their breath. And when agreements restore an arrangement that violently fractured in the first place, optimism should come with extreme

20 "Rape and Cannibalism in South Sudan, African Union Says." BBC. October 29, 2015.

21 Burke, Jason. "South Sudan Celebrates New Peace Accord amid Joy – and Scepticism." The Guardian. October 31, 2018

22 Weinstein, Jeremy M. "Autonomous Recovery and International Intervention in Comparative Perspective." SSRN Electronic Journal, 2005

caution.

A future for South Sudan will not be derived from any of its existing institutional arrangements, and certainly not from those of the past. There are simply too many structural problems to overcome. Kiir and Machar - first as freedom fighters, then as leaders, and then again as warlords - have known only conflict. Peace for South Sudan surely does not rest in their hands.

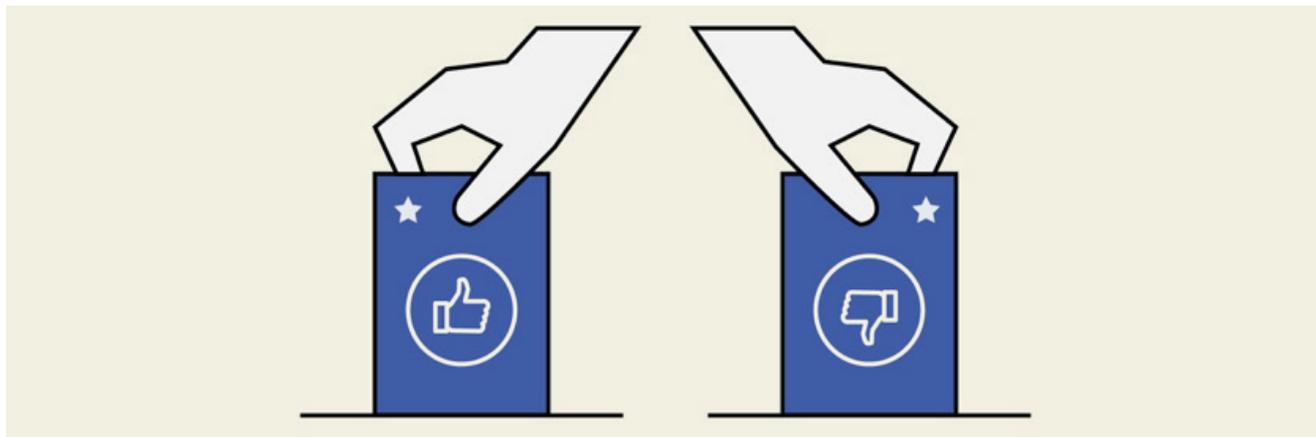
Jacob Atem's story did not end on the banks of the Pibor, expelled from Ethiopia. Jacob eventually found solace in a Kenyan refugee camp. Aged 15, he was flown to a foster family in Michigan, and in 2017 he received a PhD from the University of Florida. Now, Jacob has established the Southern Sudan Healthcare Organisation, a non-profit dedicated to healthcare and education in his homeland. One of his first missions: returning to Maar, the village he fled as a child, to build a health clinic.

Jacob's organisation sums up its vision succinctly - "to bring health and hope to where it is lost"²³. The path to a stable, peaceful South Sudan will not come from those who have led it consistently to destruction. It will come from the ground – from those dedicated to cultural, systemic, and permanent change.



23 "Health Knows No Boundaries." SSHCO.

Politics



Technology as the Saviour of Democracy

Orsolya Dobe

24

Many fear that the growing role of technology in politics can harm our democratic systems. With the Cambridge Analytica scandal and the spread of fake news through social media, it is perceived as an uncontrollable and unpredictable new element of our lives. Surprisingly, this ‘fear of the unknown’ is present not just among the public, but in political parties and organisations as well. Most are not sure how to use the opportunities provided by the swift development of technology, due to the fear of possible wrongdoing. Therefore, they stick to traditional and outdated ways of collecting data, campaigning, and boosting participation.

The cautious perception of technological tools has resulted in a strange transitional phase. Political parties are open to new ideas, however the development of new strategic approaches in campaign

technology and innovative tools to improve the state’s democratic system have come from smaller organisations.

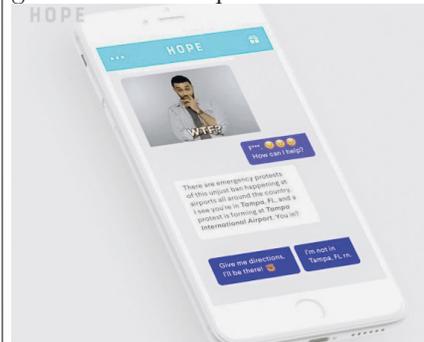
After Donald Trump was elected in 2016, more and more people in the US felt the need to get involved in politics but were unsure how.¹ Political tech start-ups help to answer this question, connecting people to politics with the help of technology.

Hope (US)

Following the result of the 2016 election, the online media and action platform Hope was launched, informing users about the latest news in American politics and suggesting different ways to take action. Hope’s motto is ‘don’t freak out, act smart’²; functioning

¹ <https://qz.com/1153271/silicon-valley-is-flipping-elections-in-its-spare-time/>
² <https://www.purpose.com/hope-is-here-pur->

as a personal political advisor, it sends messages via SMS, Facebook Messenger, and Android and IOS messaging apps.³ For instance, when Donald Trump tweeted about his transgender military ban, Hope built an interactive guide advising people on how start a conversation about the topic, even with people who do not agree ideologically. This intelligent communication platform has the potential to mobilize a new generation of political activists,



help to solve the issue of political ignorance among the youth, and make it possible to respond to political news right away on platforms already in use.

Qriously (Global)

Qriously provides a new, more effective alternative to traditional polling by using a “programmatically

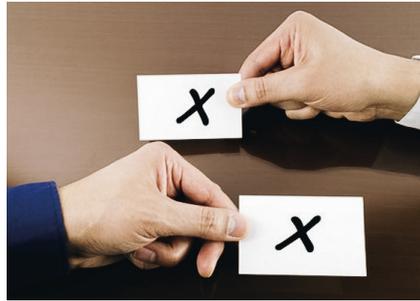
[pose-launches-your-personal-political-advisor/](https://www.purpose.com/pose-launches-your-personal-political-advisor/)
³ <https://moguldom.com/9445/could-these-10-political-tech-start-ups-help-democrats-win-in-2018/>

survey methodology” to gauge public opinion. They describe their method as essentially replacing ads with survey questions to drive engagement among smartphone users. Respondents can voluntarily answer research questions and clients can analyse incoming data in real-time.⁴

Before 2016, the company served only corporate clients, moving into politics after the election. They operate on 1.4 billion devices globally and successfully forecasted the result of the Italian elections, predicted the Labour surge and vote share in the 2017 UK elections better than any other pollster, and predicted losses for the CDU/CSU in Germany.⁵ In 2016, they were the only firm who anticipated the victory of the Leave side in the Brexit referendum. This a fast and accurate method which has a massive global influence, even in hard-to-reach markets like China, India, and the Middle-East.

Swap My Vote (UK)

This initiative attempts to solve the problem of the high proportion of wasted votes in the UK’s current electoral system.⁶ In 2015 almost three quarters of the votes were casted for losing candidates, leading to a lack of direct representation for those voters.⁷ This phenomenon can sadly result in political disengagement and lower turnouts. Swap My Vote believes that the sharing-economy approach can be applied to political processes as well. They built a system that, with the



help of social media, allows citizens to exchange their vote with another person and cast their ballot where it could actually make a difference.⁸

Democracy Club (UK)

Democracy Club is a community of people working on different missions to improve the democratic system.⁹ The projects mainly involve collecting and crowdsourcing valuable information about candidates and elections and maintaining a public archive of campaign materials. With these open data resources, they seek to provide citizens the information they need for informed political participation. Instead of accepting that something is broken in the system, Democracy Club believe we should seek ways to improve it based on the citizens’ needs.¹⁰

They ensure their collected database is easily available and understandable by voters by building applications such as “Who can I vote for?” which has had more than 1.5 million users so far.¹¹

Generally, we can identify three main benefits of the emergence of these companies. First, we can argue

that political tech start-ups have the potential to create a more equal environment for candidates. Often political campaigns are entirely decided by available resources, but with the help of technology and social media, candidates with less money will also stand a chance at winning a majority. Second, innovators can boost political participation by informing voters of their electoral choices and laying out their options for activism. Lastly, technology can revolutionise the way that voluntary activist groups and political campaigns work, by reaching like-minded people and developing the best possible campaign strategies based on the quick analysis of digitalised data.

There is a clear recognition of these strengths from investors. For instance, a group of former Obama staff members started using venture-capital techniques to help progressive start-ups expand.¹² Higher Ground Labs invested more than 1.5 million in 2017.¹³ But do these organisations actually stand a chance of shaping political systems and improving democracy?

It is highly likely that new progressive political campaign technologies have already contributed to the Democrats’ winning back of the majority of in the House of Representatives in November. Whether political tech start-ups have a significant positive impact on our democracies remains to be decided, but one thing is certain: technology will play a much more important role in politics in the near future.

4 <https://www.qriously.com/how-qriously-works/>

5 <https://www.qriously.com>

6 <https://www.tbd.community/en/a/tech-startups-improving-uk-political-system>

7 <https://www.electoral-reform.org.uk/latest-news-and-research/publications/>

the-2015-general-election-report/

8 <https://www.swapmyvote.uk/about>

9 <https://www.tbd.community/en/a/tech-startups-improving-uk-political-system>

10 <https://www.theguardian.com/politics/2017/jun/06/democracy-theres-an-app-for-that-the-tech-upstarts-trying-to-hack-british-politics>

11 <https://democracyclub.org.uk/about/>

12 <https://www.highergroundlabs.com/about-us>

13 <https://www.wired.com/story/obama-als-pour-money-into-political-tech-startups/>

RESEARCH





Unknown continent: On myths, methodologies and missing data on Africa.

Robert Lipinski

Which country has the largest share of women in parliament? Which country contributes the most troops to UN peacekeeping? The answer is not along the lines of Finland and the USA, but a far less intuitive dyad: Rwanda and Ethiopia.

If you weren't caught by these – good for you! But as I will try to show below and in my next articles, there is a widespread issue with getting numbers on Africa right. And getting them right is crucial for identifying areas needing improvement and effective policies. The issue is partially caused by the lack of, or the wrong type of, publicity concerning Africa. Dealing with some popular misconceptions, or “myths”, if you want, is the main goal of this text. We actually have facts to deal with those. Unfortunately, there are also more nuanced and harder to trace problems.

For one thing – the way we quantify things matters. The methodologies behind common indices seem neutral and objective, but might have some unintended consequences. Recent changes in the Human Development Index (HDI), mostly using the

geometric instead of the arithmetic mean to sum component indices, attracted controversy for supposedly placing too much emphasis on the income component, especially for countries lagging behind on this measure. More generally, most of Africa suffers from unreliable or missing data. This is the result of a combination of factors, like: the poor accessibility of rural areas, the lack of uniform standards of collection and the less than rigorous implementation of existing ones. These two issues will be taken up in the next issue.

Myth 1: There are many places bigger than Africa

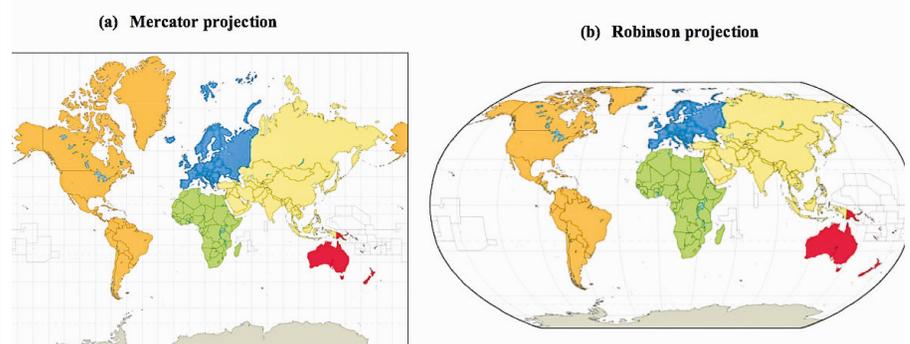
Not really. Africa is the second largest continent. At 30.2 million km², it is 22% larger than the next biggest continent – North America, almost

twice the size of Russia and three times larger than Europe.¹ However, if you look at the maps below, only Map 1(b) seems to confirm that. On Map 1(a) even Greenland seems larger than Africa. What makes the two maps so different is the projection used.

Each map has to distort some aspect of the Earth's surface, because it is not possible to perfectly represent the surface of a sphere in two dimensions. Some aspects of the map, like area or line distance, will be distorted. Map 1(a), which has a common Mercator projection, ensures that all lines of longitude and latitude are parallel and meet at right angles. This feature is useful for navigation purposes

¹ The World Atlas. Available at: <https://www.worldatlas.com/aatlas/infopage/continent.htm> [Access on 11/11/2018]

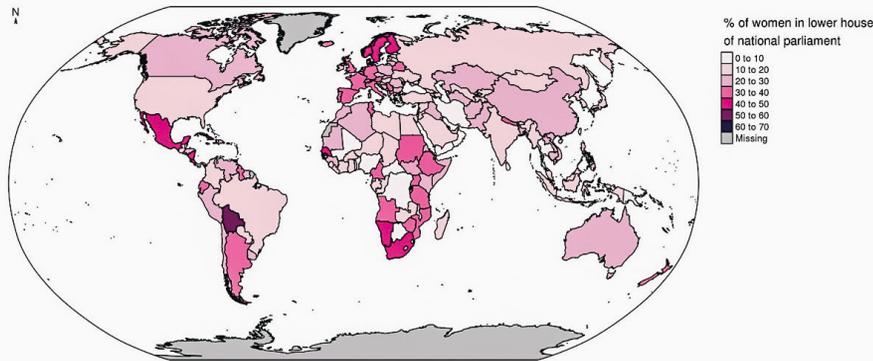
Map 1: Comparison of map projections



Source: The Guardian

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Map 2 Women political representation around the world (as of 01/10/2018)



Data source: Inter-Parliamentary Union
Own design

but heavily distorts area.² Places close to the equator (like Africa) are smaller and areas closer to the poles (like Greenland) are bigger than in reality. Map 1(b) uses the Robinson projection, which is a compromise, trying to minimize all possible distortions.

So, can we find Mercator maps only on ships? Not really. The Mercator projection proved to be quite resilient and is still used in many classrooms. Google Maps was using a version of this projection until earlier this year.³ Gradually it is being replaced by more accurate projections, including the Robinson one, which National Geographic adopted already in 1988.⁴ Other maps used in this article also adopt this projection. Understanding many issues of Africa, like transportation, accessibility, political control etc. require that we appreciate how large a continent it actually is.

Myth 2: Africa is not conducive to female political representation

Women are, certainly in many respects, at a disadvantage or outright peril in many places in Africa, especially conflict zones. What is less obvious is the surprising progress in women's rights in some countries. Rwanda, which experienced a horrible genocide in 1994, seems to be an unlikely candidate to top any "good" rankings, but actually it has gone quite far in advancing women's rights. It has the highest female political representation worldwide, with 61.3% of its newly elected lower house of parliament composed of

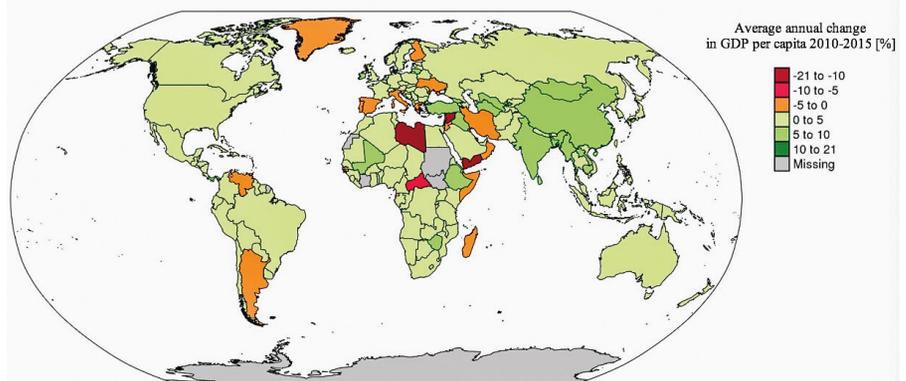
female representatives.⁵ Two other Africa states - Namibia and South Africa - are also in the top 10 of the ranking, and for the whole of sub-Saharan Africa the average women's share in parliament is 23.8%, just a few percentage points below Europe and the Americas.⁶ Map 2 shows these trends more clearly.

What impact do these numbers have? To take the case of Rwanda, for example, Burnet (2011) finds little to no impact of increased women's participation regarding the improvement in democratic processes or the passage of a greater number of women's rights legislation. What she finds however is that electoral quotas for women (30% of seats at all levels of government) have reversed the colonial "gender paradigm" of women working in households and being dependent on men. She also documents an increase in employment opportunities and social mobility for women, especially in urban areas.

In general, the gap between female

⁵ Values as of 01/10/2018. Source: Inter-Parliamentary Union (2018) Women in National Parliaments. Available at: <http://archive.ipu.org/wmn-e/classif.htm> (Access on 05/11/2018)

Map 3 Growth in GDP per capita 2010-2015



Data source: UNCTAD
Own design

² Ibid.

³ a) Griffin, Andrew (07/08/2018) "Google Maps Is Not Flat Anymore, As It Finally Ditches Its Problematic Maps" The Independent
b) Google Maps & Earth Help Forum. Available at: https://productforums.google.com/forum/#!msg/maps/A2ygEJ5eG-o/KbZr_B0h2hkj [Access on 08/11/2018]

⁴ Wilford, John N (25/10/1988) „The Impossible Quest for Perfect Map" The New York Times

⁶ UN Women (2017) Women in Politics 2017 Map

and male workforce participation is also smallest in sub-Saharan Africa, out of all world's regions, at around 10%.⁷ The desirability of this is more difficult to assess than political representation, without looking at it on a case-by-case basis. Female labour force participation on the one hand means more possibilities for economic independence for women. On the other hand, many commentators noted that high female labour force participation in sub-Saharan Africa comes from extreme poverty and low earnings, which force women to work, as men are unable to earn enough on their own.

Myth 3: Economic growth is just not possible in sub-Saharan Africa

Sub-Saharan Africa is the poorest world region, but by no means it is doomed to be so. Ha-Joon Chang notices that if structural disadvantages (climate, diseases, culture etc.) were a permanent check on its development, then we would not have seen a sustained annual growth in GDP per capita in the region, averaging 1.5% in the 1960s and 1970s.⁸ Only then did it slow down, and from 1980 to 2009 sub-Saharan Africa's GDP per capita grew by only 0.2%. Ha-Joon Chang attributes this to the introduction of Structural Adjustment Programmes (SAPs) as a condition of help from multilateral organizations, which forced liberalization of the market and trade on unprepared African economies. It seems a contentious issue, but verifying the merit of this claim is beyond the scope of this text.

7 International Labour Organization (2016) "Women at Work. Trends 2016"

8 Ha-Joon Chang (2010) "23 Things They Don't Tell You About Capitalism" Penguin Books

Table 1 Net ODA values and population of aid recipients countries by regions in 2014

Region	Net ODA (mln \$)	Population (mln)	Net ODA per capita (\$)
Africa	54,193	1,155	46.92
Asia	53,785	3,993	13.47
America	9,949	620	16.04
Europe	8,613	153	56.29
Oceania	1,863	10	186.30
Aid unspecified by region	32,672	--	--
Total	161,075	5 931	27.16

Source: OECD

In terms of average annual GDP growth rates between 2010 and 2015, Africa performed relatively well. In Map 3 we can see that three countries – Ethiopia, Mali and Zimbabwe – averaged more than 5% annual GDP per capita growth for this period. Africa in general wasn't doing noticeably worse than other regions in the world.

What is worrying, however, is the strong presence of Africa in both the top and bottom of the ranking. Libya and the Central African Republic, both devoured by civil war, contracted greatly over this period.

Myth 4: We pour mountains of gold in foreign aid into Africa

We give Africa \$54bn each year in foreign aid. That is around 71.4m³ of gold.⁹ Not exactly a mountain, rather slightly more than half of one London tube car.¹⁰ This still makes Africa largest recipient of foreign aid – but is it a lot?

9 Gold density 19.3g/cm³, source: Royal Society of Chemistry. Periodic Table <http://www.rsc.org/periodic-table/element/79/gold> Price of 1kg of gold as of 08/11/2018 was 39332.82 USD; source: <https://goldprice.org/>

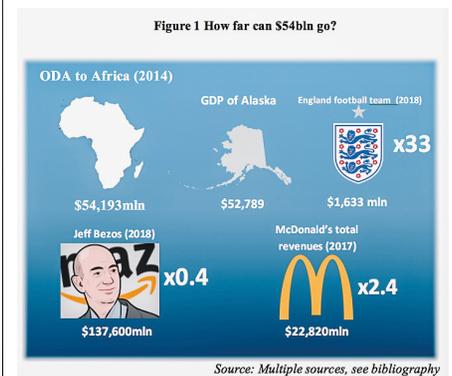
10 Victoria Line 2009 Tube car dimensions: 16.345m x 2.616m x 2.883m ; source : https://en.wikipedia.org/wiki/London_Underground_2009_Stock

Foreign aid is usually measured as Net Official Development Aid (ODA): the value of donor government grants and soft loans to developing countries, aimed at promoting economic development and welfare.¹¹

At slightly above \$54bn, net ODA to Africa is only \$408m larger than to Asia (see Table 1). Of course, Asia is much more populated, but when comparing the two values think how many Asian countries no longer need that much development assistance, including China, which is already a net donor of ODA. Figure 1 also puts \$54bn in some perspective.

One can say that we cannot force donor governments to pledge more funds, or that perhaps they already give as much as they can.

As to the first point, the leaders of developed nations have themselves agreed to set quite an ambitious



target for ODA, at 0.7% of their GNI, as part of the UN Sustainable Development Goals.

Perhaps the target is too ambitious, since only six countries achieved it, and a further three (the United Kingdom, Germany and the Netherlands) came close to it in

11 OECD Data. Net ODA. Available at: <https://data.oecd.org/oda/net-oda.htm> (Access on 05/11/2018)

Research



2017.¹² At the same time, other countries at similar development levels performed far worse, with the United States, Canada and Italy for example contributing less than 0.3% of their GNI to ODA.

Low levels of ODA have persisted well below this self-declared target for decades and there appears to be no signs of incoming change, especially with the increasingly inward-looking foreign policy of the current U.S. administration.

Myth 5: They fight, we make peace

Many African countries might be experiencing armed conflicts. But it is increasingly other African states that are involved in peacekeeping operations and mediation processes. As of September 2018, UN peacekeeping staff is composed of 55.6% African personnel.¹³ Ethiopia was a top contributor, deploying

12 The six countries that achieved 0.7% ODA/GNI target are: United Arab Emirates, Norway, Sweden, Luxembourg, Turkey and Denmark. Data source: OECD iLibrary

13 United Nations: “Contributors to UN Peacekeeping Operations by Country and Post. 30/09/2018”

8,333 staff.¹⁴ Also, five out of seven current peacekeeping missions on the continent have an African state as a top troops contributor.¹⁵

It might be that this increased involvement is jeopardizing the principle of neutrality of peacekeepers. Troops forming part of UN missions ultimately respond to orders from their governments, who are more likely to have their own stake in the conflict if it is happening in their region. Nevertheless, the activity of African countries in this field, often under the auspices of the African Union, proves that these countries can cooperate with each other and with outside actors in fragile situations and that their capacity, both diplomatic and military, to deal with regional conflicts is increasing.¹⁶

Conclusion

The preceding discussion is not to make anyone complacent about

14 Total UN peacekeeping staff was 89,986 in September 2018. Source: Ibid.

15 United Nations Peacekeeping: <https://peacekeeping.un.org/en/mission/unmogip>

16 Karlsrud, John (2018) “The UN at War: peace at operations in a new era” Palgrave Macmillan

progress made in Africa, especially its sub-Saharan part. Most, if not all, countries still face significant issues ranging from economic problems, through diseases to ethnic tensions. The purpose of this text was to bring attention to some common misconceptions and omissions that might distort our dialogue and thinking about Africa as a region. And the list is by no means exhaustive. Topics of refugees, currency, renewable energy and ethnic complexity were among those left on the “cutting room floor”. The reader is strongly encouraged to have a closer look at them in one’s free time.¹⁷

In this article, we looked at different claims using clear-cut evidence and numbers. The issue becomes more complex when the numbers themselves are not objective or are untrustworthy. How problematic statistics on and from Africa can be, will be discussed at length in a later issue.

17 a) Interactive map of refugees, IDP and asylum-seekers: UNHCR Statistics – The World in Numbers

b) Great visualization of ethnic boundaries in Africa: <http://worldmap.harvard.edu/africamap/>

c) Two common currencies of African continent: West African CFA Franc and Central African CFA Franc are also worth reading about. Currently 14 African countries use one of these currencies.



Games and Optimism – The Background

Daniel Drobik

Equilibrium, linear regression, rationality... Most of textbook economics relies on strict assumptions and presents us with simplified models of reality. Microeconomics, especially, is facing a tough challenge: predicting behaviour on a smaller scale. For example, perfect market equilibria – as well as Cournot-oligopolistic – have proven to be prone to optimistic bias (Hu, 2008). The search for more accurate models in a time when quality information is precious gave rise to new branches of the traditional disciplines. Behavioural approaches are connecting psychology and

modern experimental neuroscience with the other social sciences and are crafting tools never used before. The aim of this article, and ultimately my research as a whole, is to present a cognitive illusion called the optimism bias, discuss its significance for behavioural economics and game theory, as well as to explore possibilities of testing models with empirical data adjusted for the bias.

The Optimism Bias

The optimism (or optimistic) bias has been a topic of research from as early as the 50s (Armor & Taylor, 2002). In

recent years, however, psychology has benefited from the modern tools of neuroscience and helped explain this intriguing characteristic of the human mind. The experiments of Dr Tali Sharot from UCL not only confirmed the presence of the optimism bias – the fact that “we overestimate the likelihood of positive events and underestimate the likelihood of negative events” – but also precisely identified its origin in a specific area of the brain (Sharot, 2012a). Defining the optimism bias as “the difference between a person’s expectation and the outcome that follows” (Sharot, 2011a) also allows

Research

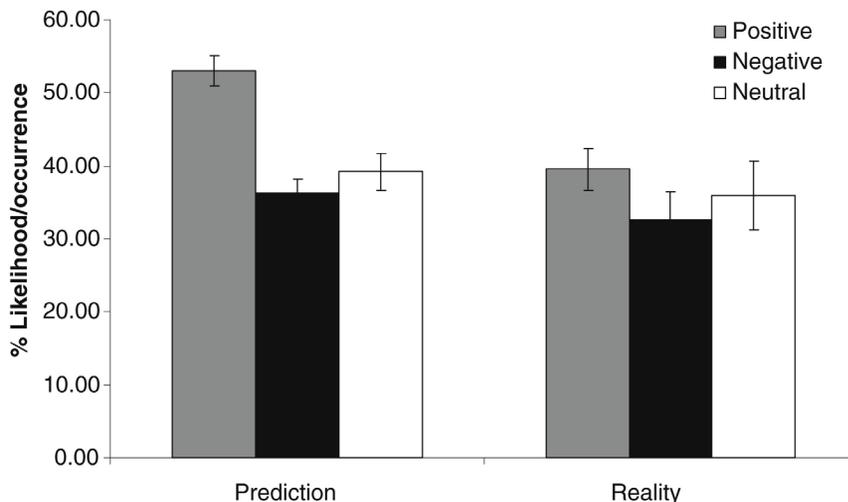


Figure 1: Optimism Bias in Healthy Individuals. Participants in a study by Sharot and Dudai (cited in Sharot 2011a, p. R942, cited in Sharot 2011b) were asked to estimate the likelihood of different events happening to them in the next month. Later they reported back which of the events had actually occurred. The estimated probability of the positive events was higher than that of the neutral or the negative, whereas the realised likelihood of all the events was roughly the same.

for further experiments and gives a way to measure its effects.

The optimism bias has been observed in 80% of people independently of their personal characteristics such as nationality, gender, or age, as well as in certain animals. The notable group missing the optimism bias are those who suffer from depression. It turns out, patients with mild depressions see the world rather realistically and those suffering from more serious forms of depression are pessimistically biased. (Sharot, 2012b).

News in the Nature of Game Theory

In game theory, simple one-shot games such as the Prisoner's Dilemma, as well as very complex extensive forms with imperfect information, can be solved using Nash equilibria as the underlying principle to describe how the players choose their strategies. Strictly logically evaluating all the payoffs in a selfish, rational way, a Nash equilibrium indeed seems like the

desired outcome. (Un)fortunately, in most cases, the 'rationality of agents' assumption is violated. Human minds are complex; we are driven by irrational desires and survival needs, as well as swiftly shifting sentiments. Behavioural game theory evidenced that the traditional equilibrium approach to solving games often fails to predict the decisions of real individuals (Camerer, 2003). The hypothesis behind my research is that, to some extent, the optimism bias can be held accountable for the divergence between the results of models and experimental findings.

The Persistence of the Optimism Bias

Sharot further argues that a reason for the development of the optimism bias during our evolution is to prevent stagnation. When the human race gained the ability to look into the future, each one of us was faced with the realisation that, inevitably, we are going to die. Even by strict theoretical backwards induction, if the ultimate payoff is death, then players should be indifferent between

their choices – no one will evolve. However, through our irrational optimism, a constant picture of our bright future allows us to live on. A whole school of economists has been built on the famous quote "In the long-run, we are all dead" by John Maynard Keynes (1923). It did not leave them hopeless; instead, they crafted theories to make a difference in the world. According to Sharot's research, this "coding" in our brain is very difficult to break. She even provided evidence that being aware of the optimism bias does not make it go away, neither will people change their expectations significantly in the face of the reality.

A famous example of the stickiness of the bias, presented by Sharot (2011a), goes as follows: the participants in a study estimated their likelihood of having cancer as (on average) 10%, then they were told that the actual probability is as high as 30%. Being asked the second time, in the light of the new information, the respondents would only estimate their probability as 11%. They did not believe that they are the ones to whom the 30% probability applies. Furthermore, even though people may be pessimistic about the government, the economy or global peace, they are still optimistic about their own future and the future of their family (Sharot, 2011a).

Armor and Taylor (2002) obtained similar results. They conducted an experiment, in which the respondents were asked questions about their future outlook. These questions included future salaries, number of children or the likelihood of negative events such as illnesses. Their results showed that "between 85% and 90% of respondents claim that their future will be better - more pleasant and less painful – than the future

of an average peer.” Again, the respondents were optimistic about their own future but not necessarily about the future of others. Camerer and Lovallo (1999, cited in Armor & Taylor 2002) studied how this difference in relative expectations of success affects market entry decisions in their paper. I want to test whether the players in strategic situations expect better payoffs for themselves and worse for their opponents, effectively influencing their decision making.

Implications for the Real World

The optimism bias is now a well-established concept. Adjustment for optimism bias is possible and, in the field of business and project managements, the concept is applied on regular basis. By the Guidance of HM Treasury on appraisal and valuation (HM Treasury, 2013), projects have to be adjusted for excess optimism on key parameters. Bands and criteria for choosing the correct adjustments are laid out in their Green Book. The budget for the 2012 London Olympics, for example, had to be revised as well. The revised budget after performing all adjustments, including the optimism bias, was almost 300%



higher than the original one (Jennings, 2011). Similarly, in his dissertation, Hu (2008) examined a model of the northwest European electricity market. For example, he found that uncertainty about the implementation of new technology resulted in an optimistic bias of the total surplus, quantified as 14 000 to 18 000 €/hr.

Conclusions

The new fields of behavioural economics and behavioural game theory are arising to devise new methods of explaining human actions. This is increasingly more important in an age of computers, widely available knowledge and the promotion of diversity. Each individual has a unique personality and are not one of thousands of uniform agents in the models anymore. The results of game theory and the effects of behavioural approaches can be carefully tested in experiments (Gintis, 2011). Games such as the Ultimatum game, Prisoner’s Dilemma (simple or repeated) and the Public Goods game have been played by many sample groups and the results have never quite matched mathematical predictions. In my research, I want to have my own go at these traditional economic experiments. I do not expect the results of the experiments to be in accordance with the predictions; my aim is to devise an individual measure of optimism bias and then apply it to the results as an adjustment mechanism. Consequently, I hope to clarify some of the effects of optimism bias on private decision making – to check and re-evaluate the predictions of game theory if I remove the effect of the optimism bias.

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Research



Does criminalising the possession of indecent images of children reduce child sexual abuse?

Edwin Mu

Introduction

On 6th April 2010, simple possession of non-photographic child pornography became a crime in England, Wales and Northern Ireland under section 62-68 of the Coroner and Justice Act 2009. Although possession of indecent photographs and pseudo-photographs (i.e. computer-generated images that resemble photographs) of children has long been prohibited in England and Wales,¹ the prohibition of

indecent non-photographic material has met some criticisms.²

Before I continue, to avoid confusion, I'll use the term "fictional child pornography" (FCP) to represent "non-photographic child pornography" or "indecent images of children", which are the same thing. This is in accordance with the term used in a recent literature review by

¹ Criminal Justice Act 1988, s 160; Amended by 1994 c. 33, s. 84(4)(a) to extend to pseudo-photographs. <https://www.legislation.gov.uk/ukpga/1988/33/part/XI/crossheading/possession-of-indecent-photograph-of-child?view=extent>

² For instance, see Ost, S. (2010). "Criminalising fabricated images of child pornography: A matter of harm or morality?" *Legal Studies*, vol 30, no 2, pp 230–256. <https://doi.org/10.1111/j.1748-121X.2010.00161.x>; Also, Reeves, C. (2013). "Fantasy depictions of CSA: The problem of ageplay in Second Life", *Journal of Sexual Aggression*, vol 19, no 2, pp 236–246, DOI: 10.1080/13552600.2011.640947

Al-Alosi.³ Likewise, I'll use the term "real child pornography" (RCP) to represent "indecent photographs and pseudo-photographs".

What makes the prohibition more controversial than its predecessors is that, by definition, non-photographic images involve no actual children in production and don't look like real children. As a result, direct harm to actual children involved in its production, a main rationale for banning RCP, does not generally exist in this case since FCP (e.g. cartoons) can be created out of authors' imagination; the fact that FCP may look distinct from reality leads to the suggestion that viewers of FCP may be able to distinguish between fantasy and reality or even use it as a "release" so as to suppress their impulse to abuse.⁴

Neither legislators nor critics have sufficient empirical evidence to fully back up their argument. During consultation, the Home Office acknowledged that they were "not aware of any specific research carried out to ascertain whether there is a direct link between possession of these images and an increased risk of sexual offending against children".⁵ Very recently, Al-Alosi confirmed that a paucity of empirical evidence exists,⁶ consistent with the outcome

³ Al-Alosi, H. (2018). *The Criminalisation of Fantasy Material: Law and Sexually Explicit Representations of Fictional Children* (1st ed.).

⁴ Ministry of Justice and Northern Ireland Office. (2008). "Consultation on Possession of Non-Photographic Visual Depictions of CSA: Summary of Responses and Next Steps", p 13. <http://webarchive.nationalarchives.gov.uk/+http://www.justice.gov.uk/docs/consultation-non-photographic-response.pdf> [Accessed on 04/11/2018.]

⁵ Home Office, Scottish Executive and Northern Ireland Office, (2007). "Consultation on Possession of Non-Photographic Visual Depictions of CSA", p 6. <https://www2.gov.scot/Resource/Doc/1099/0048474.pdf> [Accessed on 04/11/2018.]

⁶ Al-Alosi, (2018). p 95.



(Although what's drawn here is a heart, it's not an actual heart.)

of my own literature search. My research will aim to fill this gap by using econometric methods to assess whether the criminalisation has achieved the intended reduction in child sexual abuse (CSA).

As the first part of my research, in this article I shall start by presenting an overview of rationales behind the criminalisation and the existing empirical evidence. Then I shall briefly suggest my source of data. Discussion about methodology will be presented in my next article.

Rationales Behind the Criminalisation

In the debate about criminalising the possession of FCP, three theories that could provide justification have been proposed: the Harm Principle, the Offence Principle and Legal Moralism.⁷ Because the latter two are concerned with public welfare instead of the incidence of CSA, they are beyond the scope of my research.

The Harm Principle suggests that if the possession of FCP causes more CSA, then the possession should be prohibited;⁸ various channels through which such causation might exist include grooming, desensitisation and incitement.⁹

7 Ibid, p 83.

8 Al-Alosi, (2018). p 93.

9 Ibid, p 93. See also Gillespie, A. (2011).

Grooming refers to “the process whereby potential child molesters build trust and an emotional connection with a child to facilitate sexual abuse”.¹⁰ As argued by the US Attorney General in the landmark case of *Ashcroft v. Free Speech Coalition* in 2002, FCP could be exploited by child molesters to lull children into believing that CSA is acceptable, especially given that FCP could be created in a way that makes fictional children involved seem “happy”.

Although grooming itself has been criminalised in England and Wales since 2017, when it became illegal for an adult to communicate with a person younger than 16 years with a sexual intent,¹¹ given the time gap between the criminalisation of FCP and grooming, it's possible that between 2010 and 2017, grooming utilising FCP still led to more CSA.

The argument of desensitisation suggests that FCP may instil the belief that CSA is normal into potential criminals,¹² and the argument of incitement contends that FCP could arouse potential abusers' “sexual appetite”.¹³ Both of them result in more CSA.

If the consumption of FCP causes more CSA, then reducing its consumption should also reduce CSA. Economics of crime provides a few theories regarding how such a

reduction can be achieved through criminalisation.¹⁴ The theories can be applied to my topic as follows: firstly, those imprisoned for possessing FCP will be unable to commit CSA. Secondly, the risk of imprisonment and disreputation adds to the cost of possessing (and thus viewing) FCP. A rational consumer, aware of the criminalisation, will give up viewing FCP when cost outweighs benefit, which leads to less CSA (via the channel of grooming, desensitisation and incitement). Thirdly, there may be a norm among FCP viewers that perpetuates viewing. If some viewers stop viewing, the norm is undermined, which leads some other viewers to quit. Finally, the criminalisation may lead to a habit of not viewing FCP. After a habit is established, potential viewers will not do a benefit-cost analysis even if the benefit of viewing might actually outweigh cost for a potential criminal.

It should be noted that, since there's a consensus that RCP is more damaging than FCP, a less severe penalty is introduced for possession of FCP than that of RCP so as not to incentivize FCP viewers to watch RCP once they breach the law.¹⁵

As discussed earlier, FCP might also act as a substitute for reality, in which case consumption of FCP would reduce CSA and criminalisation of it would lead to the unintended consequence of increasing CSA. If neither effect exists or they offset each other, then criminalisation of possessing FCP should have no impact on CSA.

Child pornography: Law and policy. Abingdon: Routledge, pp 105-108.

10 Ibid, p 93.

11 Serious Crime Act 2015, s 67.

12 Coroners and Justice Bill Explanatory Notes (2009). para 856. <https://publications.parliament.uk/pa/ld200809/ldbills/033/en/2009033.pdf> [Accessed on 04/11/2018.]

13 Child Pornography Prevention Act of 1996, H.R.4123, 104th Cong. (1996). s 2(4). <https://www.congress.gov/bills/104th-congress/house-bill/4123/text> [Accessed on 04/11/2018.]

14 Eide, E. (1994). “THE DETERMINANTS OF CRIME”, In *Economics of Crime: Deterrence and the Rational Offender* (pp 7-85). [https://doi.org/10.1108/S0573-8555\(1994\)0000227004](https://doi.org/10.1108/S0573-8555(1994)0000227004) (pp 26-29)

15 Home Office, Scottish Executive and Northern Ireland Office, (2008).

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Existing Empirical Studies

To the best of my knowledge, current empirical studies relevant to the relationship between FCP and CSA focus on the characteristics of a small sample of individuals: they compare the traits of criminals and non-criminals to see if a particular action leads to more crime. Those studies yield inconclusive results; what's more problematic is that they are not directly related to FCP, so extrapolation is required when using their results to discuss whether viewing FCP leads to CSA.

As discussed earlier, FCP might lead to more CSA through grooming. To the best of my knowledge, there haven't been studies to confirm this suggestion.¹⁶

One debate closely related to our topic is whether having sexual fantasy contributes to sexual abuse, because FCP is a manifestation of fantasy,¹⁷ and fantasy could result in desensitisation towards CSA as well as incite potential abusers. In their comprehensive literature review, Leitenberg and Henning concluded that "no evidence that sexual fantasies, by themselves, are either a sufficient or a necessary condition for committing a sexual offense."¹⁸ This conclusion is corroborated by a later study involving control groups which found that both offenders and non-offenders had sexual fantasies involving children and "the number of sex offenders reporting deviant fantasies is too low" to establish a causal relationship.¹⁹ Meanwhile,

16 Al-Alosi, (2018). p 93.

17 Al-Alosi, (2018). p 93.

18 Leitenberg, H. and Henning, K. (1995). "Sexual Fantasy". *Psychological Bulletin*, vol 117, no 3, pp 469-496. (p 488)

19 Langevin, R., Lang, R., and Curnoe, S. (1998). "The Prevalence of Sex Offenders with Deviant Fantasies", *Journal of Interpersonal*

there are also studies suggesting that fantasy does lead to sexual abuse. For example, Howitt reported that it was generally accepted by clinicians that fantasies would escalate and incentivize potential abusers to commit the crime.²⁰

Another related topic is whether viewing FCP leads to viewing RCP, which may be more likely to cause desensitisation and incitement. To the best of my knowledge, in line with Gillespie²¹ and Reeves²², there haven't been studies ascertaining the relationship between them. Moreover, whether viewing RCP leads to more CSA is also subject to question²³: RCP was usually found in child sexual abusers' possession²⁴, but it has been argued that not many consumers of RCP have committed CSA and they show a low risk of committing CSA in future.²⁵ While some surveys claimed that viewing RCP could act as a substitute for committing CSA,²⁶ other surveys found that RCP did cause desensitisation and

Violence, vol 13, no 3, pp 315-327. (p 315)

20 Howitt, D. (2004). "What is the role of fantasy in sex offending?" *Criminal Behaviour and Mental Health*, vol 14, no 3, pp 182-188.

21 Gillespie, (2011). pp 110-111.

22 Reeves, (2013). p 239.

23 Al-Alosi, (2018). p 98. Also see Smith, L. (2017). "Child sexual abuse images on-line and risk of contact child sexual abuse", *ESSS Outlines*. <https://www.iriss.org.uk/sites/default/files/2018-04/iriss-esss-outline-child-sexual-abuse-images-2017-12-6.pdf> [Accessed on 04/11/2018.]

24 Wolak, J., Finkelhor, D., and Mitchell, K. (2011). "Child Pornography Possessors: Trends in Offender and Case Characteristics", *Sexual Abuse: A Journal of Research and Treatment*, vol 23, no 1, pp 22-42. (p 33)

25 Endrass, J., Urbaniok, F., Hammermeister, L. C., Benz, C., Elbert, T., Laubacher, A., and Rossegger, A. (2009). "The consumption of Internet child pornography and violent and sex offending". *BMC Psychiatry*, vol 9, no 43. <https://doi.org/10.1186/1471-244X-9-43>

26 Riegel, D. L. (2004). "Letter to the editor: Effects on boy-attracted pedosexual males of viewing boy Erotica", *Archives of Sexual Behavior*, vol 33, no 4, pp 321-3. Also see Al-Alosi (2018), p 78.

normalisation.²⁷ Therefore, studies on the relationship between viewing RCP and committing CSA are also inconclusive.

Similarly, the studies on the relationship between viewing adult pornography and committing sexual abuse and between viewing materials involving violence and committing violence also produce contradictory conclusions.²⁸ Furthermore, extrapolation from those relationships is likely to be more unreliable than that from the impact of fantasy and RCP on CSA.

My Plan

In terms of data, I believe it is practical to find panel data on convictions of CSA. For instance, the Violence against Women and Girls Crime Report published by the CPS annually provide numbers of convictions of possession of FCP and CSA in England and Wales each year since 2009, and Statistics Canada provides similar statistics in Canada. These data render a panel data analysis achievable. I'll explain my data and methodology in detail in my next article.



27 Quayle, E., and Taylor, M. (2003). *Child Pornography: An Internet Crime*, Routledge, London.

28 Al-Alosi, (2018), pp 101-104.



The Unexpected Consequences of the One-Child Policy in China (2)

Junzhao Shi

Brief Recap

In the last edition, I introduced the impact of the One-Child Policy on wealth inequality in China through an intuitive example, which contributes to the argument that the policy had an amplifying effect on wealth inequality in China. With wealth and assets accumulated by a pair of the first generation (simply put, the parents) during their lifetime, having only one child might lead to wealth precipitating down to the only second generation a family has, causing the wealth inequality within the second generations to

be larger than the first generations. Through the lens of mathematical and graphical analysis, I illustrated the failure of the Gini coefficient in capturing the magnifying effect on wealth inequality. One may understand from the calculations I did in the last edition, theoretically, the concentration of wealth in the second generation is cancelled out by the shrinking population. As the Gini coefficient is confined to defining inequality at a given time, only illustrating inequality in terms of the distribution of the proportion of wealth held by a particular social stratum, it is insufficient to show the

dynamics of changing population size and wealth inheritance.

Some inspirations

As there is very scarce research studying the effect of the One-Child Policy, modelling wealth distribution under the Policy could be a more viable approach. I thereby start looking into literatures that model the dynamic process of the changing wealth distribution between generations, where I could draw valuable insights into modelling the issue in question.

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The early work of modelling the distribution of income and wealth inequality was very focused but simplified, illustrating the factor of bequest on economic inequality, in a one-period model neglecting the effect of any other variables (Davies, 1982). Here, the author vaguely defined the economic inequality as a measurement of “distribution of income, wealth and other lifetime resources”, though he did not focus on specifying and quantifying lifetime resources. Despite being a static one-period model, Davies’s work sheds light on one of the most important factors – voluntary inheritance – in shaping wealth distribution. It is important to distinguish voluntary and involuntary inheritance, where the latter is accidental or not in the knowledge of the second generation. Without knowing that they might receive a random amount of capital in the form of assets or cash, when descendants plan and smooth their consumption over the course of their lifetime, this particular amount of wealth is not taken into account. Understandably, involuntary inheritance is much harder to model, as it may create a new variable specifying the probability of receiving a certain amount of money

at a particular time. This variable is then related to the growing probability of predecessors passing away as they become older. However, if one just assumes that death and fertility are random, cancelling out the probability factor, one might end up with a high level of aggregate flow of accidental bequests (Gokhale et al, 1998), which not only destabilises the consumption smoothing pattern of second generations, but is inapplicable when modelling the significance of flow of planned inheritable wealth under the circumstances of the One-Child Policy. This paper, nevertheless, provided clues as to how one may model accidental involuntary inheritance. One might expect relatively high levels of planned inheritance as opposed to involuntary inheritance, but it is essential to take both elements into account.

Aside from physical capital inheritance, which takes a major part in shaping wealth distribution under the One-Child Policy, one should also consider human capital inheritance as an important factor. Human capital inheritance is built into any system, but one may consider the effect of a disparity of capital wealth on the

transferability of human capital, more specifically, through education. Becker, et al (1979) modelled the transferability of both physical and human capital from the first to the second generations. It is essential to note that both physical and human capital are mutually related, as families with higher propensity to invest in children’s education are more likely to have socially and academically better-performing children (Becker et al, 1979), who might earn higher incomes, adding to the wealth they inherit from their parents. On the other hand, they concluded that the marginal rate of return to investments in children’s education is diminishing, which ensures that the extremely rich are not in an overly advantaged position in terms of education investment. One may safely argue that genetics might also be a factor here, but biologists are not certain of what traits can be viably passed onto the next generation with any given level of certainty. What could provide us with a certain level of theoretical basis to the clues of generalisation is that a big population is likely to be subject to regression to the mean. It is a statistical phenomenon that a sample from a population with two





measures imperfectly correlated, when the first takes an extreme value, is likely to have a second taking a value nearer to the medium. This shows many second generations might not be able to out-perform their successful parents in terms of income or intelligence, as their ability tends to be more mediocre. It is common to see in many research papers that they assume the so-called “ability” factor is constant or a simple linear function of the fraction of parent’s income spent on education, isolating it from genetic factors. With intricate relationships between physical capital and human capital, and generalisation of regression to the mean on either side of the theoretical spectrum, it is up to the researchers to build their assumptions, upon which the general direction of research is then decided. I would hesitate to conclude further on what assumptions I would make under this perspective.

Another perspective that one could consider is introducing parent-child interaction by the “warm glow” factor (Nardi, 2004), since the first generations might derive utility from giving their wealth to their kids. One may incorporate the amount of inheritance bestowed to the second

generations into the lifetime utility function of their parents. Parents then maximise their overall utility function and assign a consumption level to each annuity period. Nardi (2004) modelled the utility function of bequest by a decreasing function taking the discount rate as the factor, implying that bequest utility has a decreasing return with accelerating decreasing marginal return. This captures an important fact that parents might have growing concerns over passing a high amount of their wealth to their kids. People’s altruistic nature might have significant influence in the case of China, as it has become quite a social norm that parents bestow wealth to their kids, particularly in the forms of illiquid assets such as cars, houses or shares in their family businesses. When the “warm glow” factor is taken into consideration regarding lifetime consumption of the first generations, saving patterns might change and this could ultimately affect wealth accumulation. These factors then feed back into the decisions on investing more on education, affecting human capital inheritance for the second generations.

Remarks

I have discussed several areas that have inspired me in my future research on this topic. Notwithstanding, there is a lot more to discuss, but I have picked out some of the most important ideas and constructs when modelling the dynamics of wealth distribution, from voluntary inheritance to altruistic behaviour. As models take more and more factors into account, it is more likely to resemble reality. However, this is not entirely the purpose of this edition, as I am trying to lay out what could be the perspectives that I would look into when I initiate my own model. I hope I can be as informative as possible, but the time I have is very limited. Therefore, in the next edition, I will move swiftly onto constructing my dynamic model and start to illustrate the dynamic wealth distribution process.

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Is the opt-out hurting workers in the UK?

Soumya Khurana

Overview

The Working Time Directive, established to improve the long-term wellbeing and the overall work-life balance of workers, ruled that a worker cannot work more than 48 hours per week on average - normally averaged over 17 weeks. The number of employees working more than 48 hours decreased from 3.8 million (16% of the total workforce) to 3.25 million (12.7% of the total workforce) following the implementation of Working Time Regulations (WTR) in November 1999 (TUC, 2008).

However, the 'Individual opt-out' provision of the Working Time

Directive gives an EU member state the option not to apply the 48-hour average weekly limit in cases where, among other conditions, the individual worker has agreed to perform such work. The United Kingdom is the only member state which exploits this derogation (Barnard, Deakin & Hobbs, 2003).

People have mixed motivations to work overtime. According to the work-life balance employee survey, a little less than three-quarters of overtime workers mention reasons related to workload requirements, one-fifth of them work more to earn more money and one-twentieth do overtime because the organizational

culture so demands (Devlin & Shirvani, 2014). This would suggest that the opt-out is not necessarily taken out of individual workers' choice. In fact, it has been further reported that:

- 44% of those who have signed an opt-out say that it was a condition of their employment
- 23% of long hours workers have not signed an opt-out but have been put under pressure by their employers to work more than 48 hours
- 50% of the long hours workers who have either raised issues about the 48-hour limit or know that such issues have been

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raised by somebody else in their workplace say that the issue was not resolved (TUC, 2008)

Do longer working hours affect Effective Working Time?

The E-R model used by Geurts et al., 2003 theorizes that when effort is expended at work, it has rewards (e.g. productivity) and short term psychological and physical costs. When measuring productivity, fixed unproductive time and better capital utilization rates lead to increasing returns to hours. Decreasing returns to hours worked is typically related to worker fatigue. It is most relevant in the manufacturing sector but is also noteworthy in the service economy, with comparatively shorter hours. If both apply or neither applies, we see output being proportional to the number of hours worked.

A key element to consider in the working hours and productivity relationship is Effective Working Time. One reason for the UK's long hours culture is that many offices have a culture of presenteeism, where employees are judged by the hours that they spend in the office rather than on the quality or volume of their work (TUC, 2008). But these additional hours spent do not significantly contribute to effective working time. If the opt-outs were removed, these hours would simply vanish with no resultant drop in output or profitability.

Long Working Hours and Wellbeing

Looking at how longer working hours are affecting the health and wellbeing of workers is important because a causal relation exists between them (White & Beswick 2003). Three

reviews have also found evidence of significant statistical relationships between longer work hours and poorer health and wellbeing outcomes (Sparks, Cooper, Fried, & Shirom, 1997; Spurgeon et al., 1997; van der Hulst, 2003), and this relationship has been found to vary across sectors and locations (Green, Burke and Cooper, 2008).

A positive relationship between depression and long working hours can be ascertained (Bryan & Nandi, 2015). Similarly, for social dysfunction (Van der Hulst, 2003). A peculiar and contradicting result from a study is that working more than 60 hours a week increases the risk of disability retirement but working more than 50 hours a week was related to lower sickness absence among both men and women (Van der Hulst, 2003). This peculiarity could be associated with those who work more than 50 hours a week and their motivation to do so.

In my proposed research, I hope to look if and how the opt-out provision – sometimes not taken up voluntarily – affects the wellbeing of workers.

My addition

Let's zoom in to the market perspective. The managerial derogative allows professionals and managers to choose their own working time levels. Stimulated by the desire of self-growth and more profits, they put in their best efforts and thus have comparatively longer working hours. The provision for opt-out and the managerial derogative profits them. But when in an organization, the culture of working long hours is started by the manager, so others might feel obligated to put in a higher number of hours than they would like. A

study conducted by the Institute of Employment studies found the same hypothesis working on surveyed employees (Kodz, Kersley, Strebler & O'Regan, 1998).

The sectors with a particularly high incidence of long working hours were construction, transport, communication and agriculture, forestry and fishing. According to the Second WorkLife Balance employee survey in 2004, 19 per cent of all employees worked or were contracted to work more than 48 hours per week, and of these 27 per cent had signed the opt-out, 70 per cent had not signed the opt-out and 3 per cent did not know about it. It is reasonable to think that the proportion of employees working overtime who either did not know about the opt-out or did not sign the agreement would be lesser in the case of qualified jobs: thus, more in sectors such as fishing, forestry, construction, agriculture and the like. This indirectly points towards low-income, unqualified workers doing comparatively more overtime as a proportion of all workers doing overtime.

So, apart from the people able to access the managerial derogative, bottom- as well as mid-level employees might be forced into



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working longer hours or choose to do so for higher pay; in both cases, the purpose of WTR seems void.

Thus, the opt-out is giving individual employees the power to work at his or his employer's will for some short-term benefits without themselves considering the long-term health and wellbeing concerns for which WTR were put into place to protect against.

In my intended research, I plan to look at the comparative data between the UK and other European nations and whether the opt out is benefitting the UK economy in terms of productivity and long-term wellbeing. This would involve looking at previous research to test the effective working hour hypothesis, and comparing psychological wellbeing with respect to the working hours of workers across countries. I also hope to look at the reasons behind changes in productivity with respect to working hours from increasing returns to hours (Lesie 1984), to proportionate returns to hours (Anxo & Bigsten 1989), and to decreasing returns to hours (Shepart and Clifton 2000); and look for any possible link with the opt-out provision. In my next article, I hope to review the literature encompassing opt-out, its rationale and its need, specifically in the UK.

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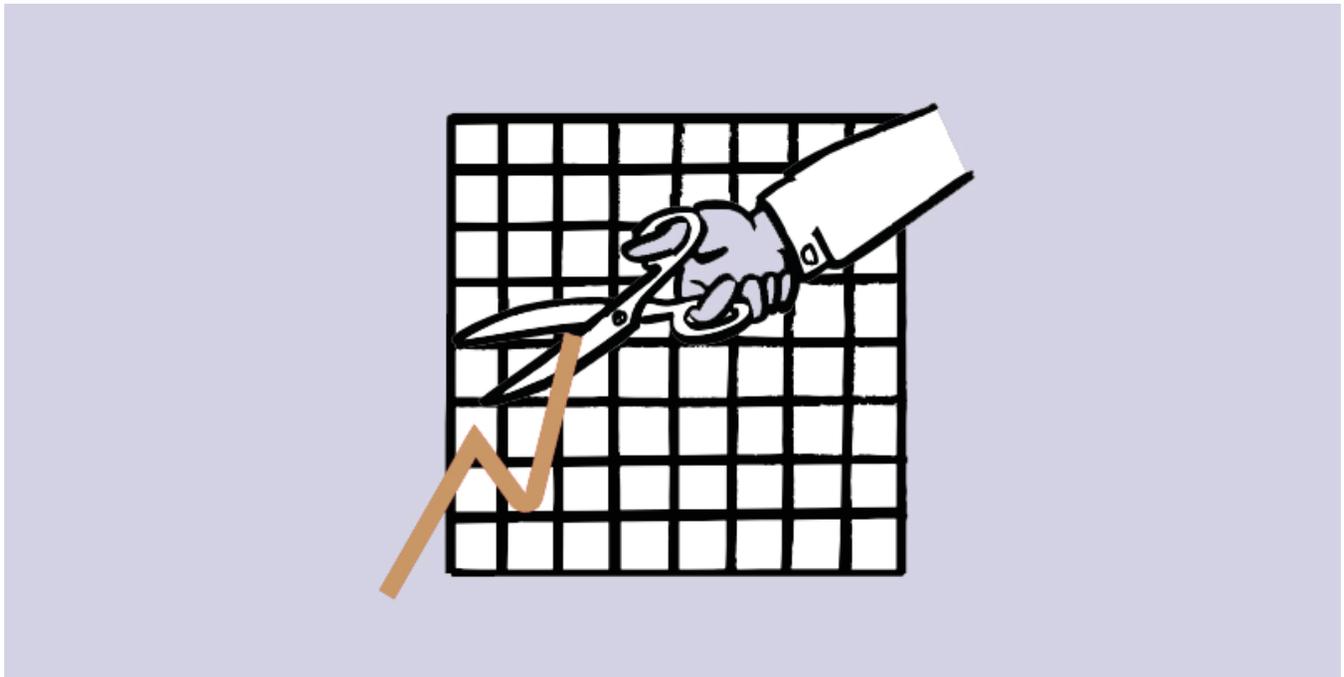
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Austerity and the City

Bryan Tapnio

43

Since the 2008 Financial Crisis, governments around the world have increasingly espoused austerity – a policy of fiscal conservatism and programmatic reductions in spending. Austerity is a fiscal stance that seeks to address the public debt. The 2008 Financial Crisis, mainly instigated by an over-valuation of faulty real-estate investment vehicles, caused a large-scale collapse in investor confidence and GDP free-falls in many developing countries. As unemployment soared and banking sectors collapsed worldwide, sovereign debt became a focus of increasing concerns. There are three contemporary models of austerity, the first being the Keynesian-Krugman-Reich model of austerity, which increases taxes and government spending. The second model is commonly known as the Merkel model of austerity after German chancellor Angela Merkel which involves cutting government spending while raising taxes. The third one is the free-market approach, which involves cutting government spending and taxes simultaneously (Investopedia). The free market approach austerity model is generally regarded as a non-political fiscal responsibility by most austerity

advocates. As quoted by the former chancellor of the Exchequer, George Osborne, we need to take urgent action to keep our interest rates lower for longer, to boost confidence in the economy, and protect jobs to show the world we can live within our means (BBC). Here, we see austerity being promoted as a common-sense measure to protect fiscal integrity and investor confidence in order to promote growth. This is commonly associated with the work of Alberto Alesina, whose economic research supported the idea that cuts in government expenditure caused growth due to an increase in investor confidence (Guardian). More theoretical support for austerity comes from libertarian and neoliberal reinforcement of small-state governance. This camp supports austerity because of its de-prioritization of government policies that interfere with aggregate demand, instead of refocusing on allowing markets to find natural price equilibria instead (Mises).

Opposition to austerity also has its practical and theoretical underpinnings. Evaluating austerity from its practical aspect, critics have remarked on its unsatisfactory

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results. In regards to growth, it was predicted that private investment would increase by 67.6% from 2010 to 2016 in the UK, but in reality, investment grew by only 25.5% (PEF). The burden of the cuts in social spending such as welfare are also criticized as regressive – notable results include the increase in homelessness by 169% from 2010 to 2016 (MHCLG) and the 37.3% reduction in council spending from 2010 to 2016 (Audit), where the latter effectively reduced the amount these councils have to spend on social programs. Theoretically, austerity comes under attack from the Keynesian view, which holds that cuts in government spending should happen during periods of economic boom and not recession, because government spending can raise aggregate demand and re-stimulate economic production. There is also Fisher's work on debt deflation, summarized by him as "the very effort of individuals to lessen their debts increases it, because of the mass effect of the stampede to liquidate in swelling each dollar owed" (Fisher). The debate over austerity continues to stay relevant, as political controversy over impositions of austerity such as in Greece cause tensions in international relations while the effects of a decade of cuts to social spending evince themselves in impoverished communities. Clearly, there are questions – on the effectiveness of austerity, on its practical mechanism and its theoretical underpinnings, on who is affected by it and who benefits. The broad question for the growing literature of austerity has been to gauge its effects relative to a wide proportion of social identifiers such as gender and class, and analysing the systems of local government, service-users, the marginalized, and the welfare state, which are where austerity measures interact most with the general populace. Through this analysis, this interdisciplinary, contemporary field of social research seeks to answer the aforementioned questions. It is in this growing discussion that I attempt to pursue research.

The field that I intend to study within the austerity literature is the topic of austerity and its relations to the city. The academics who publish in this field come from a wide range of fields – urban geography, spatial/economic geography, sociology, political science, etc. Specifically, I am looking at the austerity urbanism thesis put forward by urban geographer Jamie Peck, who commented mostly on its theory and systems, and expanded by spatial economist and welfare academic Glen Bramley, who illuminated its practical mechanisms. An important aspect for Peck is its continued imposition by a self-interested neoliberal elite despite its apparent failure in the western context. Peck looks at how austerity, by social spending and dismantling social programs especially during recessions, creates

depressed economic conditions and social pressure in the forms of increased demand on the welfare state and higher poverty rates. In his words, its imposition is "an especially brazen application of a tried-and-tested neoliberal tactic, of refracting crisis pressures back onto the state itself" (Peck). Referring to the elite, Peck cites an article by Paul Krugman in the New York Times, who attacks austerity as being politically motivated, saying "the austerity drive...isn't really about debt and deficits at all; it's about using deficit panic as an excuse to dismantle social programs... recovery was never the point; the drive for austerity [is] about using the crisis, not solving it" (Krugman, NYT). One of the most important results of regressive austerity is growing inequality, as cuts in social services and decreases in public-sector pay are "felt most directly by workers in traditional sectors... as well as government, and often most profoundly for those on relatively lower incomes and who were already living in economically weaker areas" (Donald).

Peck identifies three characteristics of austerity urbanism: destructive creativity – which is both the amplification of existing capitalist processes in the form of cutting social spending and government interference in market processes, and the roll-back of earlier, third-way neoliberal programs; neoliberal programs themselves – deficit politics, which is the creation of a political climate that actively favours neoliberal programs and introduces downward budgetary pressure as an environmental condition that discourages potential alternative programs such as progressive redistribution; and devolved risk – where the responsibilities and results of social cuts are devolved to the level of the populace in the form of public-service cut backs and increased exposure to socio-economic risk. Similar to Peck's triad, Bramley identifies the transmission mechanism by which the effects of austerity, specifically socio-economic disadvantage, are downloaded to the poor in the UK, and he then breaks it into three statements. The first statement is that poorer cities no longer have resources commensurate with their needs, which talks about how, in the UK especially, damaging outcomes are transmitted to welfare users because of a disproportionate loss of spending power for the more deprived urban authorities (Bramley). He refers to a scaled analysis of CIPFA data which saw that the cut in spending from 2010-2016 was functionally at 26% for the most disadvantaged councils compared to a 9% for the least disadvantaged. The second statement is that cities are no longer able to shelter services with a strong welfare role, the discussion of which focuses on the distribution of spending cuts among different services offered by local

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government. He uses a bespoke taxonomy of services, classifying them by usage into pro-rich, pro-poor, and neutral services. He showed that because of the large proportion they constituted in local budgets, pro-poor services constituted a much greater cut than the other services. These cuts, however, could ill be afforded by the beleaguered Civil Service – interviews from the Poverty and Social Exclusion research paper used by the paper showed that “absolute cuts to pro-poor services had begun to affect service quality, co-ordination, and in some cases, their ability to meet basic needs” (Bramley). The third statement emphasises that cuts in universal services have greater impact on the poor, because the value of these services were so much greater to them.

Bramley uses a mix of quantitative and qualitative data to look at the interaction between national level governments and their spending alongside local governments, individual bureaucrats and service users in his second statement. It is this mechanism that I seek to examine in my research.

My intended research will attempt to look at the extent to which London boroughs are able to shelter welfare services. In methodology, it is intended to be a more thorough, local, and geographically integrated application of Bramley’s analysis to London. Quantitatively, I will be using the taxonomy of services used by Bramley’s study to analyse local government spending. I intend on adding a qualitative portion to the research using structured interviews of local administrators and service-users in the style of the Poverty and Social Exclusion 2012 report. I hope to find creative ways in which spending cuts happen, such as through the inter-municipality cooperation found in the pragmatic municipalism thesis advanced by Kim et al. Overall, I hope to contribute to current contemporary research about the effects of austerity on inequality, systems of government, and urbanity as a whole, and to add to the much-needed conversation about the necessity of a fiscal policy that is fit for purpose.

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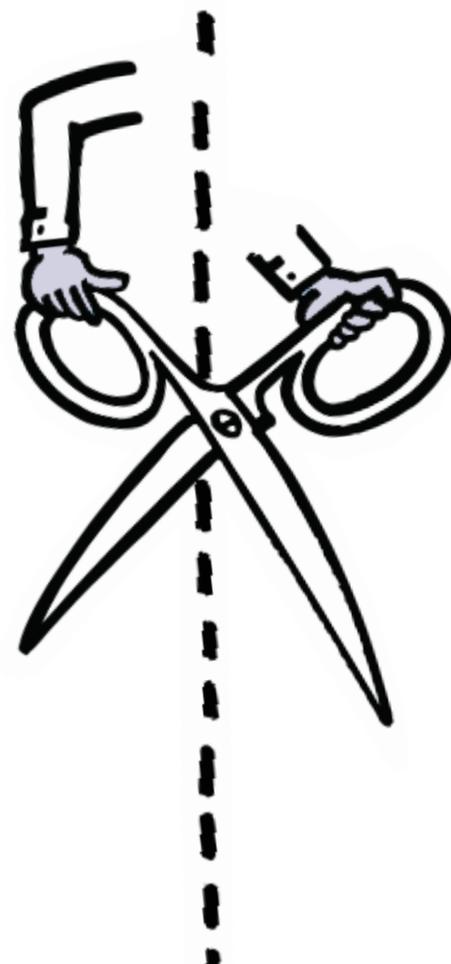
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Research



What are the effects of Universal Basic Income on income inequality in China?

Tiansui Tu

Definition and Introduction

According to Philippe Van Parijs (Van Parijs, 2004) and the Basic Income European Network (BIEN), Universal Basic Income refers to a periodic cash payment paid by a political community to all its members and unconditionally delivered to all on an individual basis. This concept originated from the idea of a minimum income in the 16th century and an unconditional one-off grant in the 18th century.

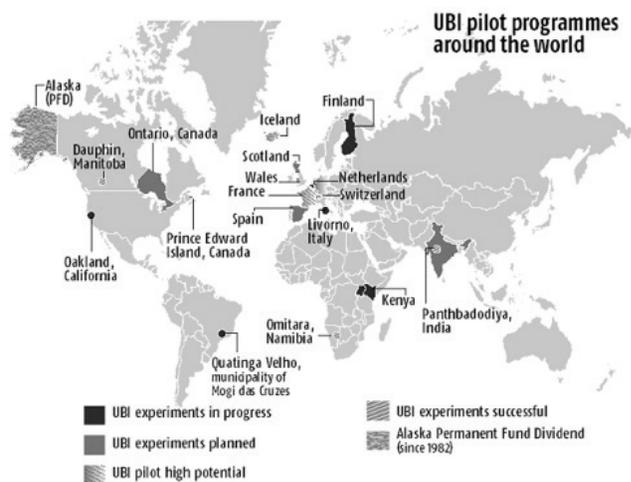


Figure 0: UBI pilot programmes around the world (Last updated at January 11, 2017) (Shukla, 2018)

Advocators of this policy include notable historical figures such as Thomas Paine, Martin Luther King, Milton Friedman and Friedrich August von Hayek. While influential people in the world today like Mark Zuckerberg and Elon Musk, as well as organisations like the Green Party, endorse a UBI, some argue against it. Whether to advocate for or against a UBI is one of the most popular social issues of the 21st century.

While western countries can be regarded as the pioneers of UBI (Shukla, 2018), the research and development of basic income schemes is catching up in the east. A short-term UBI project was carried out in India and Taipei has just held the second annual UBI Asia Pacific conference, in 2018. In China, although there have been no experiments directly looking at UBI, a Minimum Livelihood Guarantee scheme called *dibao* - which closely resembles a UBI - was launched back in the 1990s. Moreover, a conference about UBI and its potential in China was hosted by the United Nations Development Programme in Beijing, China (UNDP China) on 19th October last year¹.

UBI Models

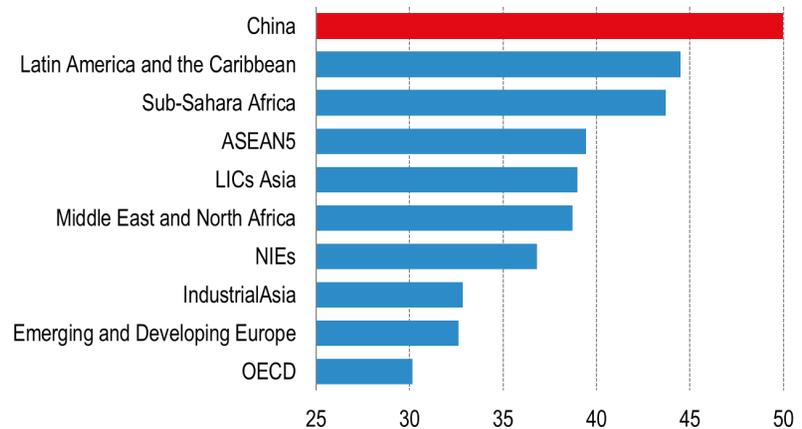
There exist different models of UBI. When applying economic models and arguments to a specific type of UBI, classifying UBI becomes essential.

The first criterion for classifying UBI is the amount of cash delivered under this scheme. UBI appears in the forms of a full basic income or a partial basic income scheme. The former offers an amount above the poverty line while the latter is an

¹ United Nations Development Programme (UNDP) in China, 2018

Figure 1: Regional Comparison of Income Inequality Levels

(Net Gini Index; in Gini points; year of 2015 (or latest available); average across the region)



Sources: SWIID Version 5.1; IMF, and IMF staff calculations.

Note: ASEAN = Association of Southeast Asian nations; LIC = low-income country; NIE = newly industrialized economy; OECD = Organization for Economic Cooperation and Development

amount below the poverty threshold.

The second criterion is related to the question ‘for whom to offer?’ As per this criterion, UBI can be classified as a Negative Income Tax Model (NIT) and The Universal Demogrant Model (UD) (Pasma and Mulvale, 2009). Under the NIT scheme, people who earn below a certain income level are exempt from taxes and receive subsidies proportional to the amount that falls short of that income level². In a UD system, every person receives a certain amount of tax-free benefits, while any other income source may be taxed³.

This paper will be focusing on the arguments related to taxation, specifically personal income tax, progressive and flat tax. More attention will be drawn to NIT and a full basic income scheme in this work.

Income Inequality and Tackling it with UBI in China

² Universal Basic Income: A Working Paper, A Policy Option for China beyond 2020?, 2018

³ Ibid.

China is one of the most unequal countries in the world in terms of income distribution. At 50 points in 2013, the Gini coefficient for China was higher than the average in Asia, as is shown by Figure 1 (Jain-Chandra et al., 2018⁴), (Fsolt.org, 2018). Furthermore, the Gini coefficient has rapidly increased over the last two decades, by a total of about 15 Gini points since 1990 (see Figure 2), (Cia.gov, 2018), (Jain-Chandra et al., 2018).

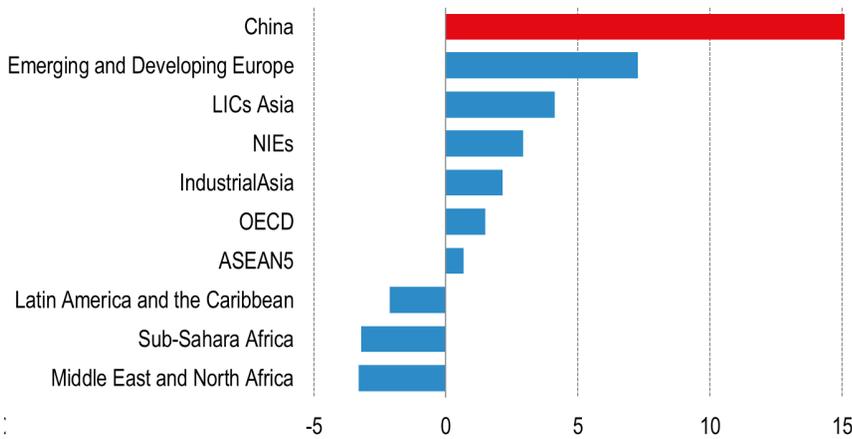
The most recent official estimate suggests that the income distribution has become slightly more equal since the Gini coefficient dropped to 0.465 according to the CIA in 2016 (Cia.gov, 2018) but it is still in a relatively high position (see Figure 4).

Furthermore, serious concerns about the inequality in opportunities in China were expressed in the above-

⁴ “The Net Gini coefficient is calculated based on post-tax and -transfer income.” The Gini coefficient ranging from 0 to 100 is used to gauge the degree of income inequality. (0 means perfect income equality and 100 means the most unequal distribution of income)

Figure 2: Regional Comparison of Income Inequality Trends

(Net Gini Index; in Gini points; change since 1990; average across the region)



Sources: SWIID Version 5.1; and IMF staff calculations.

Note: ASEAN = Association of Southeast Asian nations; LIC = low-income country; NIE = newly industrialized economy; OECD = Organization for Economic Cooperation and Development

mentioned IMF working and can be seen in areas such as completion of higher tertiary education and access to certain financial services⁵. For instance, tertiary education was more unequally distributed in China than in other emerging and advanced economies⁶. These factors are important in order to understand income inequality in the future as well, since these are leading causes of the same.

Speaking of the future, the 4th Industrial Revolution is coming with fast-paced technological advancements in artificial intelligence, accompanied by the fear of robots destroying our jobs. In 2016, the President of the World Bank, Jim Yong Kim, said that the proportion of jobs which were being threatened by automation is 77 percent in China (The Guardian, 2018).

Under these circumstances, experimenting with UBI as an alternative way of issuing welfare benefits in China is valuable as it

might appear to be a better solution to combatting income inequality or the inequality of opportunity than current welfare schemes such as dibao. For instance, the problem of dibao being means-tested, which could neglect those who need it – which does not meet the standard required – will likely disappear in a UBI scheme. While facing a future of possible mass-unemployment, UBI might be considered as the best answer to automation. In the words of Sam Dumitriu, Head of Research at the Adam Smith Institute, attempts to protect jobs through luddite regulation will backfire and mass retraining schemes have a shaky

track record⁷.

Remarks

Additional information, which is closely related to my research content, deserves a mention here. The assumption of UBI being feasible might not be always true, but is to a certain extent valid and arguable. For instance, new evidence suggests that it could be made progressive and affordable⁸ and UBI-related experiments are mostly feasible at the local level⁹. Even if a full scheme (that replaces most means-tested benefits)¹⁰ in China is questionable, a modified scheme (that leaves existing means-tested benefits in place, at least initially)¹¹ seems conceivable. Even if immediately practising UBI is impossible¹², studying it now is still worthwhile, which paves the path for its implementation later.

In this research, I might sometimes explore the effects of UBI on other

⁷ Kilcoyne, 2018

⁸ Lansley and Reed, 2016

⁹ UNDP in China, 2017

¹⁰ Reed and Lansley, 2016

¹¹ Ibid.

¹² Prochazka, 2018 “As for creating a UBI program in China in the near-term, Gao said this would be challenging for many reasons. ‘To make the dibao or a similar cash transfer universal all around China, I don’t think it’s very likely in the short-term, both in terms of fiscal challenges and also political and cultural challenges,’ Gao said.”



Figure 4: Gini coefficient of income inequality in China, 1981-2014

⁵ Ibid.

⁶ Ibid.

social, political or economic aspects besides income inequality. This might seem off-topic. Since all social, political or economic issues are intertwined, the discussions of the influence of UBI upon certain social phenomenon such as gender inequality - which superficially speaking is not related to income inequality - might be relevant to the effect of UBI on income inequality.

The ramifications of this scheme depend on the amount of basic income given to everyone. One possible way of defining that amount is relating it to the subsistence minimum which only satisfies the minimum standards of physical and social well-being¹³. Since different regions of China have dissimilar or even contrasting subsistence minimums, the budget for UBI will vary geographically.

My Approach

I plan to structure my research in the below mentioned ways. While attempting to look at the short and long-term consequences of UBI on Income Inequality, my first task is analysing the direct impacts. For example, doing a simple investigation on the immediate effects of UBI funded by flat tax on the Lorenz curve of China. The indirect impacts are also crucial, as UBI could be a proximate but not a direct cause of income inequality in certain cases. A salient example might be a possible increase in gender equality by offering citizens UBI¹⁴, which leads to a possible improvement in income equality¹⁵. This argument will be explained and extended in my

following articles.

As a brief explanation of the methodologies I plan to use on this research, I will be doing literature reviews on the qualitative side. Besides reviewing working papers which evaluate the effectiveness of dibao and demonstrate on a large-scale how basic income operates when it is not universal, I plan to review other welfare programs or reports about the future of UBI in China published by government officials. This shall provide insight about how past UBI pilot programmes worked out, especially those conducted in Asia or emerging economies which are regions sharing common economic or social idiosyncrasies with China.

The quantitative aspect of the research will be mostly related to the implications of practising UBI on the Lorenz curve and the Gini coefficient. I shall be using the microsimulation approach which researchers in the University of Bath have utilised to publish a working paper¹⁶. This approach could possibly predict the changes in Gini coefficient induced by citizens receiving different forms of basic income in China. Methodological details will be brought up in the next publication.



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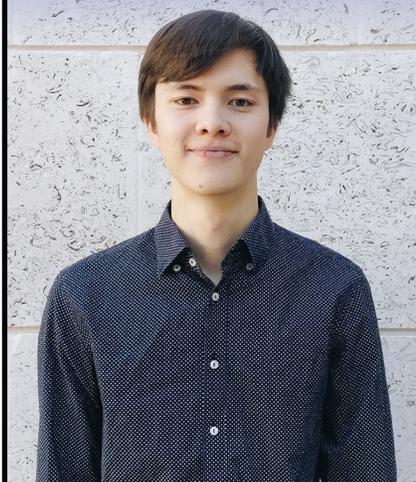
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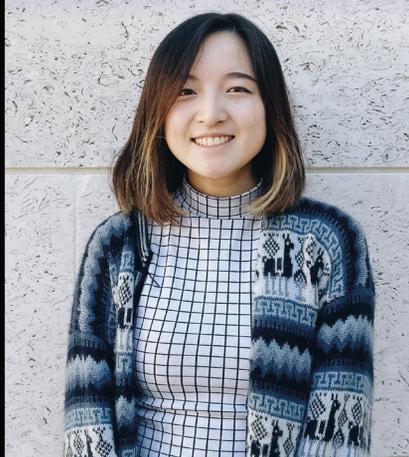
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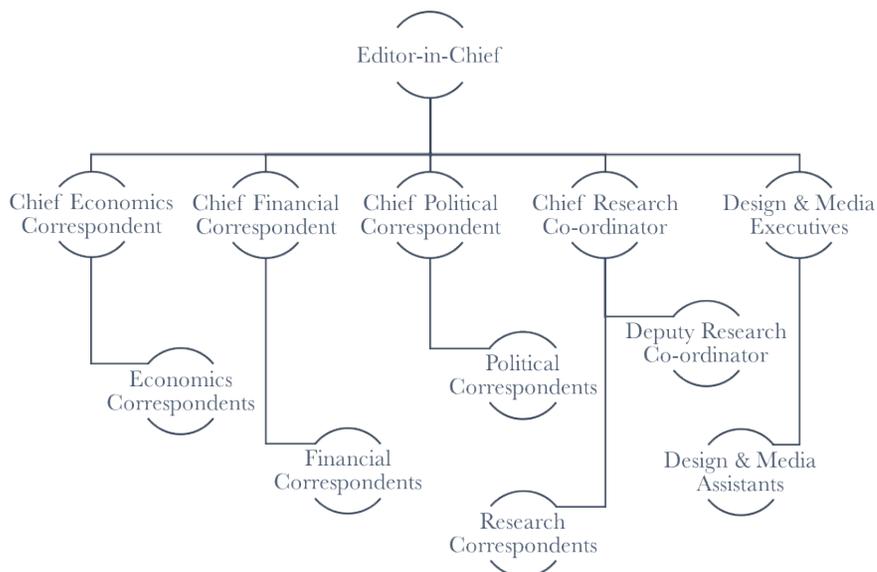


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