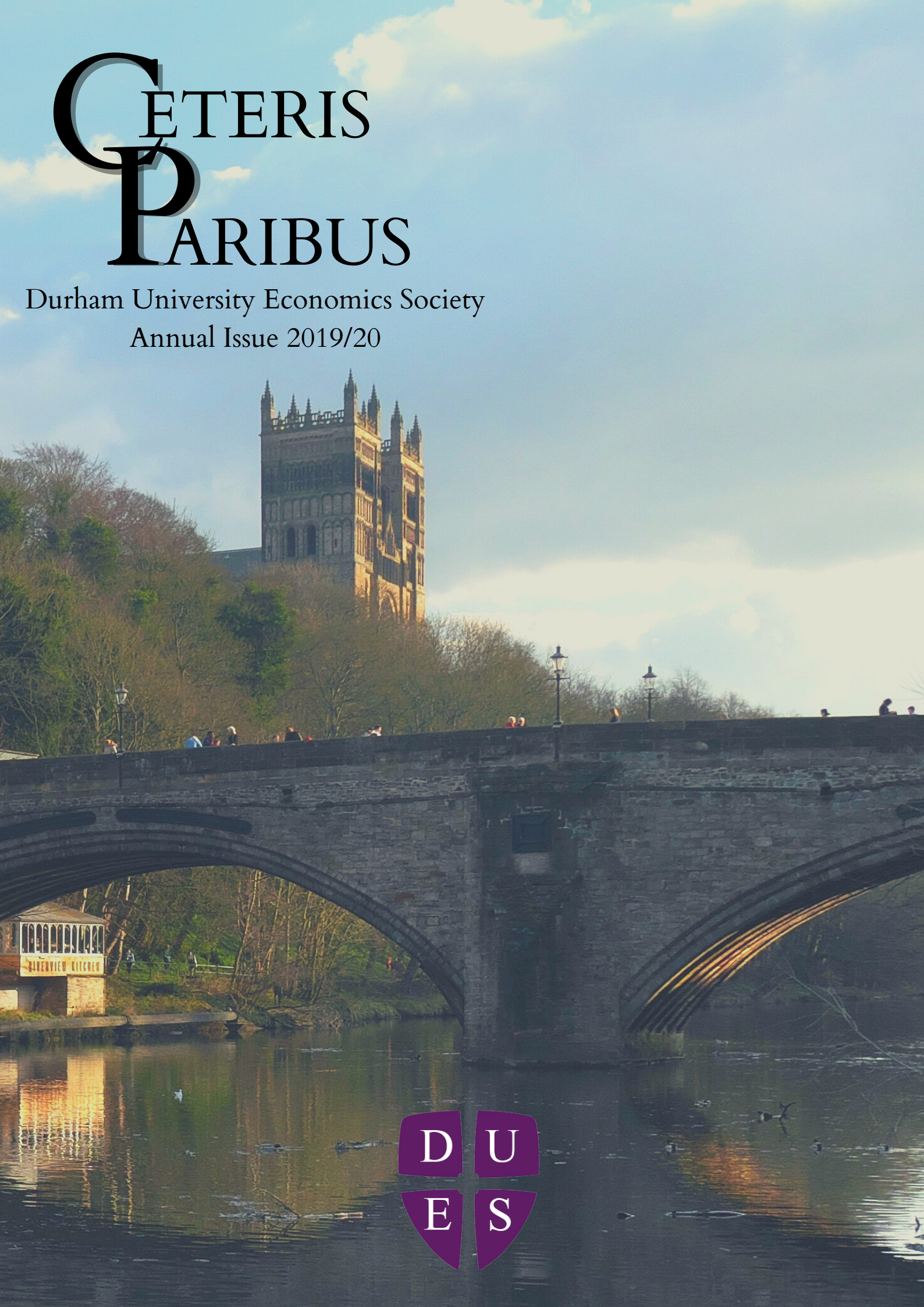
# Ceteris Paribus

Durham University Economics Society

Annual Issue 2019/20



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# Chief Editors' Foreword

Thank you for checking out this annual edition of Ceteris Paribus! We hope this finds you well amid the unfortunate pandemic.

The production of this annual issue has been a thoroughly enjoyable and rewarding one. Since the very start, we intended this edition to present and celebrate the diversity of thought amongst our student writers. From thinking about China, to reforming education and tackling the refugee crisis, we hope you will find the content here wide-ranging and thought-provoking.

Despite the disruptions and uncertainties, it has been a meaningful year of development for both the journal and ourselves. We revived our journal from a previous year of hiatus and adhered to a fortnightly publishing schedule. Our partnership also led to the journal's first ever Freshers' Essay Competition to encourage wider student participation and independent thinking in economics.

We are especially thankful to Helen Poon for her guidance, our contributors for their articles, Tatyana for the design of this publication, and you for your interest in our journal.

Moving forward, we are certain that the journal will continue to be a central part of the Economics Society, and more importantly, an open platform for Durham's diverse economic opinions and ideas. We wish the best of luck to the incoming Chief Editors in bringing Ceteris Paribus to even greater heights.

**Andrew Chang**

Editor-In-Chief 2019/20

**Jenny Teoh**

Editor-In-Chief 2019/20

# Messages from the President

## A word by the Outgoing President

As I write this last message, my year as the President of the Durham University Economics Society comes to an end. I would like to begin by thanking the outgoing executive committee for their tenacity and hard work for making this past academic year a massive success. I am honoured to have been able to lead the Economics Society, and to have created a conducive platform for budding economists to engage with during these challenging times.

Looking back, the society hosted various academic events with higher-than-ever member engagement, and provided unparalleled career-building opportunities to our members throughout the year. The annual Economics ball along with inter-disciplinary socials proved to be highly successful and fun events. I am especially proud of the society for starting the brand new "Freshers' Essay Competition", which gave students across all disciplines an exciting opportunity to be published in our revived 'Ceteris Paribus' Economics Journal.

I believe that the society is well-positioned to reach even greater heights in the future, building upon its past accomplishments. Though the coming year will be a challenging year for the incoming Executive Committee, I am confident that the Durham University Economics Society will not disappoint under the capable hands of the incoming President, Yousuf Mirza. I look forward to seeing DUES inspire, engage and support more students for the years to come.

**Ammiya Chugh**

President 2019/20

## A word by the Incoming President

Over the past year, Durham University Economics Society has gone from strength to strength. From hosting insightful talks, holding a fantastic ball and socials to officially naming our journal, I would like to thank all the previous Executive Committee for their work in establishing a prestigious name which I am fortunate to be leading.

I joined the Economics Society in my first year for the economic discussion, career preparedness, and socialising opportunities. Now going into my third year, it goes without saying that I was not expecting a covid-era presidency. I believe this heightens the importance of the Economics Society as a cornerstone in the Durham Economics student experience. We have and will continue to work hard to make sure limitations will not overarch the year. In fact, we have taken the move online as an opportunity to host more events and make them more accessible than ever.

We are building on our previous successes and will serve your needs better than ever before. We have planned more prestigious and more frequent speaker events, distinguished careers events, wide-reaching socials and increased opportunities to get involved. To make this happen, I am proud to announce for the first time in the society's history, we have garnered the support and involvement of the Durham University Economics Department who recognise our important role in supporting the community. It is exciting that our relationship enables us to host more renowned names and further our involvement in the community. In addition, we are building our national presence with inter-university collaborations. It is our intention to escalate our academic reputation and we are already making progress, anticipating the introduction of a print edition of Ceteris Paribus this year.

I am thankful to be supported by an ambitious Executive Committee and we look forward to sharing the results of our hard work with all our members during an outstanding year. Given the success of the society last year and the material progress already made this year, I am confident that this is the year not to miss out on an Economics Society membership. On behalf of the Durham University Economics Society, we cannot wait to make your upcoming year worthwhile.

**Yousuf Mirza**

President 2020/21


# Universal Basic Income: A Fantastic Idea?

Universal Basic Income (UBI) is a radical idea that is rapidly gaining traction. With increasing worries about the future of automation and work productivity, UBI has been bounced around as a miracle solution to providing a minimum income security, enabling the masses to fulfil their human potential whilst reducing governmental bureaucracy. It was up for debate in both the past American and British elections, and increasingly so among the general public. However, is it too good to be true?

At its most basic, UBI is the unconditional, regular payment of money to individuals who can freely choose how to spend it, contrasting with current social welfare programmes which typically restrict access by means-testing and many requirements. The specifics for its implementation vary across the political spectrum, with those on the right generally calling for its full replacement of state welfare schemes and the left advocating it as additional social support. Despite its recent popularity, UBI is far from a new idea, with similar conceptualisations dating as far back as Thomas Moore's *Utopia* in 1516.

*The conversation boils down to our fundamental trust in humans — can we trust people to know what is best for them?*

Proponents of UBI believe we need it more now than ever before. With a McKinsey estimate of 800 million jobs at risk of automation by 2030, UBI advocates push it

as a necessary basic income to sustain livelihoods. Some see this as a necessary spur to economic growth. For example, Andrew Yang's monthly Freedom Dividend of £1000 stems from a study by the Roosevelt Institute which proposes that an annual $12,000 basic income could grow the economy by about $2.5 trillion by 2025. Some believe this will lessen inequality by providing the neediest easy access to credit. Others view UBI as a more humanitarian approach to living by lessening the burden of sustenance, consequently empowering people with the choice of exploring and developing their interests and skills.

The main economic argument in favour of UBI arguably comes from its efficiency of allocating resources. With prominent economists like Friedrich Hayek believing that governments simply do not know and thus cannot accurately allocate resources to fulfil the needs of the people, UBI will give people the choice of spending back to them, rendering bureaucratic processes of welfare allocation and monitoring redundant and thereby saving precious economic resources.

However, opposition to the UBI is sceptical of these promises.

They raise questions about the uniqueness of the "fourth Industrial Revolution," and whether we will merely repeat another cycle of lower-skilled jobs being automated and new ones being created. Others argue that no matter the amount, UBI will never be enough and the most vulnerable will still fall through the cracks, especially if we scrap existing social welfare programmes.

The biggest and most obvious scepticism surrounds the funding of UBI. With many governments already shouldering massive public debts, how will they possibly fund such an expensive initiative? There is a general consensus on the idea that altogether scrapping existing programmes will be severely detrimental to the poor, but opinions vary on other measures. Measures proposed have included capital taxes, streamlining existing programmes, raising eco-taxes and many more.

The conversation boils down to our fundamental trust in humans — can we trust people to know what is best for them? Sceptics worry that UBI will promote vice behaviours like alcohol and drug consumption. However, a review by the World Bank in 2014 reviewed these fears to be "unfounded." Others also worry whether UBI will incentivise slacking off and unemployment. For better or worse, a small two-year pilot scheme in Finland showed little to no effect of UBI on unemployment.

Ultimately, the debate surrounding UBI is as much a socio-political one as it is economic. It concerns fundamental ways about how we live and function as a society, and will require a paradigm shift in the way we think about the relationship between society, the economy and its governance. Like other economic measures, UBI is not a "one-size-fits-all" solution that all countries can implement to mitigate their socio-economic woes. Although government involvement in its later execution will be limited, a highly competent government will be needed to cultivate the funding measures and trust necessary to run a successful UBI scheme.

**Jenny Teoh**
St Cuthbert's Society

# How does Refugee Migration Affect the Labour Market?

The ongoing European refugee crisis is a hot topic; met with either a warm "Refugees Welcome" or fierce, burning opposition. Public opinion seems to fluctuate, according to the constantly updating photographs, stories and statistics. Likewise, reactions from politicians range from Hungarian Prime Minister Orban's thirteen-foot barrier to Merkel's open-door policy. This article focuses on refugees' economic footprint on the labour markets that receive them. Are refugees simply excess baggage on economies that are just beginning to pull themselves out of a global recession? Or are they beneficial rough diamonds that have the potential to help deal with the host state's core issues such as ageing populations?

A refugee is described by the UN as a person fleeing their home due to well-founded fears of persecution. Most head to cities in safer countries but access to jobs is very limited, and after refugees' money has been used up, they are left in poverty. Some stay in refugee camps, where there is very little economic activity or education, with the average stay being 17 years. More and more refugees, while not immediately threatened, choose the perilous passage to Europe. They hope for better opportunities in employment, housing and education.

It is difficult to predict the results of an increase in the numbers of refugee workers on the labour market because it is dependent on so many factors. A belief many people hold is that 'the true charity is not giving bread or money, but providing employment.' Economies with skills gaps accommodate new entrants with relative ease. In Kurdistan, training for low-paid or less desirable jobs was provided by the Danish Refugee Council

and 79% of participants continued to work in the same firms as full-time employees. These jobs are those most often taken by refugees but are not always the best way of making use of their existing knowledge. Problems such as destroyed employment records, no existing network and differences in general education and experience are a big barrier to utilising the skills of refugees. It can lead to refugees having to take jobs for which they are overqualified. This is not only wasteful, but can hurt the individual's mental wellbeing, which may eventually lead to greater costs like treatment and social problems.

Furthermore, the current status of the labour market needs to be taken into account. European countries with the highest unemployment (all figures taken for 2019), such as Greece (17%) and Spain (14%) will find it more difficult to incorporate refugees to their labour markets. Refugees will be more attracted to countries with lower rates of unemployment such as Germany (3.1%) and Great Britain (3.8%). However, regulations and inflexibilities regarding contracts and high living wages can put off employers where refugees' productivity is under no guarantee. In Germany, refugees are given 6 months to work at a wage below the minimum wage, a policy designed to encourage employment of the long-term unemployed. This means that refugees can undercut the wage of native workers. Local workers may harbour resentment and this policy may be seen as inequitable and discriminating against the resident population.

*Are refugees simply excess baggage on economies that are just beginning to pull themselves out of a global recession?*

A pool of skilled labour could be useful, especially to the UK's energy sector and the NHS. Under the UK Shortage Occupation List are: petroleum engineer, drilling engineer, mechanical or electrical engineer in the oil and gas industry, geoscientist in the oil industry; the worker from those industries could assist the UK's energy sector and provide innovation with knowledge of foreign practice, Sheila Heard, the managing director of Transitions, a social enterprise working to integrate highly skilled refugees into the labour market, argues "[Recruiting refugees] is not about charity. It's about allowing skilled candidates to compete in the job market along with everyone else." Transitions London has connected refugees with recruiters such as EDF, National Grid and the Royal Academy of Engineering.

Also on the Occupation Shortage list are several medical practitioner professions, including all nurses and paramedics. The effects of the insufficiency are visible. One report found that 90% of hospitals could not meet safe numbers of nurses during the day. In the long term, the ageing population of the UK will exacerbate these issues by increasing the strain on the NHS and increasing the dependency ratio. The effect

of an increase in the dependency ratio is twofold: an increase in pensions, and a reduction in income tax received. Pensions are the largest cost of social protection. In 2019, 18.1% of the UK is aged 65 or over and is projected to rise to 24.3% in 2039. Nursing homes are often short of staff, leading to a decline in quality of care and a need for expensive agency staff. Recognition of foreign nursing qualifications could ease this strain long term and allow nurses with refugee status to work in the profession for which they have been trained.

Increased competition in the labour market has been shown to drive down wages in the context on a rural environment and casual labour in Tanzania, where a 50% decrease in wages for casual labourers was brought about by increased numbers of refugees. A paper by the Bank of England found that for an every 10% rise in immigration, there is a 2% fall in wages. However, this is unlikely to have a noticeable effect in the UK, considering the current plans of accepting 20,000 refugees over 5 years and that virtually all employment is formal, and wages cannot be under the National Living Wage of £8.21 per hour. One problem will be the cost of language training, where one approximate estimate put this at £25 million. Also, the direct beneficiaries of refugees entering the labour market will be wealthy business owners. However, if skills shortages can be addressed effectively then everyone could benefit from improved services.

Some studies suggest that the refugees bring entrepreneurship. Ten percent of Australia's refugees' earnings came from their own businesses, with Afghan refugees earning the most. The chief executive of the Settlement Services International says that it is partly due to the lack of welfare state in their home countries, that refugees seem to be greater risk-takers. Rolf Sternberg, a German professor of Economic Geography at the University of Hanover, commented "many German-born graduates prefer the greater safety of working for an established company rather than taking the risk of setting up on their own. In Germany, the culture prevails that if you fail, it's not easy to shake off the stigma." The local population who do not have the same obstacles to employment that refugees have, find acquiring a good job relatively easy, whereas refugees are more likely to be self-employed, sometimes out of necessity. In addition, the Arab world has an extensive history of being a centre of trade. This entrepreneurial spirit, if nurtured through access to affordable loans, could create more jobs for the native-born population.

When it comes to the impact of refugees, it is not easy to know exactly what to measure, because their effect is dependent on so many different factors, such as age, socio-economic class, geographical location and cultural integration of refugees and hosts. The eventual impact is hugely dependent on the refugees' reception. Refugees do not have to weigh down economies. Instead, they can contribute to the economies of their hosts, and eventually rebuild their home countries. Having the rights to work, to start businesses and be educated will allow refugees to help themselves within their host countries.

**Helen Poon**
St John's College

# Book Review: Bryan Caplan's "The Case Against Education" (2018)

By the time you finish an undergraduate degree, you'll likely have spent over 15 years in schooling – and according to The Case Against Education (2018) by Bryan Caplan, these years were largely wasted. In his book, Caplan argues that education fails in its titular task: educating. Instead of developing abilities, knowledge and skills, schools and universities let students signal their underlying productivity to potential employers. Given this signalling benefits the individual rather than general society, Caplan recommends drastic educational austerity rather than government spending on frivolous, and ultimately worthless, education credentials. While the core of this thesis, that signalling plays a critical role ineducation and labour market outcomes, is well-argued and substantiated by evidence, Caplan's extensions to this central idea are largely unconvincing.

Signalling is hardly a new idea, with Caplan acknowledging its popularisation by economic titans like Kenneth Arrow. Caplan's unique contribution is in developing a compelling theory of why education credentials are highly valued by employers even if education doesn't make you a better worker. Employers are risk-averse in their hiring practices because firing workers is costly. There are legally mandated costs like severance pay, but equally firing workers can negatively impact the morale of staff who weren't fired. If firms unwittingly hire a bad worker, they can either grit their teeth and accept a poor return on investment, or face the high costs of firing. To avoid this dilemma, firms pay a premium for workers whose competency they can trust.

Unfortunately, it's difficult to determine a priori who among a pool of potential

will be a good worker. The ideal employee is hard-working, clever, and socialises well with co-workers, but there is no cost-effective way to determine if a candidate meets this description. Consider intelligence – you could make candidates complete an IQ test, but that wouldn't tell you if they were lazy or antisocial. Additionally, these results might reflect simple variance or a willingness to study for IQ tests. Firms can't correctly gauge a potential employee's intelligence. These problems extend to testing how hard-working or amiable a worker is, meaning employers have no effective way to determine who is best for the job, but face high costs for choosing poorly.

*In his book, Caplan argues that education fails in its titular task: educating.*

This dilemma is why firms value the signal education sends, because doing well in school or university reflects a package of three desirable traits: intelligence, conscientiousness, and conformity – Caplan's holy trinity. For the majority of students, earning a high mark requires a combination of the three. You need intelligence to do well on exams, conscientiousness to work hard and study, and a willingness to conform to social expectations to invest in education. Firms want someone clever, hardworking and willing to adhere to workplace convention; the more years of education you have, the more likely you fit this description. Crucially, because of the drawn-out nature of education, it's difficult to fake being clever, hard-working, and conformist. Someone smart but lazy could plausibly work hard for a year then stop, but to get a good degree you need to be working hard from sixth form to your final year. (Admittedly, this is more relevant to the American education system which uses cumulative grade point averages.) Firms don't care if you understand the IS-LM model, they want to know if you are able and willing to study enough for a good mark.

When firms believe education sends a good signal, they'll want to pay a premium to people who did well in their course. Clever young people, desiring higher future earnings, pursue high marks. This improves the predictive power of academic success on labour market success and the cycle repeats. This is the foundation of Caplan's argument, that employers pay higher wages to people who've done well in school or university because of the signal that success sends, not because the course content is relevant to the industry.

Outside of this foundation, however, The Case Against Education is often unconvincing and runs the risk of misrepresenting research. Some key logical principles lack sufficient justification and opposing theories aren't given a fair trial. While Caplan substantiates his arguments with empirical evidence, the reader is advised to be cautious about interpreting evidence in the book. Though in many places, there is a good-will effort to honestly explore prior research, some key research is misrepresented and evidence which might weaken the thesis is omitted.

Flaws in The Case Against Education begin to appear once it moves from arguing that signalling is important to prescribing policy based on this conclusion; prominently, Caplan never establishes that signalling is wasteful. Instead, he simply states that signalling does not meaningfully help society, an assertion which clashes with his own argument on the importance of signalling. Firms value education credentials because they are a uniquely effective signal of a worker's competency. By relying on these signals, firms are better able to hire the right person for the job. This means firms are more productive because they are less likely to misallocate labour and also face lower costs, since the probability of making bad hiring decisions and the associated firing costs are lowered. Caplan argues that this is particularly important as firms are often slow to learn the 'true productivity' of their workers. He estimates it could take months or years to realise a worker isn't right for the job. If signalling makes firms more productive and helps them avoid lengthy and costly adjustment costs, it's unclear why it has no social value.

Signalling actually helps the labour market as a whole. The labour market is characterised by information asymmetry – workers know more about their productivity than firms, and have incentives to appear more productive than they actually are. Barring educational certification, there is no effective way for potential employees to credibly disclose their ability. These are the conditions for Akerlof's "market for lemons" (1978), where information asymmetry causes adverse selection and market degradation. Avoiding this outcome would certainly be socially desirable, so signalling is an entirely necessary element of a functioning labour market.

However, even if one accepts that signalling is largely wasteful, this still leaves the question of to what degree schools and universities educate students versus merely providing them with an opportunity to signal. Caplan argues that only a fifth of education is about learning and the rest is signalling. Schools teach irrelevant material, students only learn the material for the test and forget it shortly after, and adults fail to retain knowledge later in life. He supports this with empirical evidence that knowledge fades out quickly and that adults are generally unable to remember even basic topics from their high-school education. The vast majority of American adults studied geometry at some point in their life but only few remember the content. Furthermore, education seemingly fails to provide students with soft skills like critical thinking or learning to learn. For example, experiments have found that students are unable to apply logical skills to different contexts regardless of their education. If schooling truly is so impotent, Caplan's case that signalling is the driving force of education becomes much more plausible.

The evidence on this topic is mixed, which makes it somewhat concerning that Caplan's empirical evidence is not always a faithful representation of current research. To support his argument that schools can teach little, he argued that there's no clear way to ballpark its [high school's] signalling share – or estimate its social return."

*Barring educational certification, there is no effective way for potential employees to credibly disclose their ability.*

This is false. Researchers have extensively studied the Perry Preschool Program, taking a sample of 123 disadvantaged black children, aged 3, where half were given a high-quality preschool education and half were left as a control. Those who received the treatment were more likely to graduate high school, enjoyed higher average incomes, committed less crime, and were more likely to be employed than the control group. While the program has been criticised for having a low sample size and problems with its experimental randomisation, the effects hold even when adjusting for these issues (Heckman et al., 2010). Yet, despite the program's flaws, Caplan still cites it as evidence but only discusses a particular finding of the program which supports his claim and omits the rest.

The omission of conflicting evidence is further highlighted in Caplan's discussion of the scientific consensus surrounding the controversial nature or nurture debate. "This approach, called 'behavioral genetics,' consistently finds strong, pervasive effects of nature, and weak, sporadic effects of nurture. […] The genes your parents give you at conception have a much larger effect on your success than all the advantages your parents give you after conception."

Behavioural genetics has not only struggled to reach meaningful conclusions because of endogeneity in the adoption process, but what conclusions have been found in the contrasting research between Sacerdote (2007) and Bjorklund et al. (2006) are not so decisive as Caplan claims. What further muddles the debate around family circumstances and genetics is that the distinction between nature and nurture is becoming increasingly unclear, where genes change in response to environmental factors.

This disconnect between The Case Against Education and the academic literature is reinforced by the unfortunately shallow depiction of competing theories of education. The theory which is most opposed to signalling theory, and the theory Caplan spends the most time rebutting, is human capital theory. In short, human capital theory posits that the tendency for wages to increase with age is explained by individuals acquiring more experience, skills and abilities. As people age, they become wiser and more productive, earning commensurately higher wages. In this theory, education makes people more productive, contrary to Caplan's argument that it does nothing much. While human capital and signalling theory are diametrically opposed, most economists accept that education has a signalling as well as human capital component. The question isn't which theory is true, but rather how much of education is signalling versus human capital.

Unfortunately, The Case Against Education does not address this question. Instead, Caplan offers extensive rebuttal to "pure" human capital theorists who believe education is exclusively about the building of skills and knowledge, leaving no room for any signalling. While his examples do demonstrate that such a theory would be untenable (e.g. if the value of university education is knowledge not signals why don't people sneak into prestigious university lectures), it's unclear any economists are human capital purists. Indeed, even authors zealous enough to start a journal dedicated to human capital theory never claim it exists in a pure form (Ehrlich and Murphy, 2007). The Case Against Education never acknowledges the nuances of human capital theory and thus struggles to meaningfully rebut it.

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The Case Against Education falls short of its potential. It builds a strong case for the role of signalling in education and the labour market, but ultimately overstates the case for a pure signalling model of education. Humans are complex – old paradigms like nature against nurture are breaking down as we gain a more nuanced picture of human development. Both signalling and human capital play a role in education, but Caplan omits rather than acknowledges this fact. Society would perhaps be better off with more critical and nuanced perspectives about the value of education, and hopefully this book can someday contribute to one.

**Eric Sargent**
Van Mildert College

# To What Extent have Economists Progressed Our Understanding of the Causes & Prevention of Famines?

This article presents a consideration of the contributions of various economists to aid our understanding of the causes and prevention of famines. This is a serious endeavour with significant consequences; the total number of deaths attributed to famines in the 20th century alone has been estimated at upwards of 70 million, roughly the same as those who died as a result of the two World Wars (Ó Gráda, 2007). A concrete understanding of the causes and effects of these phenomena would, presumably, go some way in mitigating their occurrence and intensity in the future.

Famines are traditionally explained as a result of the lack of availability of food. However, this approach is oblivious to a more nuanced reality. As Sen (1981) highlights, dramatic reductions in the supply of food are neither a necessary nor sufficient condition for famine. Nonetheless, as Ó Gráda (2007) explains, crop failures have been responsible for significant famines in the past, and are even attributable to the "man-made" famines in the Soviet Union in 1932-3. Moreover, Ó Gráda suggests that the impact of crop failure is dramatically greater if it happens back-to-back in consecutive years and if it happens to a staple crop. The Phytophthora infestans, according to this author, provides an illuminating example; had this crop infection not struck the potato crop twice in the past, and are even attributable to the "man-made" famines in the Soviet Union in 1932-3. Moreover, Ó Gráda suggests that the impact of crop failure is dramatically greater if it happens back-to-back in consecutive years and if it happens to a staple crop. The Phytophthora

infestans, according to this author, provides an illuminating example; had this crop infection not struck the potato crop twice in a row, the Great Irish Famine might have been significantly mitigated. On the whole, however, a failure in the supply of food is an elementary explanation for many famines, and economists and others made great strides in exploring other causal mechanisms.

Poverty and backwardness are naturally such explanations for famines – after all, the majority of famine occurrences in the past eighty years appear to have taken place in 'developing' countries. Indeed, Ó Gráda points out that United Nations output and welfare indices suggest a close correlation between famine and underdevelopment are associated with weak infrastructure and coping mechanisms against harvest failure – such as crop insurance, trade and storage – as well as the fact that breakdowns in communication and transportation are more likely. This poverty is also dually linked to poor hygiene and sanitation, meaning that the infectious diseases that are often associated with outbreaks of famine are exacerbated in the absence of the capable technologies to prevent and treat diseases. A natural implication of this kind of approach to famines is that it suggests they can be prevented in the future through economic development, which would strengthen the infrastructure and institutions required to successfully deal with issues in the food supply.

*Dramatic reductions in the supply of food are neither a necessary nor sufficient condition for famine.*

Another important area of interest for economists has been the role of markets in exacerbating famines – in particular, failures of the market to mitigate or reduce their costs. Sen (1981) describes how famines in Bengal in 1942-44 have been exacerbated by the failures of markets to adequately reconcile the supply and demand of food. He found that farmers and grain merchants speculatively withdrew the supply of rice stocks on the assumption that prices would rise inexorably, leading to panic purchases, rising prices and a deterioration of the exchange entitlements of the poor. Ravallion (2007), meanwhile, considers the famine in Bangladesh in 1974-5, and finds similar conclusions; rice prices shot up as farmers underestimated a harvest that turned out to be unremarkable. Ravallion (2007) alongside others have also explored how the variation of food prices in different parts of the same country changes during a famine. Significant increases in standard deviation have been found, which the authors attribute to substantial regional impediments to trade, such as roadblocks and bans on private sellers. This weak spatial market integration, according to Patrick Webb and Joachim von

Braun (1994), exacerbated famines in Sudan and Ethiopia in the mid-1980s. Interestingly, by contrast, these same conclusions about the role of the market in producing or exacerbating famines are not reached when famines in nineteenth-century Ireland and Finland are considered. Studies in these cases found that variation in prices during a famine actually fell or, at most, rose a little, and there is little evidence to support the view that producers held back supplies early in the season in hopes that prices would rise later on. Ó Gráda suggests that this disparity might be due to political context; Bangladesh was emerging from a civil war in 1974-5, and its markets and associated infrastructure was, therefore, probably more fragile. Sen (1981) emphasises, however, that well-functioning, integrated markets do not always benefit the poor, and that dogmatic generalizations are therefore not warranted. Indeed, such markets might allow residents of areas that are less affected by famines to attract food away from famine-threatened regions. Nonetheless, Ó Gráda (2007) outlines two further ways that free markets can mitigate the impact of famines. The first is migration, which can reduce the pressure on scarce food and medical resources where the crisis is at its worst point. In Ireland in the 1840s, for instance, Ó Gráda suggests that emigration to America and other cities in Great Britain was a particularly significant source of famine relief. The second is an economic argument. Free trade causes improvements in aggregate output and a consequent regional specialisation, which Ó Gráda argues reduces the risks on any proportionate harvest shortfall.

The final area to examine is the role of government intervention in preventing and mitigating famines. This is an area that is naturally contentious; the principal-agent problem is especially pertinent when it comes to the best ways of mitigating famines, and assistance from central government is often susceptible to accusations of corruption and slow, inefficient bureaucracy. During episodes of famine in Qing China, for instance, it transpired that the provinces receiving the most relief were most likely the richest (Carol H. Shiue, 2004). These issues have been the subject of much analysis, for example by Dreze and Sen (1989). One proposed solution is that, since transfers of food at below market prices can risk corruption, there should be an emphasis on the provision of non-tradable and highly perishable food rations (Ravallion, 1997).

To conclude, economists have made great progress in our understanding of the causes and prevention of famines. However, that is not to say that our progress in understanding famines comes solely from economics. On the contrary, social and political considerations are crucial to a holistic understanding of the causal mechanisms behind famines.

**Suhayb Ahmed**
Josephine Butler College


# From an Economics Perspective, do the Benefits Outweigh the Costs of Fighting Climate Change?

Guilty about their contributions to climate change, 195 countries signed the 2015 Paris Agreement and pledged to play their part in dealing with their greenhouse gas (GHG) emissions. A joint effort to combat climate change, the Agreement's primary aim is to keep the increase in global temperate to well below 2°C, as well as help countries adapt to its catastrophic effects and make finance flows consistent. Following this, recent years has seen a series of climate change policies which this essay will evaluate in relation to the time horizon.

A key aspect of fighting climate change is the transition of countries to a low-carbon economy – one that is based on clean energy rather than fossil fuels. This involves phasing out fossil fuel subsidies and supporting the renewables industry instead. In the short term, there will be job losses in carbon-intensive sectors and new jobs in low-carbon sectors (for example, to run a wind farm), but the net effect will be job creation as low-carbon technologies tend to be more labour intensive. It is important to note, however, that the higher job creation rate reflects the fact that green energy is not yet 'cost-effective', meaning that assuming capital stock is fixed, more labour is used up to produce a given amount of output. Laid-off workers may not immediately find a new job in the renewables sector as they have different skillsets to what is required. This may give rise to structural unemployment, which the government may need to address by spending more on public training programmes on green jobs. Furthermore, Babiker and Eckhaus (2006) found that this increased unemployment could decrease

GNP in the first ten years. The unbalanced shift in the labour market, along with the minimal immediate effect on climate change, alludes to the costs of fighting climate change overweighing its benefits in the short run.

In the longer term, the transition to a greener economy will unleash a wave of innovations as profit-seeking firms exploit carbon opportunities. Over time, the need to adopt new green technology will create a wave of further innovations as firms adjust their processes and adapt the technology to their specific requirements, generating further job opportunities. At the same time, this additional technological change leads to declines in abatement costs, i.e. the cost incurred to firms when reducing emissions. It may therefore moderate the overall economic impact of climate change policy. Plenty of evidence suggests that whilst climate change mitigation technology may be expensive at first, the averaging of costs over a longer time horizon and the potential accumulation of economies of scale mean that green energy will be cheaper and more sustainable than fossil fuels (Fankhauser et al., 2008). Moreover, in the long run, it has the potential to create more jobs across a number of sectors including, but not limited to, the construction, manufacturing, transport, and insurance sectors. Of course, the extensive benefits from cleaner air would be reduced healthcare costs, but also decreased premature deaths and increased productivity.

But what of fighting climate change in less developed economies? Climate change has adverse effects on poverty and inequality, and these effects are exacerbated by the vicious cycle of poverty linked to health, education and livestock. Initial inequality causes disadvantaged groups to be more exposed and susceptible to the damage caused by climate change, and less able to cope with it due to their poor access to resources. Consequently, these groups suffer disproportionately which results in greater subsequent inequality. As such, combatting climate change requires policymakers to take into account poverty and inequality issues. From an economics perspective, carbon pricing is the sine qua non of climate policy. One way to establish a carbon price is to levy a carbon tax on the distribution, sale or use of fossil fuels, which increases their cost and encourages users to switch to more environmentally friendly energy. Although this raises tax revenues, carbon taxes are regressive by nature, meaning those on low incomes will bear the brunt of the burden, and thus lead to a deadweight loss in economic welfare. Further, financing is typically more costly in developing countries since interest rates tend to be higher and access to capital more difficult. Hence, a carbon tax will increase fuel prices but not necessarily lead to investment in low-carbon technologies due to higher average capital costs (Schmidt, 2014).

According to the Stern Review (2006), the cost of inaction can be as high as the equivalent of losing at least 5% of global GDP each year, now and forever, whereas taking action to fight climate change will cost only around 1% of global GDP. Inaction is a slow death. Delaying would also be dangerous and much more costly. Khosla et al. (2017) suggest that the transfer of foreign low-carbon technology in developing countries such as India is urgent for meeting the dual objectives of development and

climate change, but warns that it will be costly at first. Through climate negotiations under the United Nations Framework Convention on Climate Change (UNFCCC), developed countries are to mobilise approximately US$100 billion by 2020 for climate change activities in emerging economies. But much of that funding will have to come from the private sector, particularly foreign direct investment (FDI) in developing countries which historically, has contributed to GHG emissions, for example when transporting goods and operating waste treatment facilities.

*Inaction is a slow death. Delaying would also be dangerous and much more costly.*

Despite its potential to aggravate climate change, FDI also offers the potential to combat it by facilitating the transfer of clean technology. On that account, whether the benefits outweigh the costs of fighting climate change depends on whether governments succeed in concocting policies that prevent FDI from exacerbating climate change and maximising the contributions of capital markets towards mitigating it. If done correctly, FDI can bring the much-needed green technologies into these developing countries and subsequently, jobs, productivity and economic growth. This may have broad positive spill-over effects if the infrastructure is improved as a result of FDI, incentives are provided for domestic entrepreneurs to invest, and tax revenues generated by FDI are used to fund education and training. From these, we can expect emissions rate to fall, poverty to alleviate and the income gap to narrow, as employment creation, flows of knowledge and ideas, and enhanced domestic investment contribute to higher economic growth. Therefore, careful planning of FDI is crucial when tackling climate change in these countries, and tight regulation on high-carbon FDI necessary.

Ultimately, considering the serious economic and social impacts of climate change, there is no question that the world as a whole need to act on it, fast. The question lies in which policies to implement in each country and region. As there are many market and government failures, climate mitigation will involve the combination of different instruments including carbon pricing, a shift of subsidies away from fossil fuels to the renewables industry, innovation policies, regulations and performance standards, policies to attract clean FDI in developing economies, and education and training. The balance between these instruments will depend on the stage of development of the economy, as well as the social and political acceptability of these instruments. Nevertheless, the most sustainable policy is to adopt low-carbon technologies and reduce dependency on non-renewables. Although the costs override the benefits in the short run due to the high initial capital costs and the rise in structural unemployment, a structural shift to a low-carbon economy makes millions of jobs possible from the necessary investment, and millions more saved if we take action. As climate strike banners have it, “there are no jobs on a dead planet.”

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# The Hong Kong Protests and its Economic Impact

For the majority of the past 50 years, Hong Kong has been a city defined by economic success. One of the four East-Asian tigers, it has been a capitalist beacon which has embraced and flourished through free-market policies. Unless you work in the corporate world, banking in particular, or study economic growth miracles, it is a major city which generally flies under the radar. However, in the past year or so, that has all changed. The city has dominated international headlines as mass protesting over a proposed extradition bill has descended into violent clashes between the police, and the youth of Hong Kong demanding large-scale societal change. Financial news has been replaced by political protests which now dominates the forefront of every discussion between residents. It is undoubtedly the most serious problem that the Hong Kong government, and by proxy, the Chinese government, have faced since the 1997 handover. This article is going to ignore the political debate and discussion which has been taking place and revert to a purely economic way of looking at things, exploring how the protests have impacted Hong Kong's economy, and the extent to which economic issues can be blamed for what's taking place.

*Investor confidence has been bludgeoned, with several big business deals collapsing due to a perceived unstable and unpredictable future.*

To put the situation into some context, Hong Kong's economy has not exactly been

performing as well as economists have come to expect. The trade war between the United States and China has had ripple effects on the city which holds more RMB than any other financial centres in the world. Comparing September 2019 with September 2018, exports have shrunk over 7% and imports have fallen by 10%, leaving a HK$32 billion trade deficit (Tsang, 2019). This has contributed to a contraction of economic growth in the last two quarters and resulted in a technical recession. This has meant the economic implications of the protest movement could not have come at a worse time. Investor confidence has been bludgeoned, with several big business deals collapsing due to a perceived unstable and unpredictable future. Goldin Financial Holdings backed out of a HK$11.2 billion deal to buy a plot of land at the old Kai Tak airport (Yiu, Li and Ng, 2019), and planned IPOs and M&As have come to a standstill according to the Hong Kong Exchanges and Clearing. Yet, relative to other sectors, the financial services industry has remained relatively unscathed. The tourism and retail sectors have seen demand collapse, with one of the city's most popular attractions, Ocean Park, requesting a HK$10 billion government bailout (Tsang, 2020). Retail sales have fallen by 25% (Yau, 2020), luxury good sales by 45% (Yau, 2020), and tourist numbers also down by 45% (Tan, 2019). The statistics reflect the public perception of the city being like a ghost town, with restaurants and shopping malls far less busy than usual. Many hope this is just a temporary setback and that as the protest movement calms down, as it has since the end of last year, tourists and shoppers will likely return by the end of 2020, but investor confidence may take longer. The protests have brought much uncertainty surrounding 2047, and Chinese interference in the city-state, back into the limelight. They have highlighted that until it is clear what exactly will take place after the handover, Hong Kong will be an unstable, volatile place.

The second issue worth discussing, is the extent to which the economy caused these protests to take place. The protests began over an extradition bill and have developed into a cry for universal suffrage. But digging deeper, one of the reasons for demanding universal suffrage is discontent at government policy over a lengthy period of time. Thus, the lack of accountability and consequence for poor governmental performance, adds to the idea that people feel democracy should be a basic human right. When a government is running a fiscal surplus of HK$58.7 billion in 2018/19 (Legislative Council Secretariat, 2019) and HK$16.8 billion in 2019/20 (Legislative Council Secretariat, 2019), yet maintains a minimum hourly wage at HK$34.50 (Ewing, 2018) with one in five people beneath the poverty line (Ewing, 2018), and one of the highest Gini coefficients in the world at 0.539 (Ewing, 2018), then discontent is unsurprising. Young people in Hong Kong are graduating from universities and finding graduate jobs, and yet are resigned to the fact that ever owning a home is a pipe dream. The lack of affordable housing, with the average house price close to 21 times the average annual household income (Clennett and Jakubec, 2019), means most young workers live at home with their parents.

Public housing has not kept up with the ever-increasing demand, with consecutive governments far more content to put land up for tender and reap the billions it pays, rather than provide a solution. Comparing the city-state to Singapore, a natural comparison given their similar history, only half of Hong Kong's population own a property versus over 90% in Singapore (Clennett and Jakubec, 2019). Therefore, it is no wonder that many of the arrested youths over the past 6 months have stated that they had nothing to lose by protesting, because their future is far bleaker than that of their parents' generation.

*Until it is clear what exactly will take place after the handover, Hong Kong will be an unstable, volatile place.*

Bluntly then, the situation appears forlorn. The short-term economic outlook is poor, and in the long-term, uncertainty over the city's political situation makes investment difficult. The underlying economic issues, of inequality and social mobility obstacles which have caused this chaos cannot be solved quickly, and will require consecutive governments to tackle these challenges with good policies. Given the track record of poor decision-making, this seems unlikely. Then, looming in 2047, there is the possibility that all this could become irrelevant. When the 50-year period of supposed autonomy concludes, Hong Kong could become another city in China. A Shenzhen 2.0.

However, writing the city off would be a mistake. It still serves as an essential trading, economic and legal gateway to China, and retains a unique entrepreneurial spirit which has spurred its economic performance. Its importance in the region means that a stable, and ideally prosperous, Hong Kong is beneficial, if not essential, to everyone tourists and shoppers will likely return by the end of 2020, but investor confidence may take longer. The protests have brought much uncertainty surrounding 2047, and Chinese interference in the city-state, back into the limelight. They have highlighted that until it is clear what exactly will take place after the handover, Hong Kong will be an unstable, volatile place.

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# On the Adoptability of the Chinese Economic Growth Model

Contrary to what Chinese supporters may say, the Chinese economic model is simply not a sustainable alternative to the Washington Consensus of market-friendly policies. It is merely a development model. The widely held view that China must soon change its way of economics serves as evidence for this crucial point. Indeed, the development model, coined by Ramo as the Beijing Consensus, is simply a process of efficient mobilisation of natural resources by the Chinese policymakers. This is not a success of economic innovation by the Communist Party. Instead, it would be more appropriate to describe it as the copying of a combination of two preceding economic development strategies: The 'East Asian development model' of state-led industrial development (Taiwan, South Korea, Japan), and the 'transitional' model of centrally planned economies into more market-orientated ones (Eastern European countries). The socio-political environment is also a crucial pre-condition in guaranteeing the success of adopting the Chinese model as China is unique ideologically, geographically, and demographically.

The Chinese economic model has been successful in terms of impressive figures and substantial improvements in standards of living. But there are valid concerns regarding its sustainability. It is a well-known fact that China has been overly reliant upon investments and exports to power its growth – evidence shows that while household spending typically represents 60-70% of aggregate demand in developed countries, it has accounted for less than 40% of Chinese

demand. A consistent current account surplus of around 10% of GDP is much more of a vulnerability than strength as it means an unsustainable reliance on export consumers. The consequential damage is clearly being shown by the ongoing trade war.

*It is a well-known fact that China has been overly reliant upon investments and exports to power its growth.*

Furthermore, there is virtually no transferability of China's development model elsewhere. China's economic miracle is the combined product of different unique factors. Hong Kong, for example, is (or was) a vital link to the global market and modern financial and legal institutions. China also has the natural advantage in terms of the size of the labour force, which is complemented by its convenient geographical location, right next to the trade hubs of Japan, Taiwan and South Korea. The uniqueness of these important factors, in combination with China's distinctive political system, means that adopting the Chinese approach will require difficult and radical reforms, as well as artificial efforts to mimic China's natural advantages. Even in the unlikely possibility of succeeding such reforms and imitation, major challenges such as cultural differences would lie in the way of succeeding the replication of China's economic miracle.

But while it would be impractical for other countries to adopt China's specific development model, what could be learnt from China is the importance of pragmatism in policymaking. The successful example of the Chinese economic story over the past few decades has shown that countries should implement policies that would work best for their case, regardless of whether they conform to the conventional economic theories or ideological beliefs. This is evident from the Communist Party's description of Chinese economic development as '摸着石頭過河'— crossing the river by feeling for the stones. Instead of hewing to a particular development theory or putting too much weight on upholding ideological principles, China was able to acknowledge and adopt successful aspects of preceding development models despite their conflicting ideological beliefs. This is in sharp contrast with the laissez-faire economists of the late 20th century who encouraged developing countries to adopt their free-market policies – ending with stunted economic developments.

Hence, while it is certainly impractical to adopt the Chinese development model, there is much to be learnt from their pragmatic approach to economic policymaking that deprioritises ideological principles for actual results. To borrow the famous phrase by Deng Xiaoping, '不管黑貓白貓, 捉到老鼠就是好貓'— it doesn't matter if a cat is black or white, so long as it catches mice.

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