Weather Forecast

Morning:	*14°*
Afternoon:	*20°*
Evening:	*16°*
Overnight:	*10°*

BESA TIMES

Thursday 6 May 2021

Foreword by our dearest president, Sara Sarhan

Markets

FTSE 100: +1.68% *EUR/USD: -0.36%*
S&P 500: +0.07% *GBP/USD: +0.02%*
Brent Crude Oil: +2.65%
10Y Gov Bond: -0.81%

First edition

Georgia Is Still On My Mind

By Nicholas Filipek

On the 25th of March, Governor Brian Kemp of Georgia signed a new voting law that was passed by the Georgia legislature. Governor Kemp and the Republican Party, which supported the legislation, deemed it necessary to protect the integrity of the elections. However, this legislation has received a lot of backlash, especially from the Democrats, but also from outside the political arena. The MLB (Major League Baseball) decided to move the All-Star Game from Atlanta, Georgia to Colorado in protest to the new legislation.

The new voting law comes after historic victories in Georgia by the Democratic Party, in both the 2020 Presidential election as well as the Georgia Senate run-offs. Now, for the first time in years, the Republican Party does not have an incumbent Senator representing them in the state of Georgia. [...Page 11]

Is The UK Having An Innovation Crisis?

By Maria Mikolajczyk

In his opinion piece "Why once successful countries like the UK get left behind", Martin Wolf states "the UK has an innovation and – so growth, crisis". After the outbreak of the global economic crisis in 2008, the UK started experiencing a significant economic slowdown reaching the second lowest GDP growth within the G7 members group. From 2016 to 2020 the UK's economy has seen a contraction of estimated 11.2 per cent[...Page 19]

BOCCONI ECONOMICS STUDENT ASSOCIATION

TABLE OF CONTENTS

Foreword

The interesting symptom of fast paced news cycles in our modern world, is that you don't have the capacity to know, read, and care about everything, all the time. Which means that when readers engage with a certain story, that story stood out amongst the rest of the news that day, and resonated with them. We often take this for granted, but it says a lot about us as readers, and consumers of media. Whether the news story is related to the reader directly or indirectly, it was important enough for the reader, to read, to engage with, to discuss, and most importantly to care about. To directly address this funny little phenomenon, we bring you our first edition of The BESA Times, a collection of opinion pieces, and analyses about what we currently care about. We want to share with you our thoughts, opinions, and theories on the topics that have struck us as a community.

In truth, it's a beautiful way to create open dialogue and discussion, and in turn nurture empathy in a divided world. It's time to see each other again. To hear each other again. To remember the human element within the news stories we consume at unprecedented rates. I hope that that's what we've accomplished with The BESA Times and will continue to do so, one edition at a time.

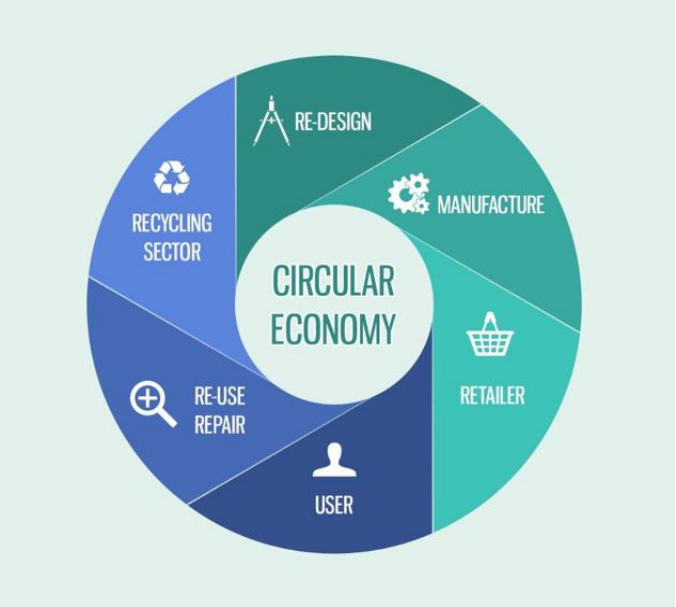
I want to give a very sincere thank you to the BESA team for making this happen. I'm always impressed with what we've been able to accomplish with a team as dedicated as you are. We've learnt from each other, supported each other, and most importantly created this space where more voices can be heard. Ultimately, that's what matters most.

Sara Sarhan
President of BESA

The Circular Economy

By Salma Slami & Umaymah Maryam

The European Commission defines the circular economy as 'an economy where the value of products, materials, and resources is maintained in the economy for as long as possible, and the generation of waste minimized'. This concept fits well with both the European Union and the United Nations' agendas for sustainable development, having been established as a strategic objective that allows for the preservation and regeneration of natural resources at a global level. The term has challenged the conceptual functionality of the more generic term of 'sustainability', whose broad scope does not allow us to isolate the specificity of the scientific and political agenda associated with it. The circular economy aims to keep products, equipment, and infrastructure in use for longer, thus improving the productivity of these resources, and essentially giving them a second life. This regenerative approach is in contrast to the traditional linear economy, which has a "take, make, dispose" model of production.



Scientists have found that the circular economy has its roots in ancient history. Evidence suggests that it has its origins with the Romans, Greeks, and even in the Bronze Age. According to an academic in Pompeii, heaps of rubbish preserved after the eruption of Mount Vesuvius in 79 AD were "staging grounds for cycles of use and reuse." The ideas laid out in Kenneth Boulding's 1966 essay, The Economics of the Coming Spaceship Earth, are speculated to be one of the preliminary steps towards what is now a complete framework for the circular economy. Several varying concepts have stemmed from here that share similar objectives, including cradle-to-cradle design, which focuses on quality of products, including safety for humans and environmental health. William McDonough, who widely implemented this design, is known as the 'father of the circular economy'.

However, it wasn't until a 2012 report commissioned by the Ellen Macarthur Foundation and developed by McKinsey & Company that the economic and business opportunities were practically considered - the first of its kind to consider the economic and business opportunity for the transition to a restorative, circular model.

According to the OECD, the world economy consumed 60 billion tonnes of natural resources in 2007, 65% more than in 1980. This trend continues to rise, with economic growth and demographic growth. So much so that, according to the Global Footprint Network, it will probably take the equivalent of a second Earth before 2050 to satisfy global consumption.
If the status quo prevails, global material consumption will reach 150 billion tonnes by 2050. Under this scenario, and taking into account population growth, the amount of CO2 emitted per person will be four times higher than it is nowadays.

Going circular could have numerous benefits in terms of the economy, the environment, and overall human working conditions. The World Economic Forum predicts going circular could generate as much as $4.5T in economic benefits. Just 8.6% of the world is currently circular, and the Forum's work seeks to foster collaboration between private, public, civil society, and expert stakeholders to accelerate the circular economy transition.

According to the European Parliament, moving towards a more circular economy could deliver benefits such as reducing pressure on the environment, improving the security of the supply of raw materials, increasing competitiveness, stimulating innovation, boosting economic growth (an additional 0.5% of gross domestic product), and creating jobs (700,000 jobs in the EU alone by 2030).

In 2015, the European Commission approved an action plan to accelerate the transition to a circular economy in Europe. Since then, the Commission has introduced 54 measures to make the life cycle of products circular. In order to speed up the transition, five priority sectors have been identified: plastics, food waste, essential raw materials, construction and demolition, and biomass, to emphasize the development of an environment in which investment and innovation can flourish.

The key building blocks in making the transition include primarily skills in circular design and production, new business models, skills in building cascades and reverse cycles, and cross-cycle/cross-sector collaboration.

There are challenges related to finance, key economic enablers, skills, consumer behavior, business models, and multi-level governance. However, through collaboration and shared efforts, the EU could, from 2030 onwards, save €600B annually on primary material costs, €500B through lower costs for negative externalities, and €700B through other cost savings. These cost savings and new business models will increase gross national product by 11% by 2030 compared to the increase if we follow current practices, according to the Ellen MacArthur Foundation.

The European Commission itself states on the follow-up to the Circular Economy Action Plan that if the EU wants to maintain its leadership role in the design and production of circular products and services, circularity must become the backbone of the industrial strategy. For instance, circularity must be introduced in new areas and sectors, life cycle assessments of products must become the norm and the framework for eco-design must be broadened as much as possible. One of these sectors is, most notably, the fashion sector.

The energy and the fast fashion sectors contribute to the most pollution in the world. According to The Ethical Consumer and Greenpeace's Journal, 'Unearthed', if the demand for fast fashion continues to grow at its current rate, the total carbon footprint of our clothing is predicted to reach 26% by 2050. In addition to the environmental impact, the fast fashion industry is based almost entirely on worker exploitation, especially female workers. Workers in the garment industry are some of the lowest-paid workers in the world, with only 2% worldwide earning a living wage and with roughly 85% of them being women. The exploitation of women's work, added to the catastrophic environmental impact, are too significant to look past.

To conclude, as citizens (and the future) of the world, we share the enormous responsibility of changing our consumption patterns, to begin with. We have listed below some of our favourite alternatives to traditional consumption channels that hopefully you will love as much as we do!

See page 25 for the list!

Digital yuan: a threat to the foundations of international finance?

By Luca Domino

The digital yuan does not represent the first example of central bank digital currency
(CBDC). Still, it certainly is the first one being issued by a major player in the global financial system. If the People's Bank of China's (PBOC) experiment were to make headway, how would its implementation take place? And how would a digital yuan be different from current electronic-payment solutions? Additionally, what would be the impact on users' privacy and government control? And finally, will it pose such a threat to the US dollar?

It is crucial to understand the difference between the digital yuan and any other electronic-payment app. Digital payment methods are extensively used in China, with a total $2.9 trillion transaction value. Would a digital yuan be any different, for example, from services such as WeChat Pay or Alipay? Yes. In fact, what these private companies have so far tried to do is to enable consumers to transact electronically. The PBOC's goal is instead to turn legal tender into computer code, which is fundamentally different. This is what distinguishes the digital yuan from cryptocurrencies such as Bitcoin, whose place is normally outside the traditional global financial system.

The PBOC's plan to "make it happen".

China's government has allocated a $23 million prize towards several public lotteries that extended the number of people holding digital yuan up to 750 million. The PBOC is also planning on handing out its new digital currency to the athletes that are going to visit Beijing to take part in the 2022 Winter Olympics.

At the moment it is only possible to conclude transactions online, even though an offline solution is currently being developed. The less tech-savvy will also be able to pay using a physical card, instead of scanning the merchant's QR code with the app developed by the government.

The exclusion of other private parties to the transaction also makes it possible for the absence of transaction fees. Merchants are therefore incentivized to welcome the use of the digital currency, as other digital-payment providers such as Tencent or Alibaba impose, on average, a 2.6 percent fee.

Lastly, in its plan to make the digital yuan the primary means of transaction in China, the PBOC has made it clear that they have no intention to increase money supply, as every digital yuan issued will substitute a physical yuan in circulation. China's authoritarian regime and capital controls would make the currency less volatile with respect to other cryptocurrencies.

Just another monitoring measure?

Being 100 percent trackable by the central back, the digital yuan's "controllable anonymity", as described by the Director of the Digital Currency Research Institute, Mu Changchun, is quite a complex matter. In fact, transactions will be completely anonymous on a horizontal level, i.e. individuals will not be able to retrieve data about who they are transacting with. However, there will be no vertical anonymity as the PBOC will be able to directly access data about the details of each transaction.

The absence of full anonymity neutralizes one of Bitcoin's main features.

Going back to private third parties such as WeChat Pay, it is relevant to note that while the government was still actively collecting data from private providers, they nonetheless represented a sort of shield. This will not be the case for the digital yuan.

Money laundering and gambling are some of the several purported targets of the PBOC's data-gathering activity. However, one of the main tools that such a measure would offer the government is enhanced control. On the macroeconomic level, some envisage that the PBOC may, among other measures, set an expiration date to the digital yuan held by citizens and companies, whenever the economy may need a push forward in a bid to spur spending. Such an action would be equivalent to handing the government the keys to your house but letting the authorities change the locks whenever they please.

Similarly, thanks to its more than 626 million facial-recognition cameras currently in use, China's government may immediately apply fines to one's digital funds, for petty infractions such as jaywalking.

A new digital yuan standard?

It is difficult to discuss potential applications of a centrally issued digital currency. Hence, it may be better to ask ourselves whether the development of a digital yuan standard genuinely makes sense.

To do that, we may consider two of the three traditional functions of money. We start by analyzing its potential as a store of value. We said before that the PBOC has guaranteed that central control will help to fight volatility of the currency. This, according to some, debases the capacity of the digital yuan to be a store of value, as the PBOC is not deemed to be completely independent of political power.

Could the digital yuan become a solid medium of exchange? Chinese authorities tend to adopt an optimistic outlook in this sense. Nonetheless, it may be a mistake to equate digitization and promotion of the global use of the digital yuan. According to the Bank for International Settlements, only 4 percent of global trade transactions are denominated in yuan, while 88 percent of them are in dollars. This of course poses a threat to China's attempt to stimulate the use of the currency. Even assuming the government forces local companies to only transact in yuan with foreign companies, the benefits of immediacy and rapidity that the digital yuan may offer against bank transfers are still offset by the need for foreign companies to acquire yuan in the first place.

We may therefore believe that, at least in the short term, the PBOC's experiment does not really represent a solid alternative to the dollar standard, at least in global transactions. In fact, there is another area in which the digital yuan may undermine the dollar's supremacy. The digital yuan does represent an alternative for circumventing US sanctions. This is made possible by the fact that transactions denominated in digital yuan would not require the use of SWIFT, the messaging network used in money transfers between commercial banks, which enables the U.S. government to monitor transactions.

CBDCs still remain an enigmatic domain of economics, and this discussion may serve to prove this point. While it is unclear what the scope of such digital currencies may be, it is certain that major central banks across the globe are currently researching their potential evolution.

Foreign Aid in Africa: a Form of Neocolonialism?

By Salma Slami & Umaymah Maryam

It is no secret that former colonial powers remain deeply invested in the countries they once ruled, maintaining control through a number of political, economic, and social channels. One such channel is foreign aid. Foreign aid is defined as the international transfer of capital, goods, or services from a country or international organization for the benefit of the recipient country or its population.

History of Foreign Aid:

While the neoliberal view of development finds its roots in the history of European Enlightenment through the conception of progress, foreign aid, as we know it, dates back to the 19th century. Developed countries began offering their economic assistance to developing countries and, by the 1920s, countries such as Germany, France, and Britain were providing regular aid to their colonies in Africa, Asia, and Latin America. Colonial powers used their resources to build infrastructure (railways, roads, ports, etc), while wealthy American industrialists were also actors in development aid, for instance, through the Rockefeller and Ford Foundations.

Even after gaining formal independence, former colonies remained reliant on the West for assistance in developing their political and economic institutions. As a result, Western companies retained considerable influence over the new states. The latter requested and accepted aid from the West, as a means to fund their development, only resulting in a new system of debt and dependency syndrome.

Today, the capital that flows into Africa comes not only from individual government aid programmes but international development agencies as well. Ones such as the International Monetary Fund or the World Bank, which serve as a channeling intermediary between the donor governments and recipient governments.

Foreign Aid: A Neocolonialist Structure

Essentially, these established development structures are neocolonialist based on the mere fact that the Western conception of progress is substantially related to European notions of modernity, which dictate neoliberal understandings of what development is. Indeed, national economic growth and democracy are ascribed centrality, while community development and programs directly meeting people's basic needs are rejected.

Thus, we can legitimately regard neoliberal development as neocolonial because, by imposing a set of economic and political values, one is able to exert physical and institutional control over development projects in the global South, partly striping developing countries of one vital aspect of statehood: sovereignty. This development results in structures of local and global inequality.

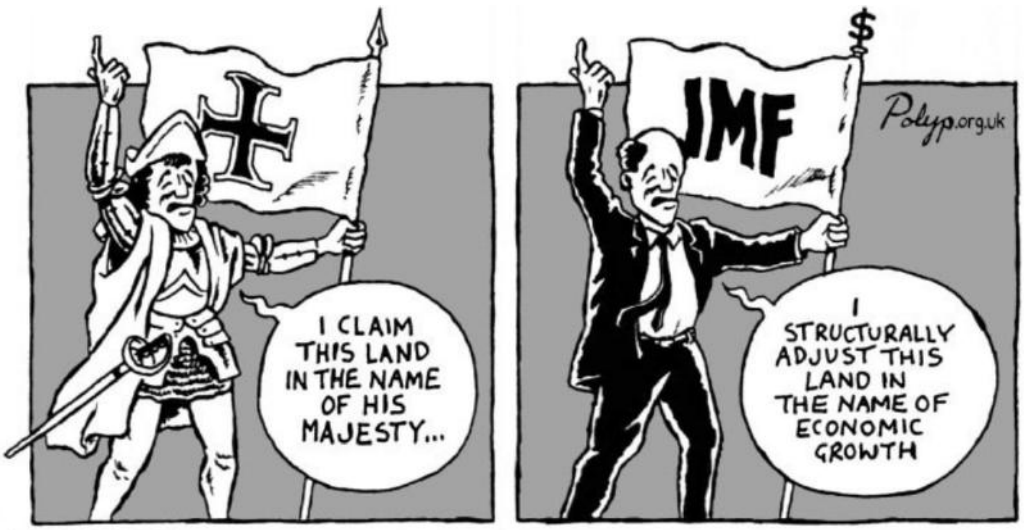
Indeed, the newly independent states' economic backwardness has been a curse in that it has kept them economically dependent on their former colonial rulers and other developed countries.

When giving out foreign aid, donor states always attempt to impose a number of conditions, like economic cooperation agreements, right to securing concessions, lowering of trade barriers in the interest of the donor country's exports, dictating the manner of use of funds, forcing the recipient to create funds for imports from the donor nation, etc. Such constraints are designed so as to secure control over the economic matters and policy choices of the recipient countries.

Moreover, international economic institutions also act as instruments of neocolonialism seeing as they are almost fully controlled by the developed states, and used solely for protecting their interests and ensuring their superiority in international relations, ultimately subjecting developing states to the status of satellite states.

Why has foregin aid not worked so far?

Historically, scholars from developing countries, primarily in Africa, have regarded foreign aid as a bitter pill as it has been found to be negatively correlated with economic growth. There are many underlying factors, including aid dependence, weak economic management in recipient countries, poor collaboration between aid agencies, and corruption. High levels of aid erode institutional efficiency and increase rent-seeking, thus having a negative impact on growth.



'PROGRESS'

Generally, the donor-recipient relationship has been ill-proportioned as there always seems to be a colonizer-colonized or wealthy-poor power dynamic. The former has always demonstrated political and economic behaviours of domination and exploitation and the latter has had no choice but to agree to conditionality clauses and be locked in a cycle.

Foreign aid tends to make a nation aid-dependent rather than making them economically independent and self-sufficient. For example, food aid injected in Somalia created a food deficit in the country and caused it to become dependent on imported food.

Foreign aid has historically benefited the ruling elite by helping them stay in office through securing the winning coalitions of their governments. When aid is given directly to governments (as opposed to credible organisations), it is often used in corruption schemes to help the leader of the recipient country to secure and prolong their authoritarian regime.

Choice of Aid Recipients: Corrupt Governments

Foreign aid is usually (and knowingly) granted to corrupt governments and this proceeds to cause further predicaments for the developing countries. When too much aid is given to governments, they are misused in corruption. This in turn, results in the worsening of the political situation of the country due to exorbitant levels of corruption.

Aid should instead be given to credible institutions, for instance, local entrepreneurs. This would stimulate the economy and amplify growth. This is the better choice because the country no longer has to be dependent on external funding, but will slowly thrive on its own resources. When aid is well-targeted, the developing country will be able to maximise the benefits of trade liberalisation, improve the investing conditions in the country, and thus the poor will be able to achieve growth on their own.

Donors know that aid cannot and will not solve the blights that developing countries endure, but they continue funding governments through foreign aid due to the policy concessions they can get from developing countries.

Where do we go from here?

It is evident that African political economy is a product of historically oppressive Western imposed systems with their roots in colonization. Today, the development of African nations still depends on the willingness of the West to give space to developing economies on their own, or depend on the willingness of poor developing nations to set priorities aimed to write their own stories. Aid is not sent from the goodness of the heart - it serves the interest of developed countries to maintain the status quo and keep corrupt governments of developing nations in office

Most scholars do not recommend foreign aid as they regard it as a barrier to development and 'teach a man to fish, but don't give a man the fish' very much applies in this context. In essence, the only viable solution here is for developing countries to strengthen their economic, trade, and technological ties and foster cooperation between them. This way, significant gains can be made and increased bargaining power can be claimed by developing nations. This can go a long way in defeating the danger of neocolonialism.

In summation, foreign aid provides the right amount of aid for enhancing the survival of the leader of recipient countries. It is intentionally given to leaders and governments that are corrupt and it benefits donor governments, recipient governments, the ruling elite, and donor constituents. Foreign aid traps poor recipient countries in a cycle of modern day colonialism that reduces economic growth, haunts their prospects, and perpetuates their status as so called Third World countries.

Belt and road impact on developing countries

By Edoardo Ferri

Since the belt and road initiative's (BRI) official launch in 2013 things have been moving quite fast for China; but even more so for the developing countries these projects encompass. With a deadline of 2049 and a total estimated cost north of US$5 trillion, this initiative is bound to be beneficial for numerous countries; but just how much so?

The biggest focus of this project is infrastructure improvement and development in the over 70 countries that once constituted the infamous silk road connecting East Asia to Europe, including maritime links. As it turns out, the majority of the countries along this pathway are either underdeveloped or starting to develop and are therefore hungry for investments. Having a capital rich and powerful nation like China wanting to invest in your nation seems like a hard opportunity to pass up on. Moreover, China is also bringing their savoir-faire with them. Having built some of the world's most impressive and advanced infrastructure, many nations and companies are anxious to learn from their Chinese counterparts.

However, the world of FDIs is not all sunshine and rainbows so naturally these investments come with some strings attached. Lending to developing countries is a risky business as interest payments are not guaranteed and so there is a need for collateral. Through these investments, China has become the largest bilateral lender in the world. Around 30% of the loans have as collateral land, rights to mine or ports. In 2013, after Sri Lanka failed to repay a loan it had taken out for the construction of a port, it had to hand over 15,000 acres of land and the port to China for 99 years. Because of measures like these, many have called the belt and road initiative a debt trap or a way for China to gain control over strategic locations and assets; as it is almost guaranteed that some of these nations will default on the loan. Moreover, in April 2020 countries from the G20 decided to freeze interest payments from countries at risk of default, as these were abnormal circumstances. China however did not do this with their BRI loans, and combined with the high interest rates they charge, the decision is forecasted to create numerous loan defaults in debt-ridden countries.

Not all projects end like this though, and a good part of them so far seem to have had positive consequences on the local economy. Cambodia and Laos, following the development of their own BRI projects, have been growing at 7% in the last few years, a clear indicator of success. With these types of projects, especially in countries with junk-bond investment rating or no rating at all, the BRI presents an opportunity to finance capital intensive projects that otherwise would not have been possible. Railways and transportation links bring enormous economic benefits to a nation, from increased efficiency to more inclusion in global trade routes.

The latter is especially relevant as many of the countries which accept the BRI projects have entered favorable trade deals with China.

While these projects provide many immediate and long-term benefits, they do all come at an economic cost. Many of these countries carry a high investment risk, poor management of finances and a high current account deficit; making them not particularly sound in the eyes of investors.
tIn countries such as Pakistan a depreciation of the local currency has been observed, mostly due to solvency doubts and purchase of foreign currencies to pay for imports related to BRI projects.

These loans can thus be dangerous, as they could prevent future investments from other countries, trap the economy in too much debt or have other unforeseen economic consequences.

"However, the world of FDIs is not all sunshine and rainbows so naturally these investments come with some strings attached."

Countries ought to be more vigilant and attentive to the deals and loans they accept, as they are doing so too freely. The COVID-19 crisis has helped with this, as it led China to scale back its project and cancel some of its zero interest loans to African countries. Unfortunately, this situation has also exacerbated the problem of missed interest payments by borrowing countries, which keeps on growing.

From tracking to profiling: what are Google's true intentions ?

By Ginevra Negrini

In January 2021, in an effort to become a more "privacy-friendly" website, Google waved off its former third-party cookie system by welcoming a new system based on group profiling. Though not an "effective immediately" change, the shift prompted the reaction of antitrust authorities and regulators which, as foreseeable, are concerned about the real implications of this new policy. Main concerns lie around a couple of issues: what's at stake for what concerns users' experience? But mostly, how and how much will Google benefit from this?
Throughout the last three decades, the preferred web tracking method has involved the use of "cookies". By oversimplifying its concept, a cookie is basically a small folder containing user information in the form of data, collected by web browsers such as Google Chrome.
Initially invented with the aim of helping users, allowing them to spare time by recommending what they had previously seemed to like, the technology has recently become subject of controversy. As a matter of fact, cookies have become increasingly invasive mainly serving advertising interests, forfeiting their beneficial connotation in favor of a more negative one.

In particular, third parties outside of Google started using cookies to track user activity across the Internet, collecting enough data to memorize habits and preferences, to then either sell this information or directly target consumers with ads tailored to their persona.

The "groundbreaking" feature of this new technology is that instead of collecting individuals' information directly, Google will pool data creating categories of similar consumers.
Such a process has not only been used already, but it has also had its fair share of backlash as well. In fact, Facebook did something similar in 2016, but it was later revealed that such data was being used improperly by housing advertisers to exclude potential buyers based on race and then on sensitive interests mainly concerning minorities.
Aside from the explicit risks of profiling, another concern is Google's interest in making these users' cohorts as small as possible to avoid tampering with the accuracy of targeted advertising, leaving a layer of uncertainty on how the new model would enhance individual privacy.

Criteo, an online advertising company, has come forth with a potential solution to the controversy, advocating for a process of independent gatekeeping which could be provided either by a cloud service provider or SSP, in order to guarantee a controlled and transparent process.

On the other hand, Google claims to actively take third-party cookies-replacement very seriously. From the get go, the company has collected its evolving collection of targeting methods in what it calls the "Privacy Sandbox", a publicly consultable iterative process which sees its latest update in FLEDGE. FLEDGE, standing for "First Locally Executed Decision over Groups Experiment", is an idea set forth to help restrict the amount of information flowing around advertisement systems
.
According to Alan Chapell, a renowned outside counsel and chief privacy officer to digital media companies, people need to trust that Chrome will act in good faith but should at the same time, be skeptical if confronted with any method that would increase Google's control over the advertising process.

Finally, this is only the latest chapter of a broader-scope controversy concerning the power held by Google in its general connotation, which has subjected the firm to numerous investigations and antitrust suits.
The Silicon Valley powerhouse is certainly not new to sketchy moves concerning the privacy of its users, thus the question arises: what are Google's true intentions?

The Death of the American dream: Why working hard no longer means playing hard in a new economic realm

By Aruzhan Yussup

We have all heard of it, few still wish to live it, and some have, against all the odds, really made it come true. The ethos of the United States - the American dream, has for generations driven high-spirited individuals from all backgrounds to the "Land of Opportunity". However, America, as we know it today, could hardly live up to its past reputation. The wealth gap is widening, the poorer communities are losing hope, and the US is reportedly referred to as the "most unequal advanced society" in the world, falling behind the South-East Asian "tigers" and Europe in upward mobility. The question demands to be raised - what went wrong?

Wait...but was it ever alive?

In 1968, J. Trumas described the American dream through a premise that "life should be better and richer and fuller for everyone, with opportunity for each according to ability or achievement" regardless of social class or circumstances of birth. Although fairly utopian, the idea has seeded a strong and unshakeable faith into the hearts of millions of Americans - inspiring a generation to briskly recover from the tragedies of WWII. A miraculous post-war economic expansion of the 1950-the 70s all across the world, glamorously known as the "the Golden Age of Capitalism", is empirical evidence of that.

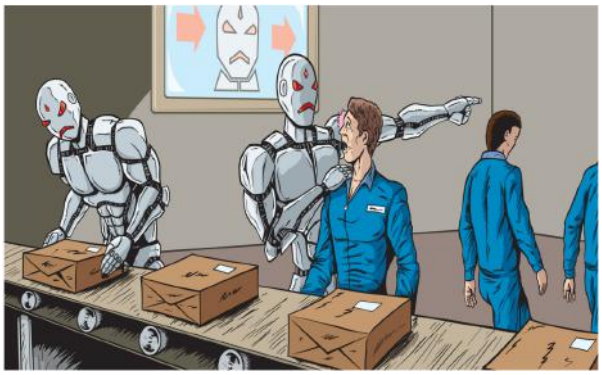
Although the impressive growth obviously cannot be attributed to the American dream alone, American institutions have skillfully maneuvered the "work hard" mantra to play into the newly established, shared identity of the post-war generation: the identity founded upon a strong patriotic sentiment and fueled by a desperate wish to avoid another recession. It did the trick: America of the 50's has sculpted an exceptionally well-functioning working class. People were willing to put in the effort to put the economy back on the rails, and they were rewarded with vast production benefits, virtually zero unemployment, and upward mobility (which, given a simpler social mobility system was more feasible than today). Later, the economic boom, as well as the truly appealing idea of the American dream have attracted talents from all around the globe to use the States. It became, arguably, the world's largest networking hub, reinforcing growth, and further reinstating the belief that the myth of the American dream was true. Hence, at some point in history, there perhaps did exist a strong positive (almost linear) relationship between how hard someone worked and how much they achieved - if not completely absent of the social background influence, it certainly was not a decisive factor.

Fast-forwarding back to a mess of this decade, we observe the downfall of the ideals that leered the preceding generations into prosperity and mobility. As the economic expansion of the 50's, the 70's were followed by the recession of the 1980s, and the strong shared identity was no longer present, social groups began to diverge. As always, with clear winners and clear losers. The same system that enabled millions to rise into higher wealth and prosperity back in the 50's, has now helped a smaller minority to rise even further - at the expense of the others. Today, this idea has consolidated itself in a popular saying that "the rich become richer, while the poor become poorer", or 'the 0.1% owning more than the other 90% '. Statistically, it seems to be (roughly) true, but what does it mean for the American Dream?

The original belief behind it was that hard work and efforts pay off, regardless of the background and social class. While this stand-alone idea arguably still holds, it is now more evident than ever, that the payoffs are not the same for everyone.

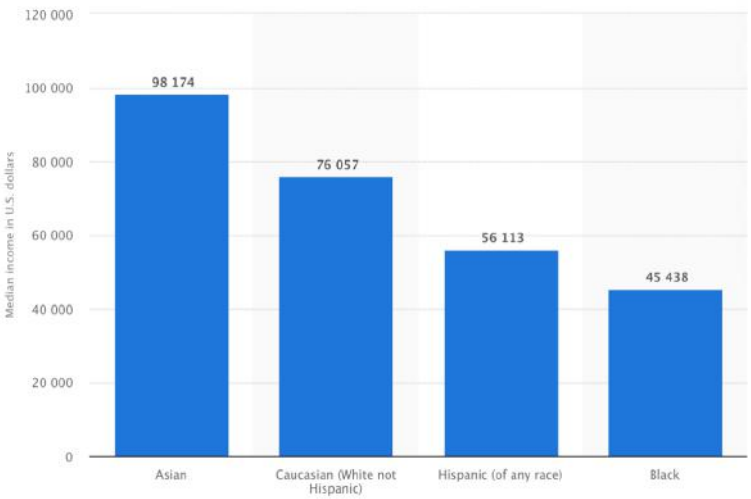
Why do some people work 60 hours a week for minimum wage and still end up in a 'financial catastrophe', while others lavish in millions they made in a matter of a quarter? One reason lies in the systematic inequality persistent in the United States. The second is due to technology completely revolutionizing the skill-set it takes to be successful today.

If the American dream was sold to us as an advertised product, labeled with "Equal opportunity for all", "Only for white individuals of the upper-middle-class" could be the fine print warning. While there are significant exceptions of successful minorities, these exceptions are outliers in the system that otherwise does not sustain meritocracy in its true sense. Statistics are staggering. In a land that has once promised better opportunities for anyone, people find themselves in predetermined social classes, with tinier and tinier chances to get out. The Pew Research Center's analysis has found that the median wealth of white households is 20 times that of black households and 18 times that of Hispanic households; the gap keeps rising, but the issue goes deeper than that.



Income brackets of Americans can be linked back to the area they lived in, exposing the history of displacement of black or Hispanic groups into poorer precincts, with "richer" neighborhoods reserved for white households. Where you live, in turn, determines the quality of the air you breathe, of the food you eat, the access to better public schools. What we are used to referring to as the "natural ability", is thus in reality just a meticulous combination of invisible sources that only a few have access to. We can see how, from birth, everyone is competing with each other in completely different categories, but the "rules" are said to be the same for everyone. After all, "meritocracy is a term invented for the rich to protect the rich" and the American dream as such has turned against the same groups it pledged to protect. Today, its ideas are used as a way to blame the minorities' misfortune on themselves, rather than on a system - they're simply not working hard enough to be well off. As we already know, however, that can't be further away from the truth.

"Inequalities are accepted as long as the possibility of betterment exists." But the possibilities are not the same for everyone, and we can't keep using singular instances of someone from a lower class making it to the top, to cover for the fact that they are 0.01% of a bigger picture. In statistics, something like this is called "insignificant" or going "against the odds", and hence the fragile defense for the American dream ceases to hold.



Median household income in the United States in 2019, by race or ethnic group, in US dollars (Source: Statista)

It's not just the minorities and specific groups, however, for whom the American dream today feels out of reach. Out of the surveyed individuals, only 38% think that their children will be better off in the future than them now. Income distribution is stagnating. Could it be because everyone just works less now? If you look at the numbers, it's the opposite. What has changed is that working hard is not a turning point anymore.

How is technology killing the American dream

For many, it's the third industrial revolution that's killing the American dream of wealth and prosperity. "It's taking our jobs!" people proclaim angrily, but the short periods of rising discontent have historically been the cost of progress. At the same time, the issue cannot be linked to economic growth. Technological advancement moves at a terrifying pace, and the economy is quick to follow, but it leaves much more people behind than it puts forward. Today, niche groups that have managed to hop onto the fast-paced revolution, rip off large benefits. The rest, who were slower, are left to wonder what blink of the eye has cost them their jobs. As AI is quick to replace most positions that only require manual labor, working hard no longer puts you ahead - it's a bare minimum that can help you make ends meet. Using old-fashioned methods of work, you're not competing against other people on the labor market, but against the machines - and the odds are not in your favor.

Suffering from these radical shifts are the same "hard-working Americans", who got where they are because they were once told that simply working hard will ensure them a better future. Instead, what they get now is minimum wage and constant anxiety about the future that could have no place for them. Today, "working hard" only gets you so far - the graph has turned from being linear into one with a quickly reached stationary point - after a certain mark, it becomes a horizontal line, and how much you work no longer contributes to how much you earn. On the opposite side of the extreme is an exponential graph of wealth accumulation mapped against the in-demand skill for those who managed to quickly adapt to the transformed economy. They are the current 0.1%.

But villainizing technology is far from giving us a solution. After all, how can metal, wires, and electrical signals be to blame for the income stagnation and mobility decline we're undergoing? Technology, in its nature, is neutral, and it is granting us more opportunities than it takes away. After all, with the rise of accessibility of knowledge and information, shall we not be experiencing the exact opposite of the crisis we're living through today? Looking at the facts, social mobility should be exploding right now. As education is more accessible to us than ever, one might think that the American dream - founded upon the pursuit of opportunities - would flourish. But the newly emerged tech sector is elitist. Those who do not adapt quickly and can't re-qualify their skills to in-demand industries inevitably fall behind. What can be done?

How can technology save the dream

The solution, just like the problem, is multifaceted. I'll give my brief, simplified opinion on the matter. Albeit an obvious need for policy change, and a long-debated topic of taxation (which I will not touch upon to avoid violent attacks), I believe that technological progress should not be slowed down, but rather accelerated further. Introduced into wider sectors, the extra generated wealth achieved from the tech sector, with lesser resources, should further be distributed to fund the policy changes necessary to narrow down the "at birth" gaps between different classes.

A new system needs to be established, based on a stronger shared identity between wider circles within the population. That, in turn, should allow more people to develop new skills and acclimate to the technological changes as quickly as the labor market does. As free education is more accessible today through the wonders of the worldwide web, people should be given opportunities to put their acquired knowledge to use - and benefit accordingly. For that, elitism within the tech sector should be abolished (easier said than done). And while society today is too diverse to attempt to unite everyone under the same ideas, distinct groups shall not be antagonized against each other, but rather prompted to cooperate to achieve higher welfare for the majority, rather than for the minority. Sadly, some will inevitably be left behind, but that's just how principles of evolution work. What our goal should be, however, is to minimize casualties. We are at a unique point in time where we have resources on our hands to facilitate immense growth and defeat wider inequality - and every step matters. The key is to realize it early and start moving in the correct direction to save the American Dream, but maybe... just give it a different name.

GEORGIA IS STILL ON MY MIND

By Nicholas Filipek

On the 25th of March, Governor Brian Kemp of Georgia signed a new voting law that was passed by the Georgia legislature. Governor Kemp and the Republican Party, which supported the legislation, deemed it necessary to protect the integrity of the elections. However, this legislation has received a lot of backlash, especially from the Democrats, but also from outside the political arena. The MLB (Major League Baseball) decided to move the All-Star Game from Atlanta, Georgia to Colorado in protest to the new legislation.

The new voting law comes after historic victories in Georgia by the Democratic Party, in both the 2020 Presidential election as well as the Georgia Senate run-offs. Now, for the first time in years, the Republican Party does not have an incumbent Senator representing them in the state of Georgia. The new law also follows a wave of claims by President Trump and the Republican Party disputing the validity of these results. It can be noted that President Biden won the state of Georgia by only some 12,000 votes.

"Since the Senate results in Georgia, the Republican Party has been on a mission to pass similar "voting integrity" legislation across the country. Democrats have asserted that these new laws will make it harder for people to vote. Therefore, such legislation would harm the Democratic Party, as history has shown that lower turnout rates tend to favor the Republican Party in both state and national elections.

The new Georgia law, which was passed on a partisan basis, will make a number of changes to the voting mechanisms, requirements and voter qualifications. As reported by the New York Times, the 98 page law contains 16 different provisions that "hamper the right to vote." The most significant of these changes are:

- Strict new ID requirements for absentee ballots (mail-in ballots)
- Third-party groups, such as non-profits, are now prohibited from donating to counties in Georgia. These donations were key to financing the elections at the local level, such as adding more voting sites.
- Voters under these new laws are now also given less time to request a mail-in ballot. The reduced time period will put greater pressure on bigger counties in Georgia to deliver requested mail-in ballots in a shorter time span
- The Secretary of State of Georgia will now be removed as chair and voting member of the board. (This new rule comes after Secretary of State Brad Raffensperger became known across the country for having resisted President Trump's efforts to help him reverse the outcome of the Presidential elections in Georgia.)
- The Georgia state legislature, which is now controlled by the GOP, now has the power to suspend county election officials and name temporary replacements.
- It is now illegal to offer food or water to voters who are waiting in line to vote.

We will soon see the effect of these controversial changes in the Georgia midterm elections in 2022. Will voter turnout levels decrease due to the new measures put in place that will "cost" the average voter more time to go and vote? Will the new law create a backlash that will benefit the Democrats?

In the United States tensions have been running on race-related issues, such as police brutality, and minorities are voicing their opinions sharply. Georgia, in many ways, epitomizes this conflict in American society between old and new, progress and regression. As the Republicans attempt to regain their former dominance in the Peach state, Democrats will have to find innovative ways to motivate their voter base. My only hope is that the process remains a peaceful one.

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Rising nationalism and Covid will not keep immigrants out

By Xuan Liu

The coronavirus crisis ended a decade's steady growth in flows of migrants around the world. According to data collated by the OECD. Migration flows to OECD countries – measured by new permits issued – are estimated to have fallen by 46 per cent in the first half of 2020 and 2020 is expected to be a historical low for migration.

Meanwhile, as the world seemed to come to a standstill, a few observers have noted that a global rise of nationalism might be a consequence of the pandemic and states' responses. Since the spread of Covid, there has been an increase in reports of racism and discrimination against individuals of Chinese or simply Asian origins in the USA, fueled by its former president Donald Trump intentionally adopting the term 'Chinese Virus' and high-ranking officials defending the use of the term. While anti-Chinese and anti-Asian sentiment has surged in the USA, other groups have also been blamed for spreading the virus in the USA and elsewhere in the world. Hungarian prime minister Viktor Orbán claimed that the spread of the virus was linked to immigration, a central theme of his rhetoric since 2014.

In the USA, the emergency rules to combat the pandemic have empowered the Department of Homeland Security to return illegal and undocumented migrants to their countries of origin without due process. Far-right parties in Europe, such as the Alternative for Germany (AfD) and the Austrian Freedom Party (FPÖ), have also linked the pandemic to the supposed threat of migration or have demanded repressive measures specifically aimed at migrants.

In fact, nationalism or the political far-right has risen across the world as early as the so-called migration crisis and further developed in 2016 when Trump was elected to be the American president. There are some iconic elements, such as the "America First.", the Trump administration's slogan, the "Vote Leave" campaign in the UK, or the nationalist AfD party becoming a major opposition party in Germany.

Against the backdrop of nationalism and Covid, in the UK, two decades of migration went into reverse. More than tens of thousands of workers have returned to their countries of origin or to other countries in the EU over the past year, with net immigration to the UK data dipping to negative since the UK government opened its door to EU workers. Some of these people will come back when the economy returns to normal, while some of them will probably never go back. According to the OECD's research, the virus hit the sectors in which immigrants tend to work more than other sectors in terms of both income and health issues. This means immigrants are more likely to catch the virus than locals. Another important issue is that, during the Brexit referendum, nationalist sentiment against immigrants has been reflected in the national will, with a third of Leave voters claiming that their main reason for voting was to control immigration. Immigrants feel like outsiders in British society. Now that immigrants are leaving and Britain is leading in the global vaccination race, it seems Brexiters' plans bear fruit.

However, there could be more bitter than sweet in the economy after the pandemic. As of 2019, the foreign born population has accounted for 16.1%, 13.6%, 12.8% and 10.4% total population in Germany, France, USA and Italy respectively.

Immigrants have widely integrated many developed countries' economic systems and have a huge importance in their economic expansion. For example, nearly half of the hospitality businesses in the UK were run and served by immigrants from the EU. Without them, it would be costly to use Britons to fill those vacancies. For countries relying on a stable influx of laborers to fill jobs and grow economies, like for example, Australia and Canada, their domestic ageing population have been offset by migrants for many years. As a result, with borders closed during the pandemic, their population growth and GDP growth both dropped. For Germany, the natural rate of decline in population was around 150,000 per year before the pandemic, and immigrants have been a booster to maintain a positive population growth and ease fiscal pressure.

Considering immigrants' influence in advanced economies, we can expect that, to sustain the current standard of living, people will see immigrants coming back, whether nationalists like it or not. Unsurprisingly, we have seen that some countries have already taken actions. For instance, Canada has aimed to bring in 400,000 permanent residents in each of the next three years —the highest level of net immigration in its history.

Rethinking housing markets: Do rent controls work?

By Timon Unger

The financial crisis of 2008/2009 demonstrated the severe dangers of a mismanaged housing market. A wave of defaults on mortgages by many American households brought down the financial system, leading to a global recession. Owning a home is not only part of the American Dream, but it has also been seen as a worthwhile investment across the developed world and as the most representative factor of a person's economic well-being.

However, home ownership is in decline and "generation rent" is emerging. One factor behind this trend is the younger generation which prefer "asset-light" lives in which they rent things such as cars, music, and clothes instead of owning them. But economic factors may represent the major cause behind the decline as tighter mortgage markets and lower savings have made it tougher for first-time buyers to finance the rising housing prices especially in urban areas in the last decade. Even though this trend might have slightly changed during the Covid pandemic as saving rates have increased and borrowing has rarely been cheaper. Further, home ownership rates are also the product of history and culture and vary across countries. In Europe, they are the lowest in countries such as Germany (44%) and Switzerland (40%) which experienced historically weak real house-price growth, making the purchase of a home not a worthwhile investment.

But do we need to be concerned about the decline in housing ownership? Evidence that home ownership is the route to riches or good for society is rather weak. However, the rise of a "generation rent" implies a greater demand for rental housing. This rising trend becomes especially apparent in thriving cities which have experienced strong urban migration in the last decade. Falling home-ownership and people moving into cities attracted by better job opportunities underline the importance of a well-functioning rental market.

However, the reality in many big cities is surging rents and housing shortages. Constraining labour mobility into cities causes high economic costs. Since productivity and wages are much higher in cities than in rural areas, growth is slowed down, resulting in a lower GDP. In America, overall housing costs absorb 11% of GDP, up from 8% in the 1970s.

A rethink of housing policy in cities such as London, Paris, Berlin or New York is certainly overdue. Governments are becoming increasingly aware and are putting more effort into improving the housing sector. An increasingly popular measure in European cities is rent controls. Paris reintroduced rent controls again in 2019, while London's mayor, Sadiq Khan, is currently considering restricting rent rises in the capital.

Rent regulation can take various forms, including rent control (the placing of a cap on the rent that can be charged) and rent stabilisation (setting limits on how much rent can be raised over time). Supporters argue that these controls help ensure that households on low and medium incomes are not squeezed out of cities in which housing costs are soaring. In many booming cities, growth has pushed up rents, and over time the composition of many neighbourhoods has changed in favour of those who can afford higher prices.

On the other side, rent controls are a textbook example of a well-intentioned policy that does not work and one of the typical market interventions which probably all economists deem as harmful and counterproductive.

Rent controls work as a maximum price on the housing market and might lead to no or small surplus demand (housing shortage) in the short term, but to greater surplus demand in the long term. The reason behind it is a decrease in supply due to the too low yield for the landlord. With rents capped, building new homes becomes less attractive and even maintaining existing properties is discouraged because landlords see a lower return on their investment, if any. This finally results in slower supply growth and worsens the housing shortage in the long term.

The over-regulation of the housing market in and around thriving cities is therefore often seen as one of the great economic-policy failures of recent times, even though governments could have learned from the past.

In Britain, where rent caps existed until the 1980s, controls deterred investments in the housing market and landlords instead sought to sell their properties. Rent caps in San Francisco sharply decreased the supply of rental housing, causing a 5% city-wide rent increase after they were expanded in 1994. More recently, at the end of 2018 in rent-controlled Stockholm, the average waiting-time to find a long-term tenancy was ten years and black-market rentals flourished. The case of Stockholm demonstrates another aspect of rent control: current residents might benefit from capped rent increases, while outsiders which are mobile and therefore mostly young people, face less supply and suffer under the regulation.

A perfect example of today´s housing markets and regulations is the German capital, Berlin. Around 50% of people rent their housing in Germany, with almost 90% of all citizens in Berlin, making rents a big political issue. In a first attempt in 2015 a so-called "rent brake" was introduced on the national level in popular parts of cities like Berlin, Munich and Hamburg. The brake was supposed to function as a rent control and capped the price of new leases in markets with a tight supply of rental property at 10% above what local authorities considered reasonable. Instead of stopping the rise in rents, the brake seemed to have the opposite effect. In the following three years, rents in central Berlin increased by almost 10% compared to just 1-2% each year before the "rent brake" was introduced. The malfunction of the rent control was mainly caused by its design as landlords were able to circumvent it easily or sharply raised rents in advance.
A new rent control law from Berlin´s city government came into force in February of last year as a reaction to increasing protests over unaffordable rents. Introduced in two stages, the measure originally froze rents for five years for all apartments built before 2014, excluding social housing and new-builds, and then forced landlords to lower the rents that exceeded the defined limits by over 20%.
After a year, Berlin's new experiment with rent control is another failure of housing policy. As the economic theory would predict, the caps have made the city's housing shortage much worse: the number of advertisements for rentals has fallen by more than half. Landlords increasingly use flats for themselves, sell them as a more attractive way to generate capital gains or simply leave them empty in the hope that the new regulation will be voided by the German constitutional court. Tenants stick to their rent-capped apartments like glue, while outsiders must deal with a tighter supply. Additionally, rents and sale prices in the still-unregulated part of the market, and in cities close to Berlin, have risen faster than in other big German cities. Finally, the rent control law was declared unconstitutional by Germany's highest court this April, saying that the regulation of the rental market is the purview of federal law in Germany.

High rents are unlikely to come down soon in big cities such as Berlin. What are potential ways out of the mismanaged housing markets in thriving cities? Critics of rent controls always argue that instead of trying to fix prices, cities should allow more homes to be built. They often see the roots of the failing housing markets in city planners´ misprediction of population growth and a lack of building incentives, especially near the thriving cities. In the case of Berlin fifteen years ago, authorities planned for demographic decline, when empty flats were abundant, causing construction to fall behind. Instead of rent controls which discourage new building, "construction offensives" could help to catch up the prevailing shortages in supply in many cities. Tokyo is a successful example of a thriving city which has no property shortage because it has built 728,000 new apartments (even though the average property is much smaller compared to European cities) between 2013 and 2017. Another case is Switzerland which gives local governments fiscal incentives to allow housing development, leading to almost twice as much home-building per person as in America. One driver behind this is growing private-sector investment in the rental sector. Global institutional investments in residential property have more than doubled in real terms since 2010, not only because investors are looking for yield in a low-rate world but also because of the high number of potential customers. Corporate housing could provide better-quality accommodation at lower prices in the rental sector as bigger firms are expected to operate more professionally than single landlords and may also benefit from economies of scale. However, these residential-property firms are also often seen as the reasons behind high rents and unrented apartments, making them the targets of protests and expropriation campaigns. Local policymakers should cooperate with private players and stimulate a more socially oriented housing construction with the goal to maintain communities and social networks.

Other possible measures include reforms of restrictive zoning rules to allow for greater flexibility in nearby developments, supported through better transport infrastructure. Also, new ways of urban planning could incentivize living in suburbs outside big cities. Lastly, improving regulations of rental contracts in terms of tenancy and enforceable rights for renters is a simple and a vital component of a well functional housing market as well.
Covid-19 and the triggered changes in the way we work in the future might also provide a solution to the heated housing markets. The pandemic has caused a shift in demand away from big cities to housing in less crowded places with more housing space. Remote working is here to stay and is probably also easing the housing shortages in thriving cities. People seem to be willing to put up with longer commuting times in return for more living space or lower housing costs if they have to commute less often. As a result, house prices in suburban locations rose faster than in cities in America and Britain last year, reversing the trend of the last decade. The rental markets are cooling down in big cities too, even though the usual flows into cities are expected to return when the pandemic ends.
Overall, the emergence of generation rent demands for more well-functioning and flexible housing markets in thriving cities. Policymakers should avoid rent controls and other strict regulations, and come up with more social and innovative planning systems allowing for more properties to be built. The pandemic might also leave a lasting impact in the way we live and work, affecting the housing market within and outside of thriving cities. High housing costs and housing shortages will remain a hot topic and require politicians to self-reflect: they should favour effective policy-mixing, not price-fixing.

Invest or leave: when deposits cease to be banks' preferred source of funding

By Federico Farhanghi

Last March, Finecobank made headlines thanks to a letter it sent to all of its account holders in which it explained that it was changing the terms and conditions applicable to their accounts. In the letter, the bank explains that it claims the right to unilaterally close accounts with an average balance of €100.000 provided that no portion of that liquidity has been invested or in the absence of a subscription to any form of financing offered by the bank (for example, a loan but excluding credit cards). In other words, Fineco claimed the right to close down large accounts, including, and perhaps significantly, those in the millions of euros, if that money is not mobilized or invested. To the casual reader, the letter may have sounded something more like: "Dear customer, you either invest the money you deposited with us, or we claim the right to cease any relationship with you".

It is the first time that something like this happens in Italy, although other banks have taken similar measures against large amounts of liquidity sitting idle in corporate customers' accounts, in the form of the so-called "excess liquidity fee". Fineco is the first bank to address such measures toward retail clients. BPER Banca, for example, has introduced excess liquidity fees for all checking accounts larger than €100.000 in size, which have been opened after February 5, 2021. Unicredit, the largest Italian bank, and one of the largest banks in Europe, has introduced an additional 0.5% fee for liquidity amounts over €100.000, but only for corporate clients and freelancers, not retail customers. Still, BNL has taken similar actions as Unicredit, but addressing accounts larger than €1 million. Even Fintech players, like N26, have started to levy additional commissions on liquidity.

This begs the question: why is it that banks find it so challenging to handle the money clients deposit with them? After all, deposits, and especially retail deposits, have always represented a low-cost and attractive form of funding for financial intermediaries.

The first main reason underlying banks' growing concern with large deposits is that holding liquidity in negative interest rate environments has become increasingly costly. The European Central Bank, or ECB, introduced a negative deposit facility rate ("DFR" for short) for the first time in its history in January 2014, and it kept lowering it until, in 2019, it reached -0.5%. Besides the novelty that a negative policy rate represented, its particularity resided in how it subsequently interacted with the dynamics of EU banks. The DFR is the rate banks can expect to earn on the liquidity they deposit with the ECB. This means that when banks deposit their excess liquidity with the ECB, they do not earn interest on the amount deposited but instead have to pay to park it there. The DFR, being one of the primary policy rates the ECB can set, also affects other rates, like the Euribor (short for Euro Interbank Offer Rate) that applies in the inter-banking market. In simple terms, this is the rate at which eurozone banks lend to each other. A negative rate in the interbank market implies that banks lending money do not earn a positive interest rate anymore but have instead, perhaps paradoxically, to pay to lend their liquidity. In a world of negative interest rates, which have become "the new normal", banks offering zero interest rate accounts to their clients has become increasingly costly. Traditional intermediation dynamics allow banks to transfer rate cuts (and increases) to both sides of their balance sheet, leaving their net interest margins largely unscathed, or even benefiting from decreases in interest rates, which they may pass on to their depositors much quicker than they apply cuts in rates to the loans they extend. However, in the case of negative interest rates, it is not possible, or at least was not possible until recently, for banks to pass through the negative rates to their retail segment by fear of a massive withdrawal of deposits in favor of cash. This created what, in banking terms, is called a "zero-lower bound" which, in negative territories, compresses banks' margins. In its letter, Fineco calculated that the cost to the bank of an account €100.000 in size is €24.5 higher, for each quarter, compared to 2019. Given these premises, it is now clear why Italian banks might be under pressure to "dis-intermediate" clients' deposits to lower their costs.

Banks' efforts to avoid clients accumulating money in their accounts come at a time of great uncertainty caused by the Covid-19 pandemic. Faced with lockdowns and economic stagnation, consumers' propensity to save has increased dramatically. This is compounded by the fact that, until recently, shops, bars, and restaurants were closed to the public in several Italian regions, making it hard for people to spend their money. As a result, the Association for Italian Banks (ABI) estimated that there are about €1.7 trillion deposited in retail and corporate accounts. In addition to this, Italian banks have also been experiencing an influx of liquidity from foreign savers, mainly from Germany. Today, liquidity in the hands of foreign savers in Italy amounts to around €4 billion, 2.6 of which are from Germany. This is because, in Germany and other European countries like France and Austria, the rates on current accounts are negative, and thus, savers attempt to move their money where there is still the prospect for a small, albeit positive, yield. In Italy, this is still so for term deposits. While this may help Italian banks in diversifying their funding base, it also generates costs as mentioned earlier.

A second reason underlying banks' quest to avoid liquidity build-ups is to be found in the attempt to channel the €1.7 trillion sitting idle in corporate and retail accounts to the real economy, to spur a swift economic recovery. This is also the core motive behind negative interest rates set by the ECB, which aimed to mobilize and incentivize more productive uses of liquidity. In economic terms, this would entail promoting a shift in the aggregate demand by encouraging consumption, making resources available for project investments (on the corporate side) or incentivizing financial investments (on the retail side). The instrumental role of savings in the post-pandemic economic recovery highlights the central intermediating role banks can play. As a matter of fact, it is in the very interests of savers themselves not to keep too much liquidity sitting idle in their bank accounts to avoid inflation eroding their purchasing power over time. Despite central banks' best efforts, inflation has been very low until now. So much so that some of us might even forget to take it into account. However, it is reasonable to expect, and it is also the consensus among several economists, that as economies worldwide recover, inflation will pick up. For these reasons, savers need to consider investing at least part of their liquidity productively.

In this perspective, financial advisory services and, in general, investment products that banks can offer to individuals, will prove to be a valuable vehicle to connect private savings with investment opportunities, providing solutions tailored to the different risk and investment horizon preferences and contributing to financing the recovery after the pandemic.

The journey towards sustainable tourism

By Federico Arlati

As the roller coaster of travel restrictions and closed borders finally seems to slow down, travelling is increasingly forcing its way back into people's lives and into the public debate. Despite tourism being a relatively recent phenomenon and almost exclusively limited to first world countries, it has quickly become a fundamental part of the culture of several millions of individuals, and we have unpleasantly learned that we are not ready nor willing to renounce to it.
Unfortunately, getting back to the concept of tourism that we held before the pandemic might not be a viable option: we have long disregarded the negative consequences of our trips on the environment and on society, and the COVID-19 shock offers us the opportunity to start to move in a different direction, which is embodied in the idea of sustainable tourism.

The United Nations World Tourism Organization defines sustainable tourism as "Tourism that takes full account of its current and future economic, social and environmental impacts, addressing the needs of visitors, the industry, the environment and host communities". For tourism to be truly sustainable, it is therefore critical to find a balance between the three pillars mentioned in the definition earlier, which is far from an easy task.

As far as the environment is concerned it is easy enough to identify the right path to follow, given that science clearly dictates which are the most urgent topics, leaving only little room to personal opinions. From a global viewpoint, tourism is responsible for around 8% of total greenhouse-gas emission, mostly due to aviation. It is therefore obvious that by simply pursuing greater fuel-efficiency or by finding alternative fuels altogether, we can really tackle the impact of tourism on climate change. As of right now, sustainability in long-range transportation is not much more than a dream for romantic engineers. Moving on to more micro-focused environmental concerns, tourism has proven a constant threat to biodiversity and local ecosystems. A newfound form of travel, especially as regards educational and interpretational features, must substitute the current mass-based approach: ecotourism represents a way to put nature itself at the center of the tourists' experience, with services provided by small, local businesses to equally small groups of visitors, so as to minimize the unavoidable negative externalities.

Sustainable tourism undoubtedly requires a great deal of change and adaptation, which can certainly be painful. Nevertheless, it need not be a burden for the economy as a whole nor for local communities, especially in the medium or long run. This is especially true for developing countries, in which the industry of tourism is still in its early stages and can be valorized and harmonized with nature as well as with the People.

In this regard, a resolution adopted by the UN General Assembly in 2020 states "that sustainable tourism, including ecotourism, is a cross-cutting activity that can contribute to the three dimensions of sustainable development and the achievement of the Sustainable Development Goals, including by fostering economic growth, alleviating poverty, creating full and productive employment and decent work for all, accelerating the change to more sustainable consumption and production patterns and promoting the sustainable use of oceans, seas and marine resources, promoting local culture, improving the quality of life and the economic empowerment of women and young people and promoting rural development and better living conditions for rural populations" and "that sustainable tourism, including ecotourism, can improve the well-being of indigenous peoples and local communities, including women and young people, and can create significant opportunities for the conservation and sustainable use of biodiversity and/or the protection of natural areas by encouraging indigenous peoples and local communities in host countries and tourists alike to preserve and respect the natural and cultural heritage".

The concrete declinations of these very broad ideas will of course have to be found on a more punctual basis, and they will naturally differ from country to country, and even within single nations.
One successful instance of a well-designed tourism plan can be found in Bhutan, East of the Himalayas. The country has been considerably isolated for the most part of its history, meaning that the People's traditional and sustainable way of life has been preserved.

. Bhutan's conception of tourism is built on the principle of "high value, low impact". Such a satisfactory result has been obtained by imposing strict entry requirements and a daily visitor tariff, which covers all the expenses related to the visit itself, such as accommodation, a licensed tour guide, meals, and hiking equipment. The country's strategy also determines that a significant proportion of the fee is destined to direct investment in infrastructure, health care and education.
In conclusion, it is critical that national governments allocate effort and resources to the challenging transition that is ahead of us, bravely confronting the personal interests of the different stakeholders and striving towards the common good: the easy choice of leaving everything unchanged cannot be an option any longer. A far-sighted focus shows how tourism relies on nature, as well as on the peculiarity of traditions and the cultural differences among countries. The strategic economic relevance of this industry cannot be separated from the protection of the environment and should instead be built around the harmonious union of somewhat opposing interests, with the final purpose of being beneficial to both the local communities and the visitors.

How will the travel industry emerge from Covid-19?

By Alessandro Cristofolini

The Covid-19 pandemic has had a huge impact on the travel industry, due mainly to government-imposed measures restricting the free movement of people, such as travel bans or quarantines. The sudden drop in travel is a short-term effect of the pandemic, but a lot of other trends are set to stay on for many more years, and completely reshape the way we think about travel.

An obvious shift that comes to mind when thinking about the pandemic is the one from public transport to private transport. Indeed, a lot of people, wary of avoiding contact with others, have opted for private means of transport more often than before. This trend is also closely linked with the increase in popularity of domestic tourism, which is less polluting than long distance travel. To build on this trend of reducing the travel industry's impact on the environment, France recently voted to ban domestic flights where the trip could be made under two and a half hours by train.

A shift towards a greener tourism represents a fantastic opportunity for the travel industry to improve its image after the hits it recently took from environmental activists (e.g., the "flight shame" movement that originated in Sweden). The pandemic has only accelerated this trend, as the Next Generation EU fund advocates for more investments towards an environmentally friendly Europe and for a "European Green Deal".

Moreover, the sudden drop in business travel is here to stay, as business meetings are now being held online. This comes in as yet another hit for airlines, who are heavily reliant on business travelers for their revenues.

Other trends such as the digitalization of travel services are here to stay as well, as the democratization of automation and contactless payments have been widely seen in a positive light.

With international travel not set to return to pre-crisis levels until 2023, the travel industry will face many challenges over the next few years. And the sudden changes in customer behavior and government regulation have only exacerbated the need for companies operating in this industry to be more flexible and easily adapt to shifts in demand, with some of them set to stay in the long run as well. Also, as some countries are heavily reliant on tourism, and given how a virus has brought the global travel industry to its knees in just a few weeks, there is a need to rethink the main economic drivers in these countries.

As the United Nations Conference on Trade and Development estimates that global GDP losses due to the crisis in tourism could amount up to 2.8% of the world's GDP, we need to better understand what factors affect the viability of revenue growth in the industry and anticipate potential future threats, in order to prevent another economic catastrophe.

The coronavirus crisis: the straw that broke the EU's back?

By Claire Schumacher

After the financial crisis of 2008, the migrant crisis seven years later and Brexit a few months ago, it seems like the EU is being challenged. "Will we become a strong continent, a player to be reckoned with in this world? Can we even emerge stronger and better from this? Can our communities be closer in the face of adversity?". These are questions that the President of the European Commission, Ursula Von der Leyen, raised and that, one year later, still remain unanswered.

In that same speech, Ursula von der Leyen appears confident: to her, solidarity is key. To that extent, not only does she emphasize the daily do-gooders, but she also thanks the solidarity between the countries themselves, which are crucial, now more than ever. Let us remember the hospitals of Saxony (Germany) and of the Grand Duchy (Luxembourg) that took care of people respectively from Lombardy (Italy) and Grand-Est (France). "This only goes to prove that it is only by helping each other that we can help ourselves" she adds. That is true, but is it sufficient?

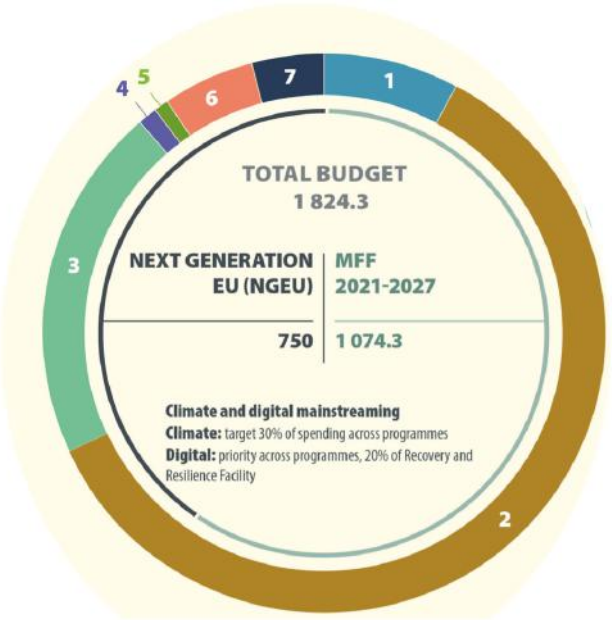
The European Central Bank (ECB) set three goals that should be the backbones of the recovery from the crisis: helping the economy absorb this shock, supporting access to credit for firms and households and preserving financial stability (through international cooperation, that is, using swap lines).

In practice, these encompass keeping – rather than making – borrowing affordable, with interest rates at historically low levels (the deposit facility, the main refinancing operations and the marginal lending facility rates are respectively -0.50%, 0.00% and 0.25%). A simple and clear example: when banks make overnight deposits with the central bank, the banks get handed a bill on their way out, given that interest rates are negative! It only means one thing: the EU fears its economy is slipping into a deflationary spiral (no spending, hence dropping prices, no profits, no growth). Therefore, to anyone still wondering, yes, the situation is quite critical.

Also, to ensure short-term concerns do not prevent lending, the ECB raised the capital of banks and companies by purchasing bonds from them, through the Pandemic Emergency Purchase Programme (PEPP), which continues to grow (+500 billion on 10 December 2020, a new total of € 1850 billion).

Last but not least, increasing banks' lending capacity is key to stimulating investments. As a matter of fact, "the ECB asks banks not to pay dividends during COVID-19 pandemic" (ECB website). The ECB's action plan looks really good on paper, but who will foot the bill?

Furthermore, the Next Generation EU (NGEU) instrument and the Multiannual Financial Framework (MFF) share a budget of € 1,8 trillion (respectively around € 750 billion and € 1050 billion) aiming to address the pandemic recovery and to be invested in 7 different fields (1: Single Market, Innovation and Digital, 2: Cohesion, Resilience and Values, 3: Natural Resources and Environment, 4: Migration and Border Management, 5: Security and Defence, 6: Neighbourhood and the World, 7: European Public Administration).

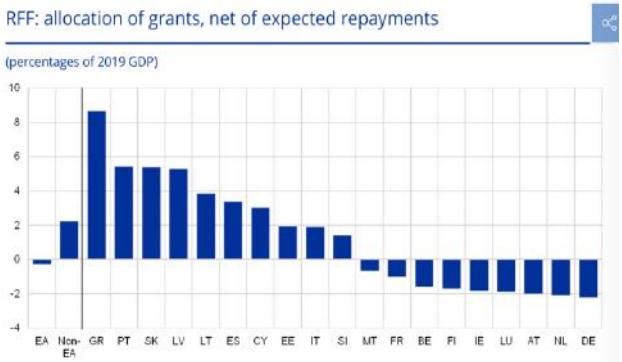


MFF 2021 – 2027 and NGEU, EU expenditure for 2021 – 2027, all amounts in € billion (2018 prices), European Council, Infographics

Through this fiscal response, the EU sees an opportunity to boost the economy as well as the ecological transition. The Natural Resources and Environment expenditures account for more than 20% of the budget (€ 373.9 billion: 2nd largest expenditure). However, in the meantime, it raises questions such as the cost of this pandemic recovery: the NGEU, divided in loans (up to € 360 billion) and grants (up to € 390 billion) amounts to about 5% of the euro area GDP.

The general escape clause in the Stability and Growth Pact (aiming to keep a state's budget deficit and national debt respectively below 3% and 60% of GDP) has been activated since the 20th of March 2020 because "all Member States [are] in a situation of generalized crisis caused by a severe economic downturn for the euro area" (Q&A, European Commission).

Another matter is the distribution of funds, calculated relatively to the economic and fiscal challenges each country faces, mostly after the pandemic. Regarding the Recovery and Resilience Facility (RRF), which constitutes the core of NGEU, Greece will be the largest recipient of support (more than 8,5% of 2019 GDP) whereas Germany's allocation is negative. Italy and Spain – potentially the countries that suffered the most from the crisis – will receive some fiscal support too – NB: the distribution is not set in stone, as the pandemic is, sadly not over. Yet, overall it can be observed that the North tend to be the creditors, where the South tend to be the recipients, feeding the endless North-South debate. This might lead to an increase in Euroscepticism: how much is solidarity worth?



European Council conclusions of 21 July 2020, European Commission and ECB calculations

In the last few years, Euroscepticism (doctrine against increasing the EU's powers) has moved towards mainstream political and popular culture. Conservative parties are threatening the legitimacy of the European integration process by sprouting up like mushrooms. The outcome of the European elections in 2019 reflect this exponential growth as these parties tallied 53% of the votes in Hungary (Fidesz), 45% in Poland (PiS), 23,3% in France (RN) – to name a few.
While the Schengen area is regarded as the EU's main asset, the current crisis has suspended its benefits, leaving the floor to the Eurosceptics. They claim the EU "bears a very heavy responsibility for the massive spread of the epidemic" claimed Marine Le Pen (the French head of the RN).
How to write about Euroscepticism without mentioning BREXIT? The 1st of January 2021 promotes withdrawal from the EU as "Frexit", "Grexit" or even "Italexit" can attest.
The race for vaccines might leave the EU behind, maybe because its vaccine approval process, led by the European Medicines Agency (EMA), is "too slow" (Austrian Chancellor Sebastian Kurz). On top of that, although the EU vaccine strategy has already been agreed by the Member States, some have it all their own way such as Hungary, vaccinating its population since the 24th of February 2021 with Sinopharm (Chinese vaccine) which has not been authorized by the EU yet. Obviously, some think you can have the cake and eat it too...

Speaking about vaccines, 49.56% of English and 40.26% of Americans have been vaccinated (04/21/2021), versus 18.2% of EU citizens (04/17/2021): Does the EU still have power on the international trade sphere?

Actually, the EU is becoming an organization in which the Member States are competing against each other while benefiting from each other. The facts were already there; the coronavirus crisis just highlights them.
To sum up, the EU is getting very close to the edge of the cliff: Should it jump and be reborn stronger from its ashes?

Once a pioneer of economic growth, currently falling behind: is the UK having an innovation crisis?

By Maria Mikolajczyk

In his opinion piece "Why once successful countries like the UK get left behind", Martin Wolf states "the UK has an innovation and – so growth, crisis". After the outbreak of the global economic crisis in 2008, the UK started experiencing a significant economic slowdown reaching the second lowest GDP growth within the G7 members group. From 2016 to 2020 the UK's economy has seen a contraction of estimated 11.2 per cent (David Marsh, 2021). Wolf justifies this phenomenon by claiming that UK's average annual gross fixed investment was the lowest in G7 between 2010 and 2018, at just over 16 per cent of gross domestic product (with Italy being the only country with even lower average investment in research and development) (Figure 1.). He argues that such low investment almost guarantees low productivity growth. To define the determinants of growth Wolf reaches to Windows of Opportunity by David Sainsbury. According to Sainsbury's argumentation the four main conditions of success are as follows: demand for new products and services, activity-specific technological opportunities, firms capable of exploiting these opportunities and institutions capable of supporting those firms. Growth on the other hand is defined as an evolutionary process characterized by trial and error, economies of scope and scale, network externalities, temporary monopolies and cumulative advantage. Rather than being a steady process, economic prosperity, as stated by Sainsbury, results from a series of jumps and investments in high value-added firms. Taking part in the winner takes all competition, some companies should succeed at the expense of others and it is the government's role to pick the winner,

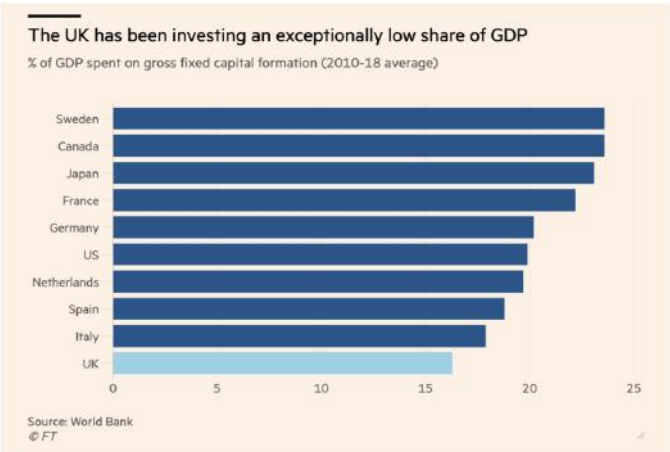


Figure 1. Fixed gross average investment as a share of GDP between countries

Figure 2. GDP per hour worked in the time period 1950-2018

not an individual firm but a whole industry. In order to succeed, systems of education, training and world-class innovation as well as scientific support should be provided at the state level.

Based on these definitions Wolf leaves the reader with an opinion that whichever countries fail to keep up with investing in the highly innovative and highly productive sectors will loose and be left behind.

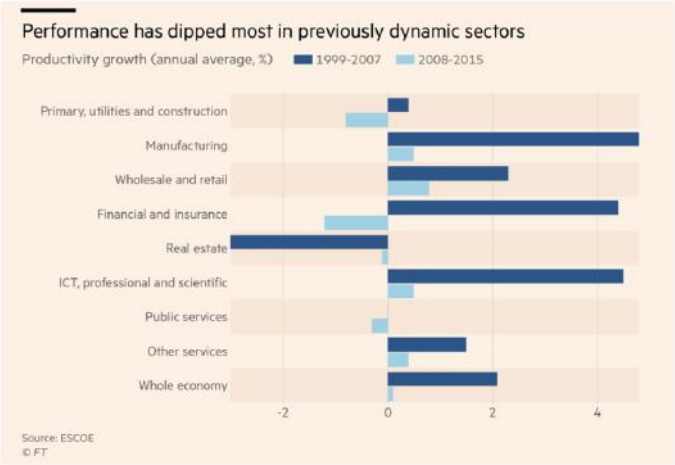


Figure 3. UKs performance of different economic sectors over the years 1999-2015

Situation in the UK over the last 50 years:

Let us look closer how has the situation in the UK changed over the years – once a pioneer of economic growth, currently lacking to stay on top. In 1960, Britain had the highest economic growth measured in gross domestic product per hour worked –a better score than France's, West Germany's and Italy's (Chris Giles, 2018). Since then, its productivity grew continuously but at a slower pace compared to other European countries. Membership in the EU jointly with Margaret Thatcher's reforms allowed for a partial recovery by accelerating the economic growth between 1980 and 2008 (Figure 2.). Before the global economic crisis, in years 1999-2007 UK's economy relied mostly on the industries of computing, finance and professional services. All of which experienced a sharp drop in

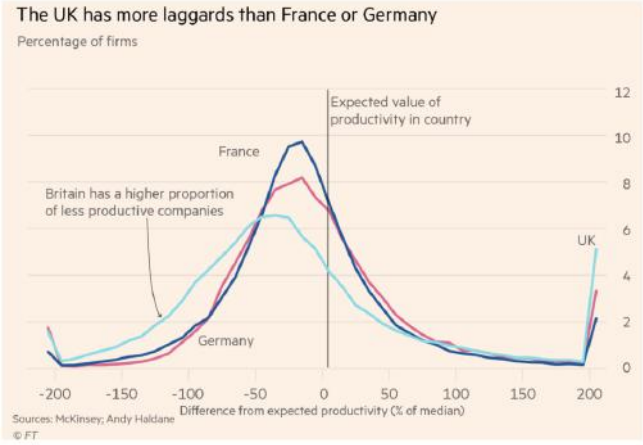


Figure 4. Difference from expected productivity in Germany, France and the UK as of 2018

performance after 2008. Computer programming, energy finance, mining, pharmaceuticals and telecoms which together accounted for one fifth of the economy, constituted three fifths of the decline in productivity growth (Chris Giles, 2018) (Figure 3.) Afterwards, the most productive companies, have not been raising their game as fast as they were. Patrick Schneider, an economist at Bank of England, said in his research paper from March 2018 that "the most productive firms are failing to improve on each other the same rate as their predecessors did ". Additionally, there was and still is a "long tail "of unproductive companies, which are doing significantly worse than the average (Figure 4.). Hence, despite the larger number in total of innovative and high growth companies in the UK, as compared to Germany or France, Britain faces a productivity gap – only a relatively small number of firms is sufficiently successful and efficient.

Current situation

Currently, the US and the UK are often described as the most financialized economies of the world. For them, profits stem increasingly from financial channels rather than from trade and commodity production. Since 1980s there has been an noticeable rise in the proportion of profits distributed to shareholders through dividends, share buybacks and debt-financed takeovers. Andrew Smithers, economist, founder of Smithers& Co and a prior Warburg's asset manager, in his book Productivity and Bonus Culture, criticizes the bonus culture and claims its harmful impact on the economy. He argues that the growth in performance-based pay has been accompanied by widespread shrinking on capital investment.

Brett Christopher, a professor in the department of social and economic geography at Sweden's Uppsala University and the Financial Times journalist, argues however, that it is not only the financialization of the economy but also the "rentierization", which shapes the current situation of the UK since the 1970s (Brett Christopher, 2019). "Rentier regime", coined by the Nobel-winning economist Paul Krugman, is the fundament of rentier capitalism - an economic order organized around income-generating assets. In such system, overall incomes are dominated by rents and economic life is dominated by rentiers - few wealthy and powerful companies. Fundamentally orientated in "having" rather than "doing", it is

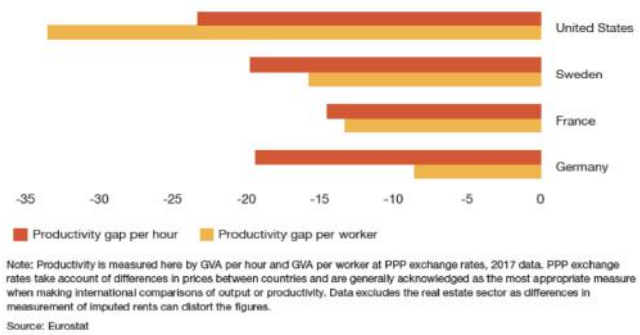


Figure 5. The UK productivity shortfall in 2017

it is based on proprietorial rather than entrepreneurial ethos (Brett Christopher, 2020). Proximate visualization is easy to find; according to the PwC report published in November 2019 on the UK Economic Outlook, UK's productivity lags behind many advanced economies (10-15 per cent behind Germany, France and Sweden and about 30 per cent behind the US) (Figure 5.).

The underlying reasons behind the current situation

Based on PwC's research, the underlying reason behind this phenomenon is not necessarily an insufficiently big manufacturing base. Instead, comparative international evidence suggests that relatively low UK levels of investment and R&D spending together with a longer tail of companies and workers with relatively low productivity and skills are the actual reasons for this productivity shortfall. Primarily, Britain's total investment rate-by business, government and households as a percentage of GDP, is the third lowest in the entire group of OECD countries (Figure 6.). Such low rates held for a long time translated into a low capital-output ratio which even for other service-based economies such as France and the US is significantly low (Figure 7.). Furthermore, there seems to be a problem with the diffusion of ideas and technologies from the frontier firms to the rest of the private sector. It is either non-existent or too slow; firms aren't capable of effectively adopting innovations created by others. The result is exactly the aforementioned long tail of firms with relatively low productivity, which drags down the UK average. Additionally, there is also a visible regional disparity proved by the example of London, which has a 40% higher productivity than the UK's average.

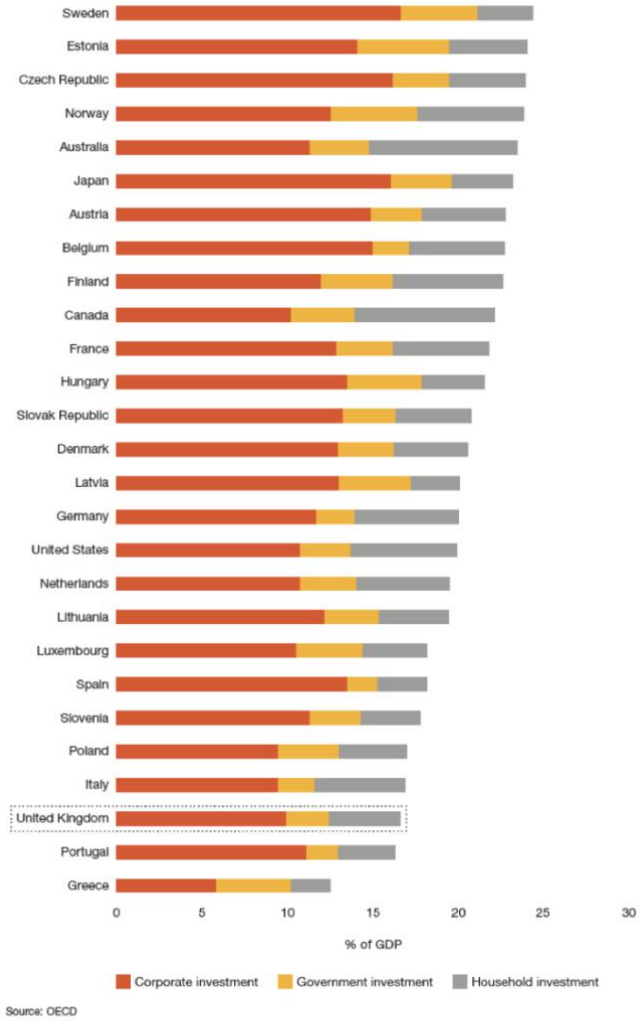


Figure 6. Investment rates for OECD countries

So, what has been done so far to answer all these inefficiencies, which are clearly holding the UK back? Robert H Wade, Professor of Global Political Economy at the London School of Economics, adds fuel to the fire and states it is not only a growth

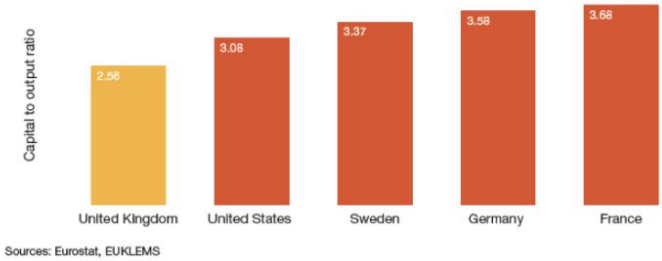


Figure 7. Capital- output ratios for selected countries

crisis, which the country is facing, but also a governance crisis. Even with the establishment of the Department of Business Energy and Industrial Strategy (BEIS) in 2017, the results of improvement have been thin. Wade justifies it with three reasons. Firstly, he claims that the Treasury, which presides over BEIS, has long been opposed to the idea of an industrial strategy. Secondly, the sector deals are determined by the representatives of private economic actors and they are the ones to set the terms for state support. Civil service counterparts play solely a support role, hence thirdly there are no incentives left for disruptive newcomers. Instead, the British system gives strong incentives to the incumbent firms.

Possible solutions

Referring back to David Sainsbury's Windows of opportunity we have four possible ways of fostering innovation: simply leave it to the market, support the supply of the relevant factors of production (science and skilled people), support key industries and technologies or pick specific firms, technologies and products. Sainsbury suggests the second and the third factor to be performed by the government, whereas the latter to be left to bankers and venture capitalists. Determining which industrial policies could potentially improve UK's productivity, it is important to understand the original purpose.

Industrial policies are a form of state intervention aimed at particular industries (and firms as their components) to achieve the outcomes that are perceived by the state to be efficient for the economy as a whole (Chang, 1994). Two types of policies can be distinguished: selective industrial policy and horizontal industrial policy. Selective aims at improving the performance of particular industries or firms, whereas horizontal is designed to improve the economy in general. Owing to the fact that long-run productivity performance depends upon decisions to invest, innovate and adopt technology, industrial policies will have an impact on productivity growth. Thus, it is important to emphasize the way in which technical change and innovation are integrated into policy development (Crafts and Hughes, 2013).

Based on PwC's research, it is recommended to focus on the horizontal strategy rather than on the selective one. Promoting one sector is perceived as unlikely to be successful in closing the gap in productivity. There is a need for a better investment environment with the government ensuring the country has the modern infrastructure and supportive financial system for private investment by firms of all sizes. Possible solutions include also higher standards in the formal education system and a lifelong upskilling strategy that supports workers to acquire new skills, the digital ones in particular. In light of the increasing abundance of AI and other new technologies, which are likely to transform the workplace, an adaptable workforce will be the key. Businesses per se also should play a role, they themselves can upskill by investing in digital transformation and make a greater use of data to improve management practices. This will allow firms to adopt new methods quicker and bring products to the market more efficiently.

Institutional architecture and the link to varieties of capitalism

Modern assessment of what went wrong and what are the actual failures goes beyond the perspective of the "market failure" and focuses rather on a broader standpoint of a "system failure". System approach focuses on coordination problems in the context of promoting the development, awareness, and exploitation of new technological opportunities. One can distinguish three core elements of this approach: agents operating within the particular system domain, institutions and norms of conduct, and finally the terms of connections between agents (Crafts and Hughes, 2013).

The mechanism functions as follows; agents (private sector firms) identify attractive opportunities and invest in human and financial capital as well as a wide range of intangibles including R&D, design and ICT. Institutions or broadly understood "rules of the game" provide the framework within which the agents operate and terms of connections between them determine the institutional architecture. Various institutional architectures characterize differences between national systems and their patterns of coordination. Depending on the country, different systems will have different ability to allow private sector firms to identify and exploit business opportunities. The architecture affects both the nature of systems failures and the feasibility and effectiveness of traditional policy measures.

These concepts are very closely linked to the varieties of capitalism and the diverse nature of investments within countries. The UK, representing a liberal market capitalism, inhibits long-term investment compared with more coordinated varieties exemplified by Germany or Japan. Impatient capital markets driven by an over-concern with short term movements in stock market prices of threat of takeover promote short-termism in investment decisions. Thus, a well-designed policy set is a much more important attribute to liberal market economies in order to sustain improvements in innovation. In Varieties of Capitalism, Hall and Soskice argue that coordinated market economies (CMEs) should be relatively stronger at "incremental innovation" marked by continuous, small-scale improvements to current production solutions. Liberal market economies (LMEs) on the other hand, should be more successful at "radical innovation", which entails substantial shifts in production lines. LMEs are also characterized by lower employment protection, shorter average employment tenure, lower collective bargaining coverage, less occupational training, more cross border M&A transactions and greater stock market capitalization than CMEs.

Considering the differences between CMEs and LMEs one may better understand how the varieties of capitalism influence the actual productivity and economic growth. Questions such as why the UK invests so little in R&D are becoming easier to answer. Shareholder value-enhancing corporate characteristics have had a negative impact on the propensity to invest in long term R&D projects. Moreover, international comparative studies show that stronger shareholder protection even though associated with larger stock market capitalization results in lower innovative activity (Crafts and Hughes, 2013). Thus, if the UK does not want to fall behind, the government will have to start addressing these issues. Taking into account the strongly embedded model of liberal market economy it will have to come up with solutions in line with the values the country believes in, while simultaneously fostering innovation and growth. On the stack of challenges UK already has to face amid COVID and Brexit this is yet another test, which only years to come will show if passed successfully.

Fiscal competition: when governments are left picking up the tab after big corporations

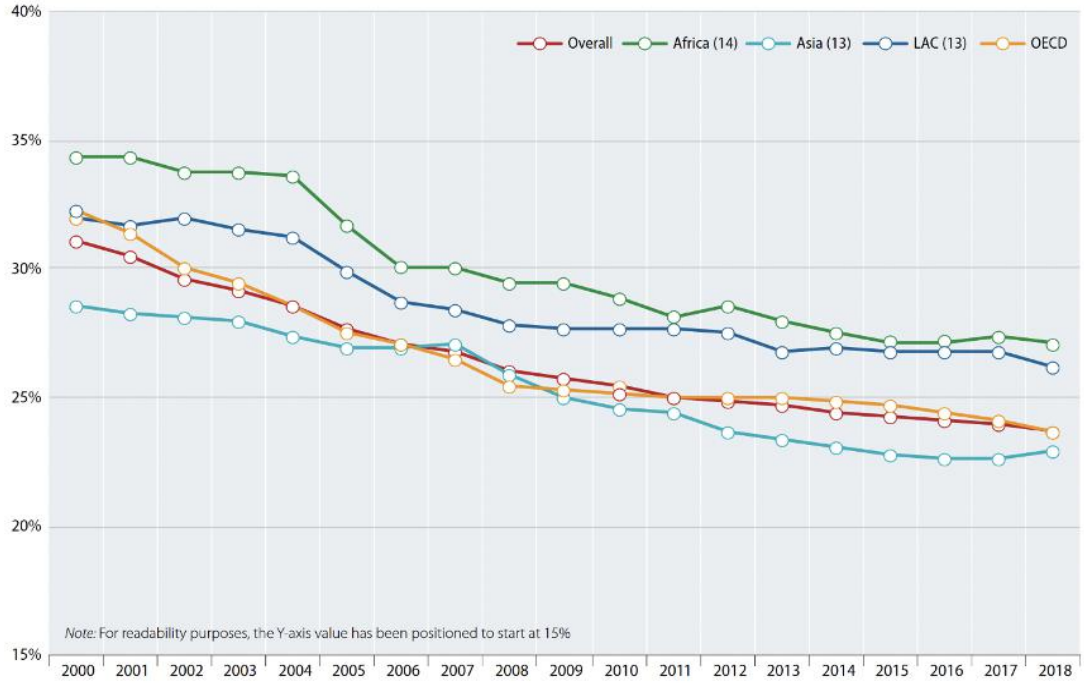
By Carlo Geat

While most people see paying taxes as an unavoidable and bothersome duty, big multinational corporations have several ways to make the process, though still bothersome, far less inescapable. This phenomenon is known as tax avoidance and consists in exploiting legal loopholes to pay less taxes, mainly by shifting profits to countries with a lower tax rate. As companies try to cut fiscal costs, they look for more favourable tax systems; the resulting fiscal competition has led to a race to the bottom that has benefitted large corporations at the expense of governments and their citizens.

On the eve of the IMF and OECD spring meetings in Paris, Treasury secretary and former Fed chair Janet Yellen proposed a global minimum tax rate for corporations, following Biden's ambitious 2-trillion-dollars infrastructure plan backed by an increase in corporate taxation. Her speech brought new light on the phenomenon of fiscal competition, which is defined as the competition between governments to attract foreign investment or discourage national companies from leaving by reducing the tax burden. Tax havens are the most obvious example of countries that rely heavily on tax reductions to attract foreign capitals. Competition can lead to lower tax rates, that act as an incentive for foreign investment by either attracting direct investment (like a multinational opening up a new branch in the country) or indirect investment (in the form of capital inflows). Companies can take advantage of the more favourable tax regime by moving their fiscal headquarters to a tax haven without however producing anything in the country.
IInstead, they shift profits internally, especially for revenues from intangibles sources like patents and royalties - that are difficult to track.

But lower rates are not the only factor that can bring a company to move to a different country. Another important factor to consider is the country's legal and regulatory system, which determines the speed and ease of doing business (for example how easy it is to start a business or enforce a contract); the type of legal system (common or civil law) and the language used; the stability of its political system and the development and secrecy of its financial sector; its labour market efficiency and skillset. Another more subtle form of competition is represented by the number and importance of national double tax agreements, or DTAs, that avoid double taxation for resident businesses (that are otherwise taxed both in the country of residence and in the country were the profits are produced). More often than not, though, explicit regulations do not allow to assess the real intensity of fiscal competition, as governments enter into contractual agreements and tax breaks with big multinational corporations. For instance, between 2004 and 2014, Ireland's government granted 13 billion euros in tax benefits to Apple. Moreover, official tax rates are often misleading as government can allow a series of exceptions and benefits to selected companies: although Malta's official corporate tax rate is 35%, the actual burden on businesses is between 0 and 6 %. Trying to attract foreign investment has always been a possible policy measure for governments. In the last 30 years, though, fiscal competition increased to record levels thanks to globalization and greater capital mobility. The theory behind it rests on two assumptions: first, that multinational corporations will enter a foreign market only if they can have a competitive advantage over domestic rivals; and second, that they will bring new jobs, technology and expertise that spill over to domestic companies, and ultimately boost economic growth.

FIGURE 7: **Average statutory corporate income tax rates by region excluding zero-rate jurisdictions**



The race to the bottom has led to a constant decrease in corporate tax rates all over the world. And this does not include subsidies and tax breaks that many governments offer to corporations. Source: OECD

According to this theory, this is a win-win scenario for the country using this approach. Indeed, many countries made of this strategy the cornerstone of their economic development with considerable success. Developing countries have attracted foreign direct investment to boost their growth, while others, like Ireland of Luxembourg, have attracted capitals from the financial sector and became prolific centres for innovation in the industry.
Supporters of fiscal competition will say that, by putting a constraint on countries' potential tax revenue, it will also foster efficiency and push governments to spend more carefully.

However, in recent years the effects for most countries have been all but positive. Several studies demonstrated the limited effect of unrestricted public tax subsidies on growth, and many have criticized comparing competition between countries and between companies or individuals given the unique nature of governments, their functions and social objective

Instead, excessive competition has led to "beggar-thy-neighbour" policies of mercantilist memory. A race to the bottom that costs dozens of billions in tax revenues for many countries, to all benefit of large corporations. In fact, it has been estimated that each year countries lose between 200 and 600 billion dollars of taxes by corporation due to tax avoidance, more than what they lose from to tax evasion, which is instead the illegal non-payment or underpayment of taxes. This estimate does not consider the billions in subsidies that companies receive from national governments almost everywhere. For example, Italy paid FIAT over 220 billion euros in subsidies over the years, but the company still moved its fiscal headquarters to the Netherlands in 2014. If corporations do not pay their fair share, governments can either cut their spending, get more debt, or increase other types of taxation (for example on private individuals). In any case, the burden falls on the shoulder of the citizens through higher taxes, worse services, and slower economic growth.
Equity and justice are also often in the conversation about fiscal competition. Huge corporations pay a tax rate close to zero and private citizens and small enterprises, who are left picking up the tab, are rightfully angered and frustrated. What further exacerbates these feelings is that governmental tax breaks are often done under the table (like in the case of Ireland and Apple), raising the issue of democratic legitimacy of engaging in aggressive fiscal competition policies. And despite what is commonly believed, competition does not always come from tax havens like Switzerland or some Caribbean island but can take much opaquer forms.

The Netherlands, for example, have been ranked fourth in the Corporate Tax Haven Index developed by UK-based think tank Tax Justice Network, and are considered one of the main beneficiaries of aggressive fiscal competition, while simultaneously advocating for fiscal austerity and rigor. Similarly, the US are ranked third in the list of the biggest and most secretive offshore financial industries, above Luxemburg and the Cayman Islands. The United States have effectively been a destination for foreign capital especially by Chinese and Saudi investors. Moreover, by not accepting the OECD's "Common reporting Standard", the US do not share the information of non-resident investors in the country, while they require the same information from other states. Competition in this case is not in the form of low tax rates, but in a complacent legal system that allows to easily set up shell companies and hide profits. The OECD highlighted the problem of fiscal competition in 1998, publishing a report indicating the main tax havens, and talks have been going on in Paris for years. It was in fact the US that walked out of the negotiation for a global digital tax under former Treasury secretary Steven Mnuchin. President Biden has taken an opposite stance compared to his predecessor on this matter, aiming at increasing corporate taxation. On the other side of the Atlantic, the EU adopted in 2017 a blacklist of tax havens to sanction companies shifting profits to those countries.

This list, however, does not include European countries like the Netherlands, Malta, Cyprus, or Luxemburg which were voted by the European Parliament as tax havens in 2019.

Secretary Yellen's proposal of a minimum global corporate tax is a step towards a more integrated and efficient fiscal system for advanced economies, and one that would allow Biden's tax hike to not drive away US corporations. It would level the playing field for companies, that will have to face more obstacles to avoid taxation. So far, governments are still far from striking the deal, and the heart of the problem seems to be the actual tax rate: while the US is aiming at 15%, other countries like Ireland (which currently applies a 12,5% rate) will not give up without a fight. One can hope that, now that policy has shifted in Washington, other countries will recognize the importance of international cooperation and work together to limit the negative effects of fiscal competition.

By giving away taxpayers' money to multinational corporations, governments are depriving themselves of the resources needed to create the necessary infrastructures that could eventually benefit those same companies.
Secretary Yellen's proposal is finally focusing the attention on a topic too often forgotten. A global minimum tax rate would make it much more difficult for corporations to elude taxation and give governments the upper hand in tackling tax avoidance and inequalities. This could be an important first step, but both the US and Europe should first recognize the hypocrisy of being home to the largest offshore financial industry (in the case of the US) and several tax havens (in the case of some EU countries like Malta, Cyprus and the Netherlands). International cooperation is definitely important, but also a good dose of honesty and coherence is necessary.

Are universities agents of social closure?

By Abdelhakim Radouani

It is undeniable that higher education has been perceived in the last era as a key driver for social mobility and individual success in life. The most common view is that participating and undertaking a university-level education will ultimately enable individuals to attain better-paid positions, more opportunities in life, and a higher social class. However, this attitude can be easily challenged from the social closure viewpoint. This Weberian approach to social classes highlights how the privileges enjoyed by a certain class find their sources in the exclusion of the individuals that are not part of said class. The aim of this paper is therefore to deconstruct the various ways through which universities reinforce social stagnation, keeping the elite in their privileged position.

First and foremost, admission into a university itself can be a challenging endeavor for low-income families and households. The most prestigious universities in the world are tuition-based, creating the so-called tuition barriers that prevent working-class families from securing a competitive education for their children. Admission into a prestigious university is usually based on criteria that favor students that grew up in high-income families, such as having previous volunteer or work experiences in high school, attending renowned private schools, or having rich (international) personal experiences. The selection is also (openly and publicly) biased toward those applicants whose parents have a university education – especially if they had attended the same institution where their kid is applying. Extensive research has been carried out on these so-called legacy admissions, and they all highlight how these methods of selecting students clearly favor the educated elite, rather than the underprivileged families. Moreover, recent news has shown how far the "high society" is willing to go - and has the means - to secure a golden ticket to prosperity for their (sometimes) underserving offspring. The 2019 college admissions scandal is a clear example of how universities, behind the mirage – and the constant redefinition - of meritocracy, set a clear barrier to social betterment for the low-income and the underprivileged. A case can also be made that such behaviors have become structural in the fabric of higher education admission. The issue is even more engrained in developing countries, namely in the Middle East and North Africa. The use of "wasta" and "piston" (two different words that refer to intermediates) is unapologetically and openly admitted by most high-income students, more as a sign of success than one of privilege.

Secondly, even after securing a spot in a college, working-class students face hurdles that their elite counterparts do not necessarily have to deal with. As a matter of fact, it has been recently shown that achieving extra-curricular credentials is as important as obtaining a degree in securing a competitive job. However, completing a summer internship or attending a semester abroad may not be feasible for low-income students who can barely afford their school fees, and might even be working part-time to achieve that. Underprivileged students

realize quickly that sustaining a high GPA or having high ambitions might not be sufficient to reach their dream career. They soon conclude that their high-income classmates have a pre-existing network of family friends and golf buddies that can get them an internship in no time, a large enough allowance to finance their summer in Europe, and a strong willingness to gatekeep their privilege by not sharing their contacts with their classmates. These social capital mechanisms further limit low-income students' ability to achieve extra-curricular credentials and strengthen universities' role in reinforcing opportunity hoarding. A point should also be made at this stage on higher education institutions' effort to create more career advising and placement opportunities for their students in recent years. There has indeed been a considerable effort on this front lately. However, it is not sufficient to compensate for the advantage that high-income students come with. It might even help them secure internships and job positions in a way that is seemingly fairer and more accepted by their peers. Asking for an opening in your family friend's company is a lot more legitimate in a career fair than around drinks, right?

Finally, universities' role in constructing social stratification and acting as agents of opportunity hoarding is becoming increasingly important even post-graduation. Besides the obvious disadvantages and career doubts that low-income students graduate with, it is increasingly unclear if achieving a university degree is really beneficial. In fact, in our growingly educated world, the trend for higher education is toward universality. Driven by the families' ambitions and the children's willingness to better their position in life, the demand for higher education has reached never-seen-before levels in both the developed and the developing world. One might assume that having more skilled workers would ultimately be beneficial for society, as people would inevitably be getting higher-paid jobs. However, the logic of the labor market says otherwise. In fact, it is clear that, unless states intervene, there is a limit on the number of socially advantaged positions offered. As the number of university graduates continues to increase, and as university education becomes slowly but surely universal, students will end up with no significant betterment in their economic and social capital. Their cultural capital and personal development could gain from the additional knowledge, but their chances of getting hired in a high-paying job most certainly will not. Through this mechanism, universities and higher education institutions will more likely play an even larger role in sorting and rearranging society's classes, hopefully leading to less inequality, but likely reinforcing the pre-existing privileges or disadvantages of its students.

Through these various layers of analysis, it is undoubted that universities play a crucial role in setting society's stratifications and preventing its members' social mobility. Higher education's social closure part starts even before the student's admission, by setting economic and social capital barriers that limit lower-income applicants' chances of accessing the same opportunities as their privileged counterparts. Those that could break through those barriers faced other types of obstacles, that take the form of extra-curricular credentials designed to be easier to access for financially and socially rich students. Their importance is undeniable, but their access is also unachievable without hard work for working-class and low-middle-class students. Burdened by a long CV of part-time (not career-relevant) jobs, underprivileged students face a world where their university degrees could not provide the same benefits as they did before, as universal access to education is slowly becoming more than a utopian dream. Therefore, they could potentially find themselves in the same low-paying jobs their father, grandfather, and great-grandfather held generations before. Enriched by their knowledge, but indebted by their education. Informed about their disadvantages but not reformed into a better social position.

In reference to the Circular Economy, continuation below

Online clothing:

- The RealReal
- Poshmark
- Vestiaire Collective
- Patagonia (you can return your Patagonia jacket once you're done using it, and they'll refurnish it and sell it at their secondhand store!)

Instagram accounts we love:

@remakeourworld
@cleanclothescampaign
@whomade.yourclothes
@chicksforclimate

Food:

- Too good to go

Vintage thrift stores in Milan:

-
- Humanas Vintage
- Bivio Milano
- Madame Pauline
- The Cloister Milano
- Orient Express Vintage
- Cavalli e Nastri
- 20134Lambrate Vintage
- Pourquoi moi vintage
- Chez Babette-Garage Sale

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there should be one link here need to text the author to have it

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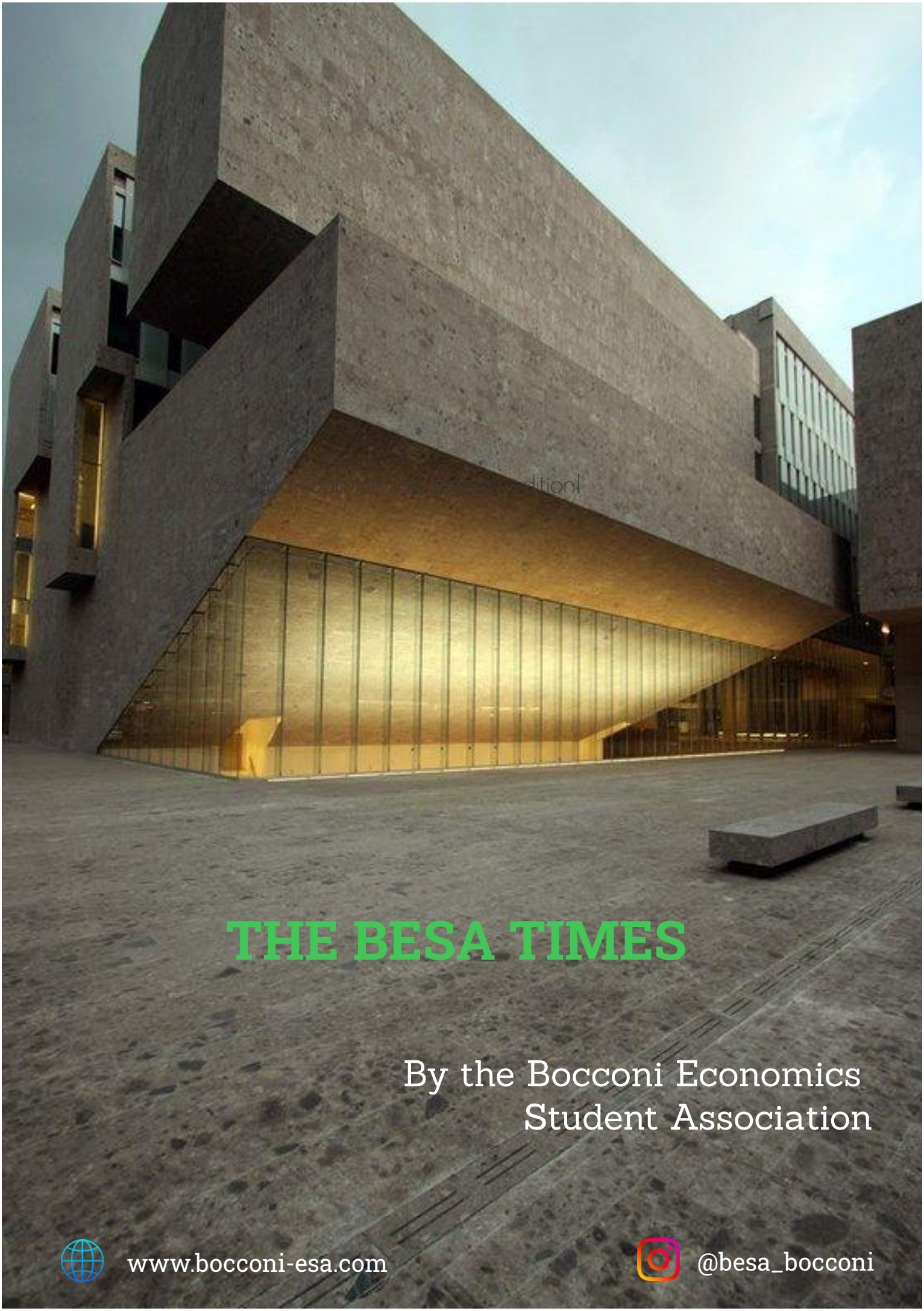

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