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LESSONS OF THE GREAT DEPRESSION

This is the most serious economic catastrophe to hit Europe since the 1930s. What lessons can the crisis of three generations ago offer today's political leaders? By Phil Thornton
More than five years have passed since the global financial crisis first struck the eurozone, plunging its economies into recession and pushing many of its blue-chip banks to the brink of collapse. But the 17-member single currency zone still seems far from full-blown recovery and there is still a ferocious debate over whether the eurozone must be broken up in order to guarantee a sustainable future for its member countries.

The zone’s policymakers are adamant the euro will survive. Olli Rehn, the European economics commissioner, said in July 2013 that fears the euro would disintegrate, which were rampant a year earlier, had “now been dispelled”. But economists are not so sure. Many believe countries’ debt burdens are so large that a return to even solid rates of economic growth will not solve their fiscal problems. With tolerance for austerity close to its limits, the only way for these countries to escape their debt problems is to quit the euro and default, they say.

There is one fact they can agree on: this is the most serious economic catastrophe to hit the continent since the 1930s. But what lessons can a crisis that hit the Western World three generations ago offer today’s political leaders?

LOOK TO THE PAST

According to research by the ESRC Centre for Competitive Advantage in the Global Economy, the economic history of the 1930s offers some clues about the future of the eurozone. There are many parallels between the two crises that contain key lessons for today’s policymakers.

In a paper ‘What Does the 1930s’ Experience Tell Us about the Future of the Eurozone?’ Professor Nicholas Crafts warns that if the events of the 1930s were to be repeated in full, the prognosis for the eurozone would be “gloomy”. “The design of European monetary union has been revealed to be fundamentally flawed,” he says. “The policy space available to troubled economies appears to be uncomfortably narrow.”

He says in this way the 1930s is not reassuring. “That decade was notorious not only for the severe economic downturn of the Great Depression but for banking crises, currency wars, exchange controls, protectionism and sovereign default.” Certainly today’s outlook is grim. Despite gargantuan efforts by politicians and the European Central Bank, economic growth is anaemic, the banking system is fragile, and public debts are still well above what would have been expected pre-crisis, meaning citizens face years of austerity.

But the event that provides the most direct parallel between the two crises is the collapse of the gold standard in the mid-1930s – the end of the system by which virtually all major economies converted their currencies into gold at a fixed parity. Drawing on academic research going back several decades, Professor Crafts says countries that sought to stay on the gold standard had to impose sharp reductions in both prices and wages to maintain competitiveness, and suffered high real interest rates and increases in real labour costs. “The gold standard was a recipe for deflation given the behaviour of the surplus countries,” he says. “To stay on the gold standard meant accepting price falls.”

In contrast, those that left the gold standard enjoyed major currency devaluations, regained autonomy over monetary policy with lower interest rates and lower real wage rates, and saw a boost in investment.

“Taken at face value, it does seem that for, say, southern Europe following the path their predecessors trod 80 years ago would look quite attractive. Devalue and default would seem to be quite a sensible thing to do and much less painful than trying many years of fiscal consolidation.”

The attractions of escaping from the gold standard then were massive. It delivered global reflation and, although it did lead to an outbreak of protectionism, historians now see it as part of the solution not the problem. So is a strategy of devalue and default the route to recovery for euro countries that it was for economies in the 1930s? Despite the apparent precedent of the 1930s, the eurozone has not yet collapsed so this time may be different.

THE ROUTE TO RECOVERY

Professor Crafts highlights a number of reasons why exit is not a panacea. “Whether exit can be achieved without triggering a massive financial crisis is doubtful,” he says. “It could well engender capital flight and a devastating bank run.” He says Germany is probably rightly worried about what defaults by peripheral countries would imply for its banking system in a world where banks form a much higher share of economies than they did 80 years ago.
THE DESIGN OF EUROPEAN MONETARY UNION HAS BEEN REVEALED TO BE FLAWED

The professor says any solution must resolve the “political trilemma” that Professor Dani Rodrik of Harvard University set out in 2000. This says a country can only maintain two out of the three of deep economic integration, democratic politics and the nation state.

The major institutional change Europe has undergone means it has options not open to countries in the 1930s. The EU could press ahead with plans for a fully federal Europe with a banking union, fiscal union and greater democratic legitimacy.

In principle, this could sustain a combination of two of the elements of the trilemma – deep economic integration and democratic politics – at the expense of the role of the nation state. “While this is the best solution to this problem, I am sceptical whether the politics would allow that,” Professor Crafts says. He also says the European Commission has sought to make the euro more robust by establishing banking union and new fiscal rules, while respecting the primacy of the nation state.

The problem with that strategy, in Professor Crafts’ analysis, is that political opposition in the southern European countries mean that this may not be enough to save the euro if their citizens have to endure austerity, economic stagnation and high unemployment. To find a possible way out, Professor Crafts reaches back to another element of the post-Great Depression world – the so-called Bretton Woods compromise. When the Allies’ economic policymakers planned the reconstruction of the international economy under the auspices of the 1944 Bretton Woods agreement, economic integration was severely restricted by controls on international capital flows.

In today’s environment this might include ‘financial repression’ – opaque techniques governments can use to reduce high debt to GDP ratios that are less painful than cuts in spending or hikes in taxes. “That’s something that the UK followed in the 1950s as a way of squeezing down the debt ratio,” he says.

Another element is ‘creeping’ protectionism – such as moving towards the European single market more slowly than in the past without raising trade barriers that would create worrying echoes of protectionism in the 1930s. “You might think that some form of a less integrated Europe would be a way of mitigating the pain. This would involve a more definite and deliberate step back from integration in both capital markets and trade.”

Allowing what Professor Crafts calls a “partial disintegration” of euro markets and trade could provide enough space to make the remaining aspects of reform politically acceptable.

“By accepting some economic disintegration in terms of financial repression and protectionist policies, the survival chances of the eurozone may be enhanced,” he says. “Nevertheless, this would have some costs in terms of lower growth in the medium term even if less traumatic than a disorderly collapse of the euro.”

Phil Thornton is lead consultant, Clarity Economics. He was previously economics correspondent at the Independent. Professor Nicholas Crafts is Director of the ESRC Research Centre, CAGE: Competitive Advantage in the Global Economy.
DO HIGH-INCOME OR LOW-INCOME IMMIGRANTS LEAVE A HOST COUNTRY FASTER, AND WHY DO THEY LEAVE?

MANY PEOPLE THINK of international migration as a one-way move but many immigrants only move overseas temporarily. Who chooses to leave, who stays, and who leaves faster? Do the successful immigrants return to their home countries once they have gained enough money and skills? Do unsuccessful ones choose to stay, perhaps relying on the generosity of the welfare state in the host country?

Research I have undertaken as part of the ESRC Centre for Population Change implies that the over-concern that host countries often have about being burdened by welfare seekers is actually unfounded: many immigrants in fact leave after they become unemployed or earn no or low income. Indeed, many immigrants don’t qualify automatically for any welfare benefits, so the idea that immigrants, especially from poor countries, move especially to benefit from the generosity of the welfare state is tenuous.

Although international labour migration tends to be mainly motivated by economic reasons – higher wages and better job opportunities – return migration is often more difficult to understand. Theories suggest that some migrants are target savers, or that they just prefer their home countries: they plan to migrate for a certain period so that they can accumulate money or skills before returning. Others argue that return migration is usually unplanned and driven by unexpected events and can be a sign of failure.

INCOMES ARE IMPORTANT

If migrants are target savers, you would think that the more income they earn, the faster they would leave. On the other hand, if immigrants leave very early after their arrival, this might suggest they have been unsuccessful in finding employment or earning an income and have had to cut their losses. So, do high-income or low-income immigrants leave faster?

My recent research suggests that the lowest income immigrants tend to return to their home countries the fastest, followed by the high-income group. We can interpret the fact that low-income migrants return faster as a result of failure, as low income tends to be the result of unemployment or very low earnings. These findings offer a counter-balance to concerns about migrants over-burdening welfare states in host countries: in fact, low- or no-income migrants quickly return to their home countries. When high earners leave, it is usually due to them successfully meeting their target savings or obtaining their planned skills. Of course, a migrant’s income is highly connected to their labour market experience. For example, unemployment triggers loss of earnings, so one cannot examine income in isolation from the labour market.

Another important implication is that when more successful immigrants return to their country of origin, the concern by these less-developed countries about ‘brain drain’ (the loss of skilled intellectual and technical labour) is exaggerated: migration might actually lead to ‘brain circulation’. In today’s globalised world, when successful migrants return, this ‘circulation’ means they are not a lost investment for their country of origin.

Of course, income is only one factor affecting return migration, although it is a key factor for labour migrants. Return migration is also determined by other factors in the host country as well as in the country of origin. Even though labour migrants might be predominantly swayed by the economic factors, there is no doubt that social, political and personal reasons also play a role in the return migration decision.
SOARING ECONOMICS

SOARING DRAGON, STUMBLING BEAR

Why has China succeeded where Russia has failed?

FIFTY YEARS AGO, most informed observers expected the 21st century to be dominated by a large, rapidly growing, emerging economy with nuclear weapons – the Soviet Union. It was unimaginable that China would take Russia’s place.

Research by Mark Harrison and Debin Ma, supported by Warwick’s ESRC Centre on Competitive Advantage in the Global Economy, asks why China’s economic reforms succeeded where Soviet reforms failed. They show that unique circumstances helped China: deep initial poverty and exceptional economic size. Leaders’ commitment to reforms was matched by longstanding bureaucratic traditions. The Soviet Union lacked the initial conditions that made reforms work in China.

These are not the lessons commonly drawn. It is often said that China’s advantage came from undertaking economic reforms while postponing political reforms, whereas the Soviet Union put political reform first. Harrison and Ma show this is not the whole story: the Soviet Union first tried the same road as China, but without the same success. Sustained economic development requires continuous policy reform, including the will to persist in the face of vested interests. In China continuous policy reform has been driven by ‘regionally decentralised authoritarianism’.

Under regionally decentralised authoritarianism, responsibility for meeting targets is decentralised to provincial leaders, who compete with each other to succeed. Since the 1970s, the target has been economic growth. Only the economy is decentralised; the centre keeps tight political control. Competition among provinces, enforced by relative performance evaluation from the centre, is an essential factor.

In the Soviet Union, Stalin’s successors tried ‘regionally decentralised authoritarianism’ in the 1950s but failed – the reform was badly designed and abandoned when problems emerged. Soviet history shows many other failed reforms similar to China’s. In other words, Soviet leaders did try economic reforms without political reform, and turned to political reform only after the economic reforms had failed.

Obstacles to further progress in China are now growing as the Chinese economy becomes increasingly marketised and has outgrown the state structures of communist rule. Current risks to China’s continued economic modernisation include a complacency trap and a conflict trap. In the complacency trap, early gains from reform may blunt the determination to persist as resistance grows. In the conflict trap, external confrontation may offer a tempting alternative to reform when domestic tensions accumulate. These risks may be increasingly difficult to manage unless the Chinese government becomes more accountable under the rule of law.

Will China’s economic modernisation proceed at the same pace?

SLAVE TRADE

THE EVIDENCE OF SLAVERY

Who in Britain benefited from slavery?

WHAT WAS BRITAIN’S relationship with slavery and who was involved? Researchers are looking at the contentious subject and gathering evidence of the scale and significance of Britain’s investment in slavery and the benefits accrued from it.

When slavery was abolished in 1833 in the British West Indies, Mauritius and the Cape, £20 million was paid in compensation by the British government to the slave owners as a way of buying their agreement to the loss of the men and women they defined as ‘their’ property. Professor Catherine Hall, Dr Nick Draper, Keith McClelland, Rachel Lang and Kate Donington from the History Department at University College London (UCL) have established the identities of the 47,000 claimants for compensation.

MAPPING OUT A LEGACY

The researchers investigated the so-called ‘absentees’ – about 3,000 slave owners who lived in Britain – tracking their legacies economically, politically and culturally. The evidence has been made available through the team’s digital encyclopaedia and this has already proved a valuable research tool for local and family historians, teachers, curators and academics.

Compensation was paid to British traders when slavery was abolished in 1833.

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Will China’s economic modernisation proceed at the same pace?

While this research shows who the slave owners were at the time of emancipation, a second project is examining who were the slave owners in the British Caribbean between 1763-1833, what properties they held, and the significance of their ownership. To what extent, for example, was capital derived from slavery being invested in new enterprises in Britain? How was property in the enslaved transmitted across generations? How central were family and kin to this process? What were the effects of the patterns of ownership on the enslaved? Or what ideas about race did the slave owners have?

The team has three new members – Dr Kristy Warren, James Dawkins and Hannah Young – and the programme is to map the estates and changes that took place in ownership across these decades. Using a wide variety of sources, from maps, slave registers and almanacs to plantation papers, wills and private and official correspondence, the team aims to expand the existing encyclopaedia with this information. This will make possible new understandings of the relation between Britain and slavery and provide a much needed basis in evidence for future scholarship.
NO WILL FOR WAR

Chemical weapons were used in Syria in August 2013 and there was outrage, but the British and US publics aren’t backing military action in the Middle East – why?

In the summer of 2013, British Prime Minister David Cameron and US President Barack Obama clamoured to punish Syrian President Bashar al-Assad for purportedly using chemical weapons, munitions that most of the world declared off-limits with the signing of the Geneva Protocols in the 1920s. They both faced a huge pushback from both rank-and-file members of their respective legislatures and their publics at large.

After recalling Parliament during its summer recess, the Prime Minister faced the humiliation of being the first leader since the American Revolution to lose a vote in the Commons related to matters of war and peace. In the US (at the time of writing), President Barack Obama hesitated to use what many see as the Executive’s prerogative to use military force, and, instead, decided to consult Congress before taking action. The question is, why, in the face of a war that has produced so much civilian suffering and resolved the leaders of two of the most powerful nations on earth to act, were British and American citizens surveyed so reluctant to approve of their leaders’ desire for military action?

Data generated from a series of surveys supported by the ESRC and designed by Professor Thomas Scotto of the University of Essex and his collaborator, Dr Jason Reifler of the University of Exeter, show that the British and American publics are not inflexibly against the use of force or intervening in global affairs.

In a survey conducted in the summer of 2013, the investigators found that only 23 per cent of Americans and 30 per cent of Britons agreed with the statement that ‘War is never justified’, and less than 15 per cent of respondents in each nation did so strongly. In addition, respondents were not wholly opposed to engagement for the purposes of reducing the suffering of Syrian citizens. More than 60 per cent of Americans and Britons agreed or strongly agreed with sending ‘Food, medicine, and other humanitarian supplies to civilians in Syria’.

But in three separate surveys in May/June 2012, February 2013, and July/August 2013, survey participants were adamantly opposed to most military action against the al-Assad regime. In the last round of surveys, fewer than 15 per cent of Britons and Americans were willing to send combat troops to Syria to protect civilians and this number fell to less than ten per cent when citizens are asked whether they support using military ground forces to effect regime change and help overthrow al-Assad.

There was also opposition among both publics to the use of unmanned aerial vehicles (drones) to target military and political leaders of the al-Assad regime. This opposition persisted after respondents were told that the US and

THE SYRIAN WAR BEGAN ON 15 MARCH 2011.

100,000

BY JUNE 2013, 100,000 HAD BEEN KILLED

ACCORDING TO THE UNITED NATIONS.
Britain had evidence the al-Assad regime used chemical weapons and that President Obama and Prime Minister Cameron warned that their use would constitute the crossing of a ‘red line’ that would warrant a military response from the West – fewer than one in three respondents in each country supported punishing the Syrian President for using such weapons.

Changing attitudes
Professor Scotto and Dr Reifler believe that the reticence of the American and British publics stems not from a reflexive pacifism or isolationism but from the beliefs that the nations’ recent forays into Iraq and Afghanistan were unsuccessful and the lack of belief on the part of the two publics that military intervention in Syria would change things in a meaningful and positive way.

In the summer 2013 round of surveys, less than one in ten of the UK and US respondents thought the 2003 war in Iraq ‘mostly succeeded’, and another 26 per cent of British and 29 per cent of American respondents believed that the action ‘somewhat succeeded’. When asked about Afghanistan, just one in four British respondents and one in three American respondents thought the Western powers ‘mostly’ or ‘somewhat succeeded’.

The researchers established that those who believed these two previous American and British military interventions in the Middle East had some degree of success were significantly more likely to favour action against the al-Assad regime for its purported use of chemical weapons. The difficulty the UK Prime Minister and US President face is that a majority of citizens of their nations believe that recent interventions in the Middle East had done little but cost their nations blood and money.

The investigators surmise that convincing the publics to support military action is going to be exceedingly difficult in this environment. In the sustained lead up to the Iraq War, proponents had a long time to build support by establishing clear mission goals – removing Iraq’s capacity to produce and use weapons of mass destruction, overthrowing Saddam Hussein, establishing a democratic system of election. Of course, intelligence and execution errors led to a disastrous intervention in Iraq. Leaders would have to jointly convince the public that Syria would be different and that punishing al-Assad for violating international norms of conduct would lead to a better outcome in Syria’s civil war, and would have to do all this in a dramatically shorter period of time for quick action.

The formal project, perhaps the largest comparative study of British and American foreign policy attitudes, concluded in September 2013, but insights from the responses will continue for the foreseeable future.

www.globaluncertainties.org.uk

This research is part of the RCUK ‘Global Uncertainties Programme’ (2008 to 2018). The ESRC is leading the programme on behalf of RCUK, which currently supports a £180-million portfolio of research and activities relevant to ‘Global Uncertainties’.

THE HISTORY OF CHEMICAL WEAPONS

On 21 August 2013, the use of chemical weapons was reported in the ongoing Syrian conflict.

- During World War One the use of chemical weapons, such as mustard gas, accounted for 90,000 deaths and one million casualties.
- Chemical weapons were deployed in World War Two, despite the atrocities of World War One. The nerve gas sarin was invented by German scientist Gerhard Schrader.
- Throughout the Cold War both the Soviet Union and the USA stockpiled chemical weapons.
- Chemical weapons were used in the Iran war in the 1980s. In 1988 mustard gas and nerve agents wreaked horrific damage against the Kurds in Northern Iraq.
- In 1994 and 1995, sarin was used by militants in Japan on a residential community and on the subway.

Source: www.opcw.org
THE PRIME MINISTER HAS vowed to ‘stand with Gibraltar’, marking the British Overseas Territory’s National Day. Tensions with Spain have grown recently, since Gibraltar dropped concrete blocks into the bay to create an artificial reef – effectively stopping Spanish fishing boats from using their nets in the area. In the aftermath Spain introduced stringent border checks, creating huge queues for anyone crossing the border – measures Gibraltar claims are ‘politically motivated’.

Gibraltar has been a British colony and garrison for over 300 years, but Spain disputes this sovereignty. Meanwhile, the population of Gibraltar – a mixture of Genoese, Spanish, Maltese, Sephardic, Sindhi, Moroccan and British peoples – has developed its own unique culture, which is the topic of new research.

The study, ‘Bordering on Britishness: the Development of Gibraltar’s identity over the 20th Century’, will look at the growing sense of specifically Gibraltar’s ethnic identity. A multicultural community, people have shifted from speaking predominantly Spanish to speaking predominantly English, a process that is occurring at the same time as people are identifying more as Gibraltar’s and less as members of a British Empire or Commonwealth.

“Recent events in Gibraltar show that Europe’s smallest border remains exceptionally contentious. Now, more than ever, it is important to understand people’s attitudes to the border and why feelings run so deep,” says Professor Andrew Canessa from the University of Essex. He is carrying out the research together with Dr Jennifer Ballantine Perera from the Gibraltar Garrison Library.

According to Professor Canessa, Gibraltarans’ sense of identity has varied considerably over time. In the first half of the 20th century there was a significant Maltese minority, and the distinctions between native Gibraltarans and UK Britons was much larger than it is today. In the first half of the 20th century there was also considerable intermarriage with Spaniards, many of whom resided in the border town of La Linea, which was home to thousands of workers who crossed the border on a daily basis.

By the end of the century, however, Gibraltarans’ sense of Britishness had changed profoundly, and many Gibraltarans had some considerable experience of life in the UK. Maltese identity was barely recognised, and despite an open border with Spain there was far less intermarriage than was historically the case. Now Gibraltarans are at least as likely to celebrate a specifically Gibraltararian identity as a British one – although these are not mutually exclusive.

Although the Gibraltarans’ sense of identity is often discussed at times of conflict, to date there has been no systematic in-depth study of how Gibraltarans think about themselves. This research will fill this important gap and record Gibraltar’s 20th-century oral history, for future use by researchers, the public in Gibraltar and others interested in Gibraltar’s history, society, culture and language.

www.essex.ac.uk/sociology/research

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THE BARBARY MACAQUE

- This talless monkey is a native of North Africa, but found a home on the Rock to become the only free-living primate in Europe (apart from humans).
- From 1915 to 1991 the monkeys were cared for by the British and Gibraltar military, with an overall supervising officer.
- Legend has it that as long as there are Barbary macaques on Gibraltar, the island will remain British.

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BEING BRITISH

Research records how the people of Gibraltar are celebrating their own unique identity

GIBRALTAR TIMELINE

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1704</td>
<td>The English capture Gibraltar during the War of Spanish Succession.</td>
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<tr>
<td>1713</td>
<td>Spain cedes Gibraltar to Britain under the Treaty of Utrecht.</td>
</tr>
<tr>
<td>1830</td>
<td>Britain designates Gibraltar a British crown colony.</td>
</tr>
<tr>
<td>1940</td>
<td>Civilians are evacuated to make Gibraltar a military fortress during the Second World War.</td>
</tr>
<tr>
<td>1963</td>
<td>Spanish government begins a campaign for the handover of Gibraltar to Spain.</td>
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<tr>
<td>1967</td>
<td>Referendum: Residents vote in favour of continued British sovereignty.</td>
</tr>
<tr>
<td>1969</td>
<td>Franco closes the frontier in pursuit of his claim for Gibraltar.</td>
</tr>
<tr>
<td>1982</td>
<td>Spain opens the frontier under limited conditions and in 1985 the frontier is opened fully.</td>
</tr>
<tr>
<td>2002</td>
<td>Second Referendum: 86.9% vote to remain British.</td>
</tr>
<tr>
<td>2004</td>
<td>Second Referendum: 98.9% vote to remain British.</td>
</tr>
<tr>
<td>2006</td>
<td>August: Gibraltar marks the 300th anniversary of British rule.</td>
</tr>
<tr>
<td>2013</td>
<td>The Cordoba Agreement is signed, between Spain, the UK and Gibraltar.</td>
</tr>
</tbody>
</table>

Source: www.bbc.co.uk/news

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126 BRITAIN IN 2014
MICHAEL MOORE


typically prompted concern about the effects of ‘brain drain’ on migrants’ countries of origin. But as the findings of recent research led by Professor Jackline Wahba of the ESRC Centre for Population Change at the University of Southampton have highlighted, there are many benefits to be reaped by sending countries through education, entrepreneurship and investment.

One study has shown that international migration affects economic development by motivating increased investment in education. Migration aspirations drive individuals to invest more in education, and since not everyone ends up migrating, the educational level of those who remain in their home country increases.

Using Egyptian data, Professor Wahba, in a study funded by the ESRC and the Department for International Development (DFID) under its poverty alleviation programme, has confirmed that migration aspirations affect actual and planned educational attainment. The level of education is affected by the intended migration destination: those aspiring to go to Western Europe invest more than those aspiring to move to neighbouring countries.

RETURNING MIGRANTS INVEST
A second study has highlighted the need to support would-be entrepreneurs. The findings have revealed that as migrants return with more skills and money to invest, they are more likely to set up their own businesses or become self-employed when they return. The findings, focusing on Egyptian migrants, show that as well as increasing investment in the country by 15 per cent, they also returned with savings allowing them to set up their own businesses, which would not have been possible if they hadn’t migrated.

Using knowledge and experience gained abroad, they set up enterprises back home, creating jobs for local people with greater emphasis on workers’ rights such as sick leave and holiday pay. Added to this is the fact that return migrants enjoy a wage premium when they return home, often earning up to 20 per cent more than non-migrants.

Sending countries benefit from migrant investment in other ways too. For example, many Moroccan migrants, whether planning to return to their home country or not, tend to invest in projects and real estate, which benefit their country of origin. The results of a third study, focusing on China,
AUSTERITY

European expectations

Why was the euro introduced without establishing other institutions associated with a successful monetary union?

As the euro crisis unfolds, critics argue that European integration has gone too far, blame misguided political motivations, and assert that the euro has failed. In contrast, supporters of European integration attribute the crisis to institutional incompleteness (a ‘half-built house’), and argue that the solution to Europe’s woes should be sought in additional integration: a banking union, a fiscal union, or even a full federation.

But why was the euro introduced in the absence of other institutions historically associated with a successful monetary union? How and why were European institutions created? These questions are addressed in a new study – ‘What is European Integration Really About? A Political Guide for Economists’ – by Enrico Spolaore, a Professor of Economics at Tufts University in Boston and an external research fellow at the University of Warwick’s Centre for Competitive Advantage in the Global Economy (CAGE).

Spolaore argues that the euro, with its current problems and limitations, is the child of a long-standing European strategy of partially integrating policy functions in a few areas, with the expectation that more integration will follow in other areas, in a sort of chain reaction towards an ‘ever-closer union’. This ‘functionalist’ strategy became the main approach to European integration in the 1950s, after the failure of a more ambitious attempt to create a defence and political community, which would have included a common army, a common budget, and common legislative and executive institutions – basically, a European federation.

Building on a growing literature on the political economy of heterogeneous populations, Spolaore discusses the costs and benefits from political integration, and the reasons why a European federation was not formed. Instead, supporters of European integration pursued an alternative path of gradual integration, mostly in technical and economic areas, with the expectation that deeper, more ‘political’ integration would follow, in part as a result of the pressure from inefficiencies and crises associated with incomplete integration. From this perspective, incompleteness was not a bug but a feature, as it was expected to lead to further integration down the road.

A more effective strategy

On balance, the gradualist strategy was successful when applied to areas with large economies of scale and relatively low costs from heterogeneity of preferences and traits across different populations – for example, commercial integration. But the functionalist approach, based on the unwarranted expectation that more integration could solve the issues created by the previous steps, is also at the roots of the euro’s institutional shortcomings and the current crisis.

A fundamental problem with the approach is its unrealistic assessment of the costs and constraints involved when political integration is attempted among populations with different preferences, cultures, and identities. A more effective strategy would require that each step towards European integration should be taken only if it is economically beneficial and politically stable on its own merits.
TWO UNCONNECTED EVENTS in London this autumn link in a curious way some core questions facing Britain about how we shape our future.

The first is the retrospective at the Royal Academy of the work of the great architect and public intellectual Richard Rogers. Rogers built beautiful buildings and models and has dedicated a great deal of his time to making us think about the city as a collective public good, a way of life, an ethical project and an environmental construction.

The second was the death on 2 September of the Nobel Prize-winning economist Ronald Coase. In contrast to Rogers, Coase was sceptical of the effectiveness of government intervention in the public realm, asserting that it should be possible to put a price on the unintended consequences of economic growth such as pollution. He influenced the law and economics movement informing some of the key aspects of economic governance today, in particular the claim that price may be more effective than state intervention in the regulation of the commons.

When the city is viewed as a commons its successes and failures lie in the ability to balance public and private interests, maximise economies of scale, scope and skills and minimise the negative effects of pollution, exploitation and excessive regulation. The arrival of new migrants to the city – international migrants in 21st-century London as well as rural migrants in the ‘arrival cities’ of the global south – highlights the difficulty of getting this balance right. The rise of China in particular has prompted various reactions from Western commentators: some cynical about the sustainability of China’s economic growth, others confident of the inevitable triumph of the ‘China model’. By 2025, 350 million people will be added to the population of China’s cities, a scale of migration that puts London’s challenge in context.

CONSTRUCTING CAPITALISM ANEW

In China, people who migrate to the city commonly have reduced access to citizenship rights because of the residual ‘hukou’ household registration regime, but the city is a key player because of the emergence of new land markets. The legal theorist Cui Zhiyuan argues that the parallels between China and London today mirror the 19th- and early 20th-century British debates about land reform, the conditional nature of land ownership and land banking and the land tax movement.

In China Constructing Capitalism we tried to address the central concern of Cui Zhiyuan, by considering how the path dependency of market formation in contemporary China affects the emergence of new models of economy and society, and how China, for better or worse, is constructing capitalism anew. In one sense this takes seriously Deng Xiaoping’s paradoxical early appeal to create the ‘socialist market’. In a more straightforward sense it raises questions for China and the rest of the world about when and if the collective interests of city dwellers trump private interests and the trade-offs between property rights and ethical settlement.

How do we balance the view of the migrant as a new arrival with the understanding that her children are the city’s future citizens? China is experimenting with different models of municipal governance and property rights to accommodate these new flows of people. For example, the ‘Shenzhen speed’ initiative saw the city grow from fishing villages of 280,000 in the late 1970s to over 15 million today, and Chongqing is experimenting in linking migration flows to new property markets, encouraging dense urban growth and sustainable rural reform.

Cities of the global north must learn from these dilemmas. Shared concerns about immigration and growth may reflect our history of industrial capitalism but they also resonate in how we imagine the cities of our future. The debate about migration is at the heart of the future of the city because it illuminates the dilemmas and trade-offs between the interests of the population today, those who are yet to come and the city we leave behind for future generations.

WE SHOULD LOOK TO CHINA TO LEARN HOW TO MEET THE FUTURE CHALLENGES OF IMMIGRATION AND GROWTH

OPINION
CITIES OF THE FUTURE
By Professor Michael Keith

The debate about migration is at the heart of the future of the city

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About 1.4 billion people live in extreme poverty, on less than $1.25 a day. Some 925 million people go hungry every day, according to the Food and Agriculture Organization of the UN — down from 1.023 billion in 2009, but still more than the number of undernourished people in 1990 (about 815 million).

Every six seconds a child dies of hunger somewhere, according to the World Food Programme.

Almost 70 million school-age children are not in school.

About 358,000 women died from complications of pregnancy or childbirth in 2008, 99 per cent of them in developing countries.

Access to HIV treatment in low- and middle-income countries increased ten-fold over a span of just five years.

About 1.7 billion people have gained access to safe drinking water since 1990.

Source for all: www.un.org

HELPING THE WORLD
What progress is the United Nations Millennium Declaration making to reduce extreme poverty globally by 2015?

Millennium Development Goals
The eight Millennium Development Goals (MDGs) have been in place since 2000 and the global community is rallying to meet them.

The proportion of people living in extreme poverty in developing regions dropped from 46 per cent (1990) to 27 per cent (2005).

Enrolment in primary education continues to rise, reaching 89 per cent in the developing world in 2008.

Girls’ enrolment ratios increased significantly, reaching 96 and 95 girls for every 100 boys enrolled in primary and secondary school, respectively, in developing regions.

Globally, the number of children dying before they reached their fifth birthday declined from 12.4 million (1990) to 8.1 million (2009). This means that, in 2009, 12,000 fewer children died each day than in 1990.

The number of women dying due to complications during pregnancy and childbirth has decreased by 34 per cent between 1990 and 2008, from an estimated 546,000 to 358,000.

Access to HIV treatment in low- and middle-income countries increased ten-fold over a span of just five years.

Some 1.7 billion people have gained access to safe drinking water since 1990.

Source for all: www.un.org