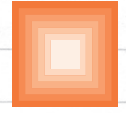


ROSTRA ECONOMICA



sefa

Issue 300
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respond?
rostra@sefa.nl

60 years
300
issues



UNIVERSITY OF AMSTERDAM
Faculty of Economics and Business





text
Dovile Venskutonyte
editor-in-chief

Dovile Venskutonyte
is a Bachelor student
in Economics.

image
Kristina
Alexanderson

A LIVING HERITAGE

I am in one of those weird moments of amazement, because I realize that this magazine of ours is older than the vast majority of people I know or even the last period of independence of my country. As you can see, we have incorporated previous Rostra Economicas in this issues cover. While downloading all of them I flipped through some issues and even though my understanding of the Dutch language is very far from good I could still understand what some articles were about. It is quite extraordinary to look at all of those stories written by the youth of their time in a period of 60 years. This magazine has seen crises and booms, the rise and fall of neoliberalism and the invention of the internet; the birth of the European Union and the death of the Soviet Union and so many more events, people and ideas, which have shaped the world we live in today. Thus we thought it would be appropriate to dedicate this issue to nostalgia. We want to remember the things that happened in Rostras' lifetime and see how they relate and effect the present.

I often wonder if it is possible for us to learn from the mistakes, naivety and misunderstandings of past generations. It seems as if we are running into the same problems, but wrapped in different paper. We've had market bubbles since the tulip crash; reasonless wars, since the dawn of civilization; countless unrecognized, yet, in retrospect, obvious threats and many missed opportunities

to grow kindness, knowledge and solidarity. We recognize those mistakes, but only when they come in the exact same coat. Why is it so difficult to realize that there is no market that will grow forever or that no war is ever truly won? New technologies and developments bring us new challenges, yet I believe that, if we reduce our problems to their core we shall find that they have always been there in a slightly different shape or form. But that's just my opinion. They say that the only constant in life is change. Perhaps, but as a future economist, I think we should look back in time to find patterns of change and push ourselves closer to equilibrium.

Alas the end is near... not Rostras', of course, but mine as editor-in-chief as well as the magazines in this particular form. Yes, during the summer a new online version of Rostra is being developed and you should see it in the fall. I will not hide that I am skeptical of the disappearance of a printed faculty magazine as I am of print media in general, but this change gives opportunity for improvement, which I'm sure will be fully exploited. It has been a very revealing experience contributing to Rostra in this capacity and I have learnt a great deal. I hope that you've enjoyed the five issues of this academic year and found them stimulating. It has been a pleasure to write for Rostra this year and I hope to have the pleasure of reading it for many many more years to come. ■



Não vai ter copa!



Interview with **lichi Mishima**
from the Japanese Giant

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Does economics need
a **paradigm shift?**



Black swans and turkeys



Remembering Communism:
the case of Romania



Return of the **Austrian** Perspective

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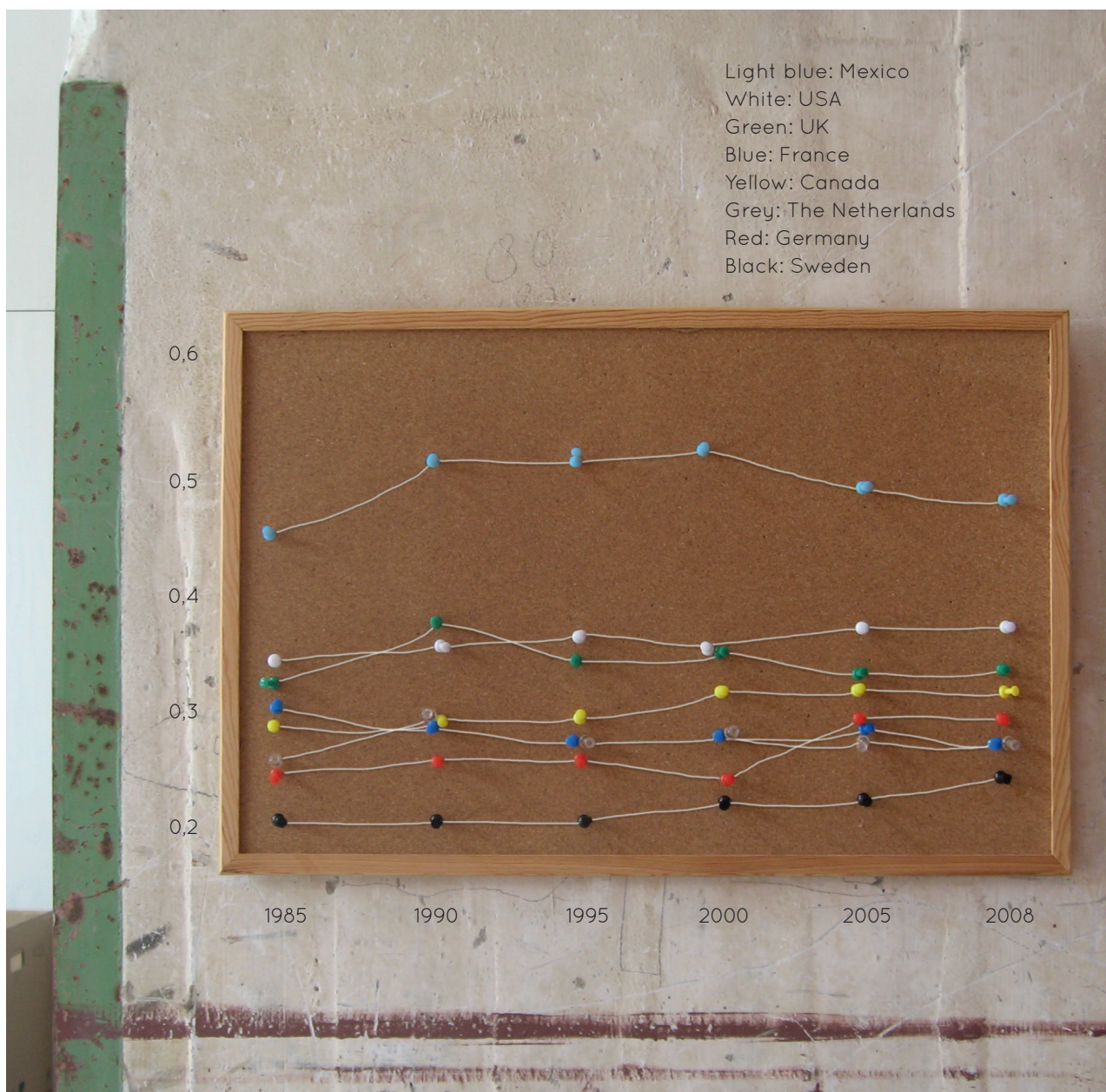
THE ROSTRA CHART



Source
OECD

image
def.

In recent years there has been more and more discussion about income inequality. It seems as if the rich are getting richer and the poor are getting poorer. But is this true? Yes and No. Here are a few countries and their GINI indexes. The higher the number the more inequality.



Arthur Schram HAPPY BIRTHDAY



Arthur Jan Hendrikus Christoffel Schram is a professor of experimental economics at the Amsterdam School of Economics as well as the director of CREED. He launched his career by graduating cum laude with a Masters in Econometrics from the University of Tilburg and later achieving a Ph.D. degree (cum laude) at the University of Amsterdam.

It is remarkable that this magazine is already 60 years old and has reached 300 issues. This means that Rostra is (even) older than I am and that I have been reading it for more than half of my life. I congratulate everyone involved and wish you many more successful years.

The topic of nostalgia is well chosen. It is easy to become more nostalgic with age. When you're young, you think everything is great and can only get better. You get annoyed by old farts telling you how everything used to be better. But as you get older, your stock grows of good memories of things that used to be and you wonder why they no longer occur. You think more and more that everything used to be better.

But, how accurate is this? Are we selective in what we choose to remember? To find out, I will use this column to first list all of the things at the FEB that I remember being better in the past. Then, I will analyze how accurate my memory actually is. This gives my top 5 walks down memory lane. I first started working at the FEB (then called FEE) in 1984. These memories are therefore based on 30 years of experience :-|.

So, I remember the old days, when:

- *Students were engaged in society* and wanted the study of economics to help them contribute to their cause. They supported Marx, Lenin, Mao,

Thatcher, Reagan, Keynes, Hayek or some other god. They cared. Nowadays, students are passive and care only about the next exam.

WHEN YOUR'E YOUNG, YOU GET ANNOYED BY OLD FARTS TELLING YOU HOW EVERYTHING USED TO BE BETTER

- For researchers, there was *no publication pressure*. You were not asked to score publication points to earn research time. This allowed you to carefully think about research and the deeper meaning(s) of what you were doing. Nowadays, it's like working in a factory, needing to publish one paper after the other in a minimum of time.
- *The dean was one of us*. Every five years or so, one of the professors was appointed to be dean. (S)he knew everyone and was acquainted with the department's history. Nowadays, a stranger walks in every five years (sometimes less) and changes everything because (s)he feels (s)he needs to leave a mark.
- *Promotion was based on seniority*. Staying with the department over time was rewarded with promotion. To become an associate professor, you

needed to stay long enough. To become a professor, you needed to wait for the chair holder to leave or die. Nowadays, anyone can be promoted.

- *The UvA bureaucrats supported the faculty*. If you felt that you needed something to do your work better, they did what they could to help you. Nowadays, bureaucrats think that they know what's best. They read something about how it's done in business and copy that to the UvA, without caring whether it supports teaching or research.

But when I really think about it:

- Students were engaged in *anything but studying*. Quite a few took more than 10 years to finish. Nowadays, students care about the field of study and finish much quicker.
- There was no check on what people did in their research time. *Very few researchers published*. Nowadays, excellent research is done.
- The dean mainly supported her/his own group. (S)he minimized effort spent on management. *The FEB was poorly managed*. Nowadays, deans have a plan. You may disagree, but at least they manage.
- Good people left because their career did not progress. We had various *professors without a PhD*. Nowadays, promotion is based much more on merit.
- Hmm... this one actually *did use to be much better*. ■

Frankfurt – one of the largest financial centers in the world and one, if not the, most important city in the European economy. 16 years ago the European Central Bank was established here. This institution has one single mandate: to control inflation. However, it has enormous influence on each country in the euro area as well as outside of it. Currently it's struggling to get inflation up and simultaneously is about to get more power with the European Banking Union. What will happen to further EU financial integration remains one of the most important questions today.



Fun Fact: the first president of the ECB, Wim Duisenberg, was once an editor at Rostra Economica.

image
Wolfgang Staudt





text
Filip Svoboda

Filip Svoboda is a
second year
Economics student.

image
econstories

KEYNES VS. HAYEK

MONETARY POLICY IMPLICATIONS OF THE 2008 CRISIS

Millions of jobs lost, trillions in revenues evaporated, and communities throughout the globe in immense hardship – these are some of the consequences of the current economic crisis. It started in 2008 with the bailout of Bear Sterns and the fall of Lehman Brothers, and soon spread throughout the world, or at least many claim so. Now, some six years later, when the initial wave of Keynesianism and calls for bailouts seem to be weakening, one can notice a slight change in the debate over the crisis. The Austrian perspective is seen to be gaining more support, and the question of desirability of central banks is being reopened once more.

In the past, authors alike Bernanke praised achievements of the Federal Reserve and central banks in general. They argued that these institutions are to be recognized for their maintenance of price stability, and safeguarding of the financial system. In their view, central banks, on top of effectively implementing their monetary policy, can mitigate moral hazard problems through regulation. This, however, seems a rather

ambitious claim, given the current state of the economy.

Too big, too bad

To many it seems obvious that central banks are to be blamed for the hardships caused by the 2008 crisis. They argue that central banking in its current form increases moral hazard problems, and promotes misallocation of resources. First, moral hazard problems in banking are associated mostly with the status of ‘too big to fail’. Given the internal interconnectedness of current financial systems, it is argued that if some of the biggest banks fail, this will have negative ramifications for the whole system, and could possibly result in further bank failures, thus starting a vicious circle. Following this logic, many governments in recent years argued that bank bailouts are necessary for protection of their financial and economic systems. Knowing this, the biggest banks had incentive to increase their risk – since if their investments turned bad, governments were ready to step in, and if otherwise, they stood to make much larger profits. This need not imply that all banks followed such reasoning. However, if even a single

one had, it would have immediately gained a competitive advantage over the rest of the industry, and thus boosted its financial performance on the expense of its more responsible competitors. As a result, current standards of financial analysis would identify it as a ‘better business’, and call for increased investment. If other banks wished to stay in the business in the future, they had to follow, since the next crisis would still be too far in the future to ensure timely punishment of their risk-seeking competitor. Thus, it happened that risky and often dubious investments spread throughout the financial industry in the years preceding the current crisis.

No way out

A simplistic and often idealised response to this problem is a call for increased financial regulation. Even if the assumption that this regulation would be effective at the time of its implementation is granted, its effectiveness is still most likely to suffer from lag caused by the constitutional system of the host country and dynamic character of the financial industry itself. In other words, what may be a sound financial regulation

<http://econstories.tv/fight-of-the-century/>

Econstories is a media channel dedicated to exploring the world of economics with visual storytelling and entertainment.



today, need not make sense tomorrow. The only way states could ensure full control over the risk taken by the bank, would be their nationalisation. Such drastic intervention would decrease the efficiency of the financial system, as well as leave the doors opened for private misuse of the nationalised banking sector. A noteworthy example is the situation in Eastern European countries after the fall of communism. Nationalised banks were politically forced to extend loans to individuals affiliated with the government, which then turned bad the moment these individuals cashed in their investments, and left the region.

Hayek told you so

The second (and far more serious) objection to the current system is the argument by the Austrian-school economists. They argue that monetary intervention to reduce interest rates does not solve any problems of the economy. According to them, it only postpones those problems and makes them worse. Low interest rates, in Hayek's view, encourage unproductive investment – one that is most likely to turn bad the very instance interest rates return to their competitive levels.

Therefore, he argued that such policy not only magnifies the economic turmoil in the future, but also causes large losses of capital, caused by its incorrect use. His views have been neglected in past years, mainly due to the believe that the economists achieved full control of the economy – a period referred to as the great moderation. Not many, however, noticed that this period was exactly what Hayek was warning for. Low interest rates in the beginning of the 21st century caused growth of one of the largest asset bubbles in the economic history, and planted seeds of the 2008 recession.

As if it wasn't bad enough

On the other hand, Keynes noted: "But this long run is a misleading guide to current affairs. In the long run we are all dead. Economists set themselves too easy, too useless a task if in tempestuous seasons they can only tell us that when the storm is long past the ocean is flat again." His contemporary followers agree that there are many issues with the current central banking system, and that much can be improved. However, they also believe that sitting back and waiting for the good times to come

may prove to be more costly than expansionary intervention. This is supported by current research, which suggests that prolonged recessions fundamentally harms the economy and decrease its long run potential. More precisely, in period of prolonged unemployment workforce loses its working habits and skills, and thus becomes less productive, which implies a decrease in the long run potential of the economy.

In the aforementioned discussion the importance of central banking, a reform was outlined. However, it left the reader short of a clear-cut answer to the question of what to do next. It is clear that severe moral hazard problems come along with increased financial regulation. Nonetheless, it is also clear that prolonged crises leave scars on the economy and the society of a troubled nation. The ultimate choice between lower long run income with better allocation of the investment, and shorter recessions accompanied with increase in moral hazard problems, is all up to the reader. At the end of the day, he or she will vote for politicians representing these conflicting policy choices. ■





text
Maria Carolina
Campos

Maria is Masters
student in Economics.

images
Ben Tavener,
Nicolas Raymond

BRAZIL & THE WORLD CUP

Not so long ago, everything seemed to be going pretty well for Brazil: the country of football, Carnival and Latin America's biggest economy. The economy accelerated and quickly recovered from the international financial crisis, having grown by an impressive rate of 7,5% in 2010. On top of that, in 2007 the winner of the most World Cup victories was awarded with the honor of hosting the FIFA World Cup 2014 and the summer 2016 Olympic games. A wave of optimism and pride swept the country until Brazil's confidence was shaken by the massive popular protests in 2013. ►



In summer 2013, protests in Brazil made headlines around the world. What initially started in 2012 in cities like Rio de Janeiro, Porto Alegre and Natal, soon became part of a much larger movement in June and July, 2013, involving many more cities like São Paulo, Brasília and others. Increases in transport ticket prices may have triggered the demonstrations, but they quickly became a means of expression for the Brazilian people to show their discontent with issues such as: the lack of infrastructure; high inflation and costs of living; insufficiencies in public services (like education and health); corruption and inequality. It was not a coincidence that Brazil was hosting the Confederations Cup at the time. People's frustration and disappointment was aggravated by the massive public investments in one of the most important sporting events: FIFA World Cup. In a country confronted with serious social and political problems, where taxes represent 36% of GDP, the billions of reais spent in all the preparations for the Cup seemed like the wrong priority.

The protests shocked the world with its violence, police repressions and size. According to 'The Guardian', the summer protests were reported in at least 80 cities, with a total turnout that may have reached 2 million people.

PELÉ:

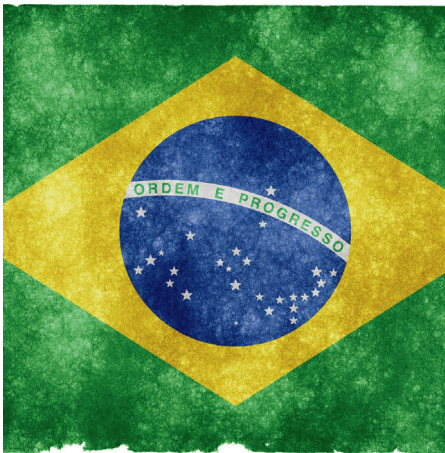
THE MORE DIFFICULT THE
VICTORY, THE GREATER
THE HAPPINESS IN WINNING

Nothing had achieved these proportions and intensity since 1985, the end of Brazil's dictatorship. The demonstrations have continued and threaten to disturb the Cup. The event has brought structural problems to the surface and its preparations have also come at a cost.

The preparations

World Cup large construction projects have been associated with violations of basic human rights. These have been particularly evident in slums (favelas), where forced evictions have increased the vulnerability of thousands of people in the cities hosting the event. Some families have been relocated to completely distant locations away from their social network, whereas others have not been given proper compensation or consulted in any way. There have been cases of violence, threats and illegal break-ins. Online videos of people resisting and fighting for their right to housing in different favelas and communities have revealed the severities of a process that is affecting an estimated 170000 people.

Evictions are not the only thing frustrating favelas residents. Another criticism has targeted the pacifying police units and their role in favelas. Not only have they been criticized for their violence, but they also do not



solve the deep-rooted problems of poverty and fragile living conditions of these areas. Discontentment has also risen among workers in construction sites: there have been strikes in stadiums and demands for wage increases and better working conditions. It is no wonder that Brazilian authorities are being accused of investing public money in a project that is contributing to exacerbate inequalities.

Delays in constructions have also defined Brazil's preparation process. According to Joseph Blatter, president of FIFA, 'No country has been so far behind in its preparations since I have been at FIFA even though it is the only host nation which has had so much time - seven years - in which to prepare.' This is affecting not only the stadiums, but also communication infrastructure and airports. In addition, since many projects are costing much more than expected, there are suspicions of corruption and close ties between politicians and firms.

Preparations are putting people under strain, but what benefits can they expect from the event that promised to show Brazil's rising economic power?

Benefits for the economy

Brazil is known for its specialization in agricultural products, manufacturing, mining and services. It is one of the BRICS and has been growing in the last decades, while lifting millions out of poverty. As the economy has lost its previous vitality in the last couple of years with bleak growth rates, the World Cup investments had promised countless benefits. They brought the infrastructure reform the country needed. Stadiums, highways, roads, metro lines, airports and public transport are all part of this reform. The Cup will also come with tourism, foreign investment and development of several sectors.

The exact number of billions spent on the Cup is not known and varies with sources. The multiplier effects are

BRAZIL'S PROFILE

Population: 198,7 million (2012)

Capital: Brasília

Largest city: São Paulo

President: Dilma Rousseff

GDP real growth rate: -0,3% (2009), 7,5% (2010), 2,7% (2011), 0,9% (2012)

Unemployment rate: 5,5% (2012)

Debt-to-GDP ratio: 58,8% (2013), 54,2% (2012)

Inflation, consumer prices:

4,9% (2009), 5% (2010), 6,6% (2011), 5,4% (2012), 6,2% (2013)

Poverty headcount at national poverty line (% of population): 15,9% (2012)

Income share held by lowest 10%: 0,8 (2009)

Income share held by highest 10%: 42,9% (2009)

also not clear. In fact, both the real number of reals spent and the benefits for the Brazilian economy will only be known well after the event is over. A 2011 report by Ernst & Young Brazil claims the 22,46 billion reals spent will bring 112,79 billion into the Brazilian economy. Between 2010 and 2014, the report predicts the event will generate 3,63 million jobs per year and 63,48 billion reals of income for the population. The same report also acknowledges that most of the impacts will not be 'permanent' and depend on 'stakeholders' ability to benefit from the event's opportunities and legacy'.

FIFA World Cup was held in Brazil for the first time in 1950. It was the 4th World Cup and the first after World War II. At a time where Europe was still recovering from the war, it was difficult for FIFA to find a country to host the event. The Cup was supposed to take place in 1949, but the event was postponed one year, so that European countries and national teams could reorganize themselves. Times were different and now Brazil's faces harder and stricter challenges to meet the commitments signed in 2007 by former president Lula da Silva. Will Brazilian efforts be rewarded? That is yet to be answered. ■

SOURCES
 OECD;
 Qatar Financial
 Center Authority;
 Rebanks.com
 IMF

FACTS ON FINANCE

TOP 10 LARGEST FINANCIAL CENTERS IN THE WORLD

GFCI 14 Index



*In March this year New York has surpassed London as #1 financial center

EU COUNTRIES WITH LARGEST BANKING ASSETS + PERCENTAGE CHANGE FROM 2006

2013 data in € billion

Rank	Country	Assets (€ billion)	% Change from 2006
1.	United Kingdom	9,266	-7%
2.	France	8,073	12%
3.	Germany	7,827	-1%
4.	Italy	4,161	14%
5.	Spain	3,393	0%
6.	Netherlands	2,397	7%

TOP 10 LARGEST USA BAILOUTS DURING THE CRISIS

1. Fannie Mae	116,149,000,000\$
2. Freddie Mac	71,336,000,000\$
3. AIG	67,835,000,000\$
4. General Motors	50,744,648,329\$
5. Bank of America	45,000,000,000\$
6. Citigroup	45,000,000,000\$
7. JP Morgan Chase	25,000,000,000\$
8. Wells Fargo	25,000,000,000\$
9. GMAC (now Ally Financial)	16,290,000,000\$
10. Chrysler	10,748,284,222\$



OFFICIAL RESERVE ASSETS In SDR million



FINANCIAL SECRECY INDEX 2013



LARGEST BANKS IN THE WORLD BY MARKET CAPITALIZATION

1. Wells Fargo	\$261.72B
2. JP Morgan Chase & Co.	\$229.90B
3. ICBC	\$196.21B
4. HSBC Holdings	\$191.43B
5. Bank of America	\$181.77B

LARGEST BANKS IN THE EUROPE BY MARKET CAPITALIZATION

1. HSBC Holdings	\$191.43B
2. Banco Santander	\$110.57B
3. Allied Irish Banks plc.	\$104.81B
4. BNP Paribas	\$96.03B
5. Lloyds Banking Group	\$90.92B

text
Sophie Yang

Sophie Yang is a
Bachelors student in
Business studies.

image
Doug

DOING BUSINESS THE JAPANESE WAY

AN INTERVIEW WITH IICHI MISHIMA, MANAGING
DIRECTOR OF MITSUBISHI CORPORATION

Tokyo's successful bid for the 2020 Olympic Games as well as Prime Minister Shinzo Abe's economic plan "Abenomics" to revive the Japanese economy have once again put spotlights on Japan – a country with formidable industrial organisation, technological mastery and financial depth. We asked Mr. Mishima, Managing Director of Mitsubishi Nederland B.V., one of the global offices of Mitsubishi Corporation, about the Japanese businesses and their operations abroad.

What are some of the strengths of Japanese businesses in a global setting?

In general, the strength of Japanese businesses lies in their ability to pay attention to the very details of their products, services and operations. That is why the Japanese products are known for their high quality and performance standards. The strengths of Japanese businesses also come from the Japanese culture itself. In Japan, people value teamwork and they are highly efficient because people are generally good at time management with much less delays in projects. Japan is also a country with a homogenous culture. The Japanese share similar values and most of them come from similar economical backgrounds. They also share similar high level of educational backgrounds. These makes communication within a team much easier and allows even the largest businesses to function in a very well-structured way. Since these advantages come from the Japanese culture itself, I think it is difficult for other businesses from foreign countries to imitate the Japanese models and that is why there are no similar company like us, Sogo-Sho-Sha, in the world.



IICHI MISHIMA

Managing Director of Mitsubishi Nederland B.V. (100% subsidiary of MC) since 2011.

Having been working for MC for 30 years, Mr. Mishima has also worked for MC's other global offices including the Philippines, Malaysia and Germany.

What are some of the weaknesses of Japanese businesses when they operate abroad?

One of the weak points of Japanese businesses, in general, is their linguistic skills. The ordinary Japanese have difficulties expressing themselves in English or other foreign language which sometimes makes business communication very difficult. I mentioned earlier that the Japanese share a homogenous culture, this can also become a disadvantage when it comes to operating abroad since they are slow in adapting to foreign culture. They tend to be less flexible and hesitant in accepting new ideas or new ways of doing things. This prevents them from actively expanding their businesses to markets outside Japan.

In addition, many Japanese companies, especially medium and small scale, lack a structured system to explain to their foreign employees about their corporate standards and share their corporate philosophies. They fail to construct an environment where the Japanese employees can work smoothly with other foreign employees.

Mitsubishi Corporation operates in more than 90 countries, how do you structure your business both in Japan and abroad?

We don't have problems in terms of communication between the headquarter and foreign offices within MC since we have long time history experience in doing business outside Japan and basically everyone who joins MC are already with excellent English skills. In fact, almost 25% of the new hires in the headquarter in Tokyo are those who studied abroad and/or grew up in a foreign country. In MC, if one person in the team does not speak Japanese, the meetings will be held in English naturally. Japanese is not required when working for a global office of MC. On the other hand though, most of the information sent from Tokyo is still in Japanese. Of course, they also send information to the offices in English but those are far less compared to the information in Japanese. This tends to create an information barrier between the employees who speak Japanese and those who do not. ►



MITSUBISHI CORPORATION

Founded in 1870, Mitsubishi Corporation (MC) is the largest general trading and investment company based in Japan. General trading and investment company or "Sogo Sho-Sha" in Japanese, is a type of business unique to Japan. MC develops and operates businesses across virtually every industry including environmental and infrastructure business, industrial finance, energy, metals and minerals, machinery, chemicals, foods and more. With its global headquarter in Tokyo, MC has over 200 offices around the globe, operating in more than 90 countries with a multinational workforce of over 60,000 people.

What is MC's experience in operating in the Netherlands so far? Have you encountered any problems when operating in the Netherlands or in Europe in general?

Mitsubishi Nederland B.V.'s focus is not on trading between Japan and the Netherlands. We mainly conduct business investments and operations within Europe. Currently, we are involved in the development, investment and operations of wind farms in the Netherlands together with our partner ENECO. Of course, we sometimes face problems such as the local residents opposing the construction plans but these are certainly not problems specific to the Netherlands or Europe.

Our experience in operating in the Netherlands so far has been great. As a country that depends heavily on trading

and foreign direct investment, the Netherlands is very friendly to us foreign businesses, especially to Japan since we are the second largest investor to the Netherlands. They are very generous in giving foreign investors various forms of tax benefits and they also made the visa application process very simple for qualified persons. For example, in Japan, the corporate tax rate is around 35%, in the Netherlands, however, it's only 25%.

Compared to other countries in the European Union, I would say that the Netherlands is one of the countries that are most friendly to foreign businesses.

Have you experienced any culture shock when working in the Netherlands or in other E.U. countries?

Before coming to the Netherlands, I have worked and lived

COMPARED TO OTHER COUNTRIES
IN THE EUROPEAN UNION, I WOULD
SAY THAT THE NETHERLANDS IS ONE
OF THE COUNTRIES THAT ARE MOST
FRIENDLY TO FOREIGN BUSINESSES



in Australia, the Philippines, Malaysia, the United States and Germany, so I am probably more tolerant to cultural differences than most Japanese.

In terms of the Netherlands, I was surprised at first that the Dutch employees would take time off from work no matter how busy it was at the office. In Japan, no one would go on holidays for 2-3 weeks without handing over the tasks properly to his/her co-workers beforehand. In Japan, everyone in the office will share most of the work information just in case someone is unable to come to the office.

In Europe, people value work-life balance more than the Japanese do. It is normal for the employees here to finish their work at 5pm and go pick up their kids, but working over time is common practice in Japan.

Do you think the Japanese are working too much?

Well (laugh), we absolutely have to. In Japan—a country so small and without any natural resources, working hard is the only option left for us in order to stay competitive in the global market.

As the Managing Director of Mitsubishi Nederland B.V., what is your next goal?

I want to start new kinds of projects that were never done by MC before. Right now, we are looking to start various projects that can bring the innovative Dutch “agro technology” to other parts of the world, such as Africa and/or other emerging countries. We hope to use the Dutch agricultural technology to help grow healthy and safe food that is produced with respect to nature and the environment. I have been studying a lot about the industry and technology. By collaborating with Dutch and/or other company in Europe, we hope to launch the projects in near future.

Can you give some advice to the current FEB students?

I think it is very important to gain all kinds of experiences when you are young. When I was younger, I volunteered a chance to work in developing countries including South East Asia and I also met all kinds of people who really broadened my horizon. At work, I always tried to do my best at whatever tasks that were given to me and I tried to learn the essence from them. I believe all those efforts and experiences made me who I am today.

The young people tend to daydream a lot, they think they don't belong to wherever they are now and dream that one day they can get out of there. The truth is, you will never succeed without living your life today at where you are standing now. You don't have to go look for golden opportunities, they will come to you if you had worked hard enough. ■

SEFA FRONT



sefa



1. Career month junior
 2. KPMG main sponsor dinner
 3. Room for discussion with Gerrit Zalm
- Main picture:** Sefa study trip



MESSAGE FROM MEREL

Dear reader,
 On behalf of the 92nd Sefa Board, I want to congratulate Rostra Economica with its 300th edition. As most of you will know, the last few months have been turbulent for the Rostra, since the decision has been made to fully digitalize the Rostra Economica. Over the course of this summer, new plans will be developed on the future of the Rostra Economica. Without doubt, new methods of distribution will make sure that Rostra will maintain to be the oldest faculty magazine of the Netherlands for another 60 years!

Furthermore, our board year is coming to an end. I can truly say that this year has been an experience like no other, and I want to thank everyone that made this year such a big success. My special thanks goes to my fellow board members, who again made Sefa a little bit better than it was. Without doubt, the new board will also contribute to this process. We as a board wish them all the best in achieving this!



Kind regards,
Merel van Geel
 Chairman Sefa board
 2013-2014





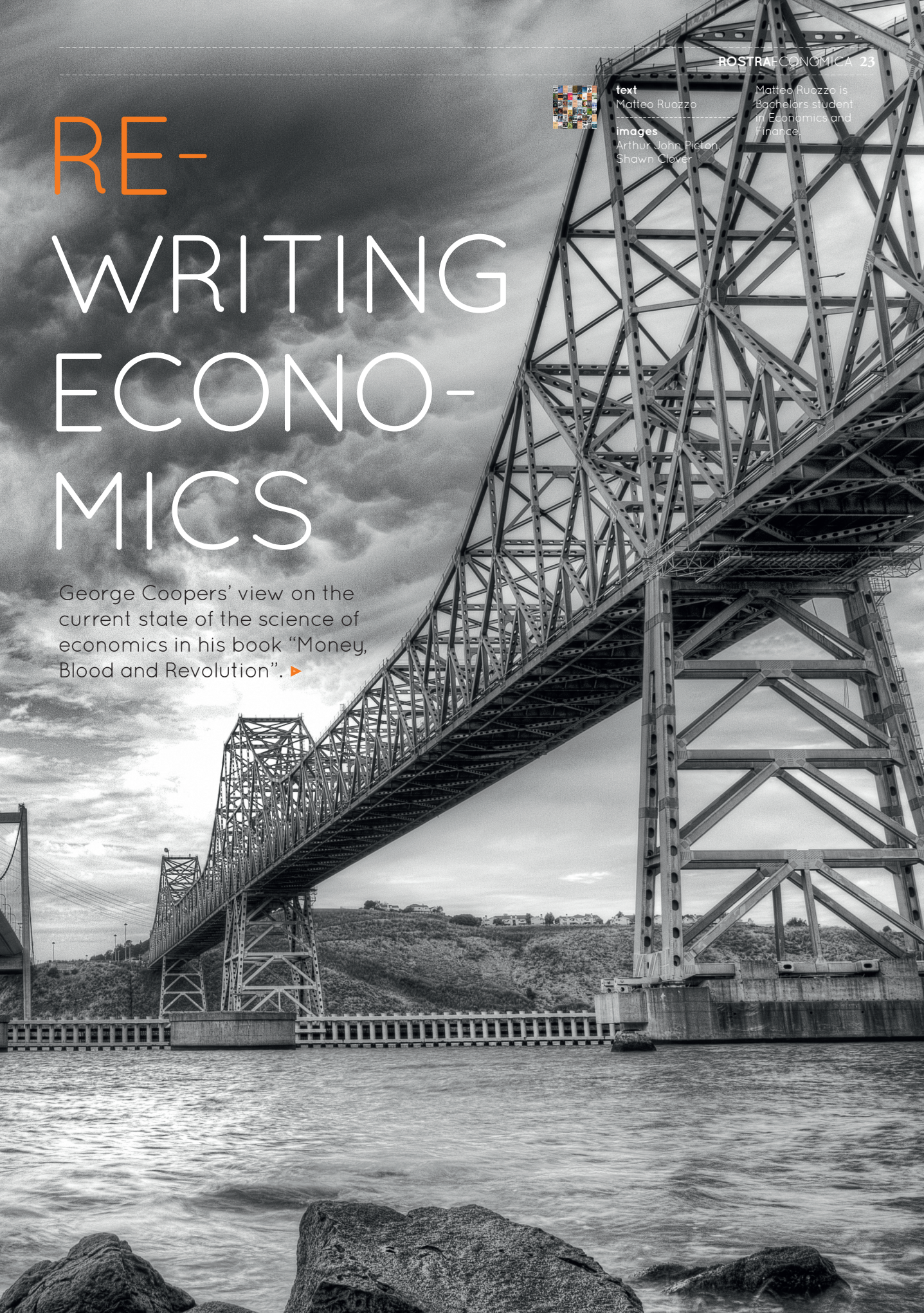
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RE- WRITING ECONO- MICS

George Coopers' view on the current state of the science of economics in his book "Money, Blood and Revolution". ▶



GEORGE E. P. BOX:

REMEMBER THAT ALL MODELS ARE WRONG; THE PRACTICAL QUESTION IS HOW WRONG DO THEY HAVE TO BE TO NOT BE USEFUL

About fifty years ago, historian and philosopher of science Thomas Kuhn published his most influential book *The Structure of Scientific Revolution*. With this publication, Kuhn opened the world's eyes to a new, innovative way of looking at science and the way it develops over time. He argued that scientific knowledge does not improve by means of a steady, linear process but rather through a set of well-defined stages, all of which are incompatible with each other. To each of these stages belongs a different "paradigm". In Kuhn's view, paradigms constitute a widely accepted set of theories affecting the way scientists operate and come to solutions within a certain field. Just like a pair of tinted glasses, they provide scientist with a peculiar and unique way to look at the world, which will never be equal to that of someone wearing a different pair of glasses. Thus, for example, when Copernicus first questioned the idea that Earth lies at the center of the solar system, a real Scientific Revolution began. This revolution eventually lead to that highly dreaded paradigm shift known as heliocentrism.

A science in crisis

In the light of recent events, some argue that economics may well be the next candidate for a paradigm shift. Could failure to come up with an effective, well-defined recipe against the financial

crisis be a symptom that economics is itself nothing less than a science in a crisis? In his latest book *Money, Blood and Revolution* George Cooper tries to find the answer, highlighting how the existence of many scattered, conflicting views has thrown economics in a state of chaos. While mainstream economics is still based upon the Neoclassical school, conventional economic policy is fuelled by the idea that the economy is well manageable through monetary channels, making Monetarism "overwhelmingly dominant". Meanwhile, in the light of questionable outcomes reached by austerity-policies, an enthusiasm for Keynesian stimulus seems to be picking up once again.

Unrealistic foundations

Only within one chapter of Coopers' book, nine leading schools of economic thought are cited and explained, signaling the fact that "all is not well in the field of economics". To make things worse, many of their core ideas rely on features that do not fully belong to the real world. One example is given by the Neoclassical school, perhaps the one that most needs to be put under scrutiny, given its prime role in the academic world. Feeding on Adam Smith's ideas, this school is built on the foundations provided by three basic assumptions:

1. People have rational preferences.
2. Individuals maximize utility and profit.

3. People act independently on the basis of full and relevant information.

These axioms may be otherwise summarized as individualism, maximisation and equilibrium, the last one being the consequence of the first two. Yet, it wouldn't be too much of a gamble to state that reality appears to be working differently. What needs to be challenged is not only the idea of equilibrium. The Austrians already did so with their Business Cycle Theory, postulating an economy that oscillates around its equilibrium state without ever reaching it. This time Cooper goes one step further by challenging the very idea of maximisation. Individuals, he argues, do not act as rational optimisers but rather as competitors. They do not seek to reach the best outcome in absolute terms, but rather try to outperform their peers and closest competitors, leading to what may be best defined as a "Darwinian





economy”. This is why, for instance, we would greet a raise in salary with great enthusiasm, but only until we find out that our new salary is still lower than our colleague’s, who does exactly the same job. Within this framework, the axiom of individualism falls, given that competition is a collective phenomenon.

Bloody money

If economics is entering a state of crisis, its constituting paradigm ought to be redefined. This leads to Coopers’ final insight, an attempt to re-write economics inspired by William Harveys’ work on the circulation of blood. Although it might seem, to say the least, a little unrelated at first, Cooper compares the flow of money within the economy to the human body’s circulatory system. Money flowing from the bottom to the top of the social pyramid is compared to freshly-oxygenated blood leaving

the lungs to reach all other organs. This upward push is made possible by capitalism. At the same time, progressive taxation, made possible by the existence of democracy, acts to push wealth back down. This partnership between capitalism and democracy is responsible for modern economic growth. Given quantitative easing (QE) measures influence asset-holders that are often located at the top of the pyramid, they are not nearly as effective as putting money at the bottom, to trigger spending and provide growth. It appears obvious, in the light of this theory, that fiscal (Keynesian) stimulus becomes the strategy of choice.

Stop thinking we’re thinking

Similar ideas can be found, in a less romanticized fashion, in a 2009 article by distinguished economist Paul Krugman, published under the title *How did Economists get it so wrong?*

“When it comes to the all-too-human problem of recessions and depressions”, Krugman argues, “economists need to abandon the neat but wrong solution of assuming that everyone is rational and markets work perfectly”, suggesting that the mathematical beauty of fully rational markets should not be mistaken for reality. Just like Cooper, after a rather detailed appraisal of the current status of economics, Krugman reaches the final conclusion “that Keynesian economics remains the best framework we have for making sense of recessions and depressions”.

Whether existing academics will listen to these new ideas is doubtful, and re-writing economics is a quest that calls for more than a 200-page book. After all, Keynesian stimulus is not exactly a novelty. Yet, if time is ripe for a paradigm shift, a new way of looking at the too often irrational human behavior may well be a starting point. ■



**text**

Yoeri Min

image

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Yoeri Min (23) is a soon to be Masters student in Business Administration.

THE CERTAINTY OF BLACK SWANS

A black swan is an event with three properties. First of all, a black swan is a rare event, based on past knowledge, and one that is impossible to predict. However, although its probability is low, when the event occurs, it has an enormous impact. Last, the event is easily explained afterwards. People didn't see it coming before the fact, but after the fact, everybody saw it coming.

To illustrate a black swan event, imagine you are a turkey. You are being fed and watered every day. Because you are fed, your happiness level will rise every day. Every time you eat, you feel better than the day before. Judging from past events, you consider yourself lucky and will continue to do so until the end of time. However, one day, your head gets chopped off: 'Thanksgiving'. The slaughtering of the turkey is a black swan event. It is rare, as it could only happen to the turkey once. It obviously has an enormous impact, for the life of the turkey is now over. On top of that (assuming the turkey lives at least to the point where it figures it out), it becomes obvious that it was being raised for slaughter; the protection and vaccinations were to keep it healthy, the excess food was to fatten it up.

Psychology prevents people from recognizing a black swan event. The turkey's belief that every day would be fantastic is reinforced by the fact that every day was fantastic. Besides, the accumulation of supporting information doesn't just reassure the turkey, but also actively destroys the ability to think about things the turkey doesn't know, even as worst case scenarios. The example also illustrates the importance of context and point of view. The sequence of events described above is a black swan for the turkey, but not for the butcher, ►



as he already knows what is going to happen the day before thanksgiving.

The concept of rare, unpredictable, high-impact events was well-known, but naming them as black swans was popularized by Nassim Nicholas Taleb in his book 'The Black Swan, The Impact of the Highly Improbable' in 2007.

BUSINESSES SHOULD BE READY TO COPE WITH BLACK SWANS AND TAKE ADVANTAGES OF POSITIVE ONES

Black swan theory versus black swan problem

The black swan theory of Nassim Nicholas Taleb should not be mistaken with the black swan problem, which demonstrates the falsifiability of an observation, statement, hypothesis, theory, or argument. It is questionable whether one could compose a general theory from a limited amount of observations. For example, a scientist notices that all swans people have seen up until this moment in time have been white. Every time people saw a swan, their hypothesis 'all swans are white' was confirmed. It is impossible to see all swans in the world, or at least you can never be sure whether you've seen all swans in the world. Therefore, it is impossible to prove the theory 'all swans are white'. This problem is solved by falsifiability. A statement is called falsifiable if it is possible to conceive an observation or an argument that proves the statement in question to be false. In short: all swans are white, until a black swan is witnessed; so a theory is proven until proven otherwise. Although Nassim Nicholas Taleb describes the discovery of black swans by Europeans in Australia in his book, it



The impact was devastating for Ericsson, which took a

\$2,34 billion
loss in its mobile phone division.

is not a black swan event, seeing as the discovery hardly had any impact. During an interview for the McKinsey Quarterly, he explained that he used the example to encourage people to 'think of the unknown and of the potency of the unknown, particularly a certain class of events that you can't imagine but that can cost you a lot'.

The impact of black swans on businesses

History shows that the impact of black swan events is bigger than all planning and predictions of companies and institutes can foresee. What does this mean for companies and their (strategic) planning methods?

To some disagree, one of the most well-known black swans is 9/11. If the terrorist attack on the world trade center in New York had been a conceivable risk on 10 September 2001, it would likely not have happened. Either way, the consequences of 9/11 were immense. In the short run, the United States of America activated SCATANA: Security control of Air Traffic and Air Navigation Aids. SCATANA is a procedure that allows to take control of the airspace in order to ground all the air traffic. It is a procedure that was designed to counter the Soviet Union and their long-range bombers. As a consequence, thousands of people were stranded, air cargo could not be delivered, and businesses were limited in their transport options. In the long run, security procedures and costs on airports and aircraft increased, which obviously had a big impact on the operation of airports, airlines, and aircraft manufacturers. To illustrate: since September 11, 2001, the United States of America alone has spent upward of \$740 billion on security.

In 2011, Japan was hit by a magnitude 9.0 earthquake and tsunami that caused a nuclear disaster, persistent power outages, and a host of other major societal and economic challenges. Disasters such as the one in Japan

Since September 11, 2011, the United States of America alone has spent upward of

\$740 billion

on security.



do not only affect local companies, but can cause multiple supply chain disruptions. For example, Philips was a major supplier of semiconductors to Nokia and Ericsson in 2000, when a fire at a chip plant in Albuquerque destroyed chips for millions of cell phones. Nokia immediately set up a troubleshooting team to assess the impact and find alternatives. Nokia was able to make all customer shipments in time. In contrast, Ericsson took several weeks to respond to the situation, and by that time most of the market capacity had already been allocated to Nokia. The impact was devastating for Ericsson, which took a \$2,34 billion loss in its mobile phone division. The example shows that being dependent on one supplier makes you vulnerable for black swans. This might have consequences to the outsource policy of a company.

In any case, with the rise of global business, it is likely that black swans carry increased risks for any company, including negative impacts on customers, suppliers, partners, assets, operations, employees, and shareholders. Today, not only can a catastrophe in one part of the world affect the sourcing, manufacturing, shipping, and sales of products locally — the interconnections of global financial, economic, and political networks ensure that the effects of such events ripple around the world, too. Typically, large companies rely on their enterprise risk management (ERM) department to identify potential business disruptions, map out their most likely effects, and develop mitigation plans and preventive actions to reduce the risk exposures. ERM has become an indispensable member of the global functional teams in most large companies. However, most ERM departments focus on high frequency risks instead of black swans. Besides, high-magnitude, low-frequency events can stem from sources too numerous and too varied for the ERM team to identify in full. In short, ERM does not have the capacity to monitor high-magnitude, low-frequency

disruptors on a regular basis. How then can companies cope with black swans?

AVOID BEING A TURKEY BY IDENTIFYING AREAS OF VULNERABILITY IN ORDER TO TURN BLACK SWANS WHITE

How to cope with black swans

First of all, one should not attempt to predict black swan events. A certain black swan will never happen twice. Businesses will take precautions to cope with the problem in the future. If the event were to happen again, it would be just as rare and unpredictable, but the impact would be limited. Second, a black swan event for one company might not be a black swan surprise for the other. One should ensure that the organization is flexible and/or robust enough to adequately respond to unexpected events with a big impact. Therefore, once black swan events emerge, businesses need to be very clear about the expected impact on their particular business, and they need to have a robust plan as to how best to mitigate against any negative implications. Last, not all black swan events are negative, e.g. the invention of the Internet or the Harry Potter phenomenon. Businesses should be ready to cope with negative black swans and take advantage of positive ones. Because of the enormous impact and possible distortion of the market, new opportunities arise that businesses could use to their advantage. In his *The Ten Principles for a Black-Swan-Robust Society*, Nassim Nicholas Taleb describes precisely how to cope with black swans. To look back on the turkey example, one should try to avoid being the turkey by identifying areas of vulnerability, so that black swans can turn white. ■



text
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COMMUNIST NOSTALGIA AND THE ILLUSION OF A BRIGHTER PAST

Romania's decisive move from communism to democracy and capitalism began with a violent regime overthrow and the barbaric execution of the former dictator, Nicolae Ceaușescu, and his wife, by firing squad, on Christmas day 1989. The joy of successful revolution slowly enveloped a country prepared to take on the challenge of building a new society from the ruined communist edifice. Slowly, disillusionment grew to replace hope and despite rising living standards, dissatisfaction is rife, leading some to reconsider their views on communism. Before tackling the present and the nature of changes, it is



worthwhile to take a step back and observe the historical developments.

History Unfolding

After the Second World War, Romania fell under the cloak of Soviet Union influence and the Communist Party rose to prominence – in the absence of other contenders – and, eventually, to total dominance. The initial feelings towards socialism were negative: property nationalisation and the establishment of cooperatives as the pillar of rural development were bitterly received. The manifestation



of such dissenting attitudes was harshly punished, but by 1965, the system seemed to be settling down and gradually becoming humane. The glory years came to an end in 1972 after Ceaușescu's visit to China and North Korea and the megalomaniac drive they instilled in him. By the end of the 1970s, the system was losing steam and needing an increasing amount of foreign finance to ensure subsistence. 1981 marked a radical turning point in policy: the repayment of foreign debt became the primary goal and the already weak production and distribution system was stretched, as exports superseded the internal market in

importance. The associated penury was a dreadful consequence, whose only current homologue is the North Korean communist reality.

Growing pressures imploded in December 1989, and by the beginning of the last decade of the century a new, clean slate was supposedly ripe for erecting a new Western-style economic and political construct, replacing the communist vestiges. The transition was effected through a 'big-bang', rather than gradual reform. Inertia, however, impeded such swift developments and the end result was a hybrid ►

SLAVOJ ZIZEK:

AND I STILL CONSIDER
MYSELF, I'M SORRY TO TELL
YOU, A MARXIST AND A
COMMUNIST, BUT I COULDN'T
HELP NOTICING HOW ALL
THE BEST MARXIST ANALYSES
ARE ALWAYS ANALYSES OF
A FAILURE

system, in an almost perpetual crisis by the turn of the millennium. Stabilisation seemed to occur after 2000, with membership in NATO and the European Union being achieved. The global financial crisis only amplified internal contradictions stemming from the new quest to find prosperity, and a period of austerity was imposed upon the population. Romania is only now coming out of the recession, but instead of an optimistic view, some are espousing concerns about growing inequality and continual political instability: everyone yearns for certainty and prosperity, but only some seem to achieve it and the others long for better days. The question remains, is nostalgia warranted? Several inextricably linked aspects need to be considered: economic development, consumer choice, attitude towards labour and political climate.

The Fallacy of Planning and Consumer Choice

The defining element of socialist policy is planning. As private property is limited and entrepreneurial activities are suppressed (thereby removing potentially the most important long-term individual incentives), the socialist state dominates the economic arena and its five-year plans become law. Heavy and light industry, foreign trade and domestic retail are all controlled by strategic system planners. Notwithstanding their respectable prowess – word has it President Charles De Gaulle asked for Romanian specialists to aid French planning –, the dictatorship of planning is accompanied by the assumption that individual preferences are predictable and fairly stable. Indeed, preferences eventually come to respect the norm, but in a forced, non-natural way. This is a clear infringement upon individual liberties, as it constrains behaviour to regular patterns, inconsistent with freedom, generally: the system becomes self-enforcing and gradually slides into mindless totalitarianism.

A by-effect of planning is the tyranny of numbers: the country prides itself on objectively measured achievement.

Statistics gain a propagandistic focus. This metric obsession leads to production beyond the plan: the system, however, is designed within specific guidelines, and exceeding them is just as bad as performing under-par. The shift in the intertemporal allocation of resources diminishes future potential by creating current costs (expanding storage facilities, delaying distribution and depleting inputs) in the absence of market demand. As standards are pushed higher, production ultimately fails to attain its quota, so statistics are inflated to give the appearance of normality. This combination of diminishing available resources and overblown figures offers a glimpse into the inefficiency of socialist production.

Coupling this mechanism with excessive reliance on foreign funding, as Romania experienced throughout the 1970s, gives way to indebtedness – which must then be corrected. The fatal decision to eliminate this debt led Romanian socialism on the path towards extinction, as exports replaced the internal market and scarcity ensued: wages and employment were never the problem, but money couldn't buy anything, and interminable queues and 10-year waiting lists for acquiring cars prove the bitter direness of the situation. Frequent power shortages and savings on anything imaginable made life a difficult undertaking. The only upside was the strengthening of ties and social cohesion in the face of a perceived common enemy.

Changes, Changes Everywhere

Despite having allowed foreign debt to be effectively repaid by 1989, this scarcity involved a growing monetary supply 'chasing' an insufficient or unwanted production. With administered price ceilings, this was not a problem, but the subsequent switch to market forces and price liberalisation led to inflation in excess of 100% yearly. The 1990s were marked by volatility – for some eroding earnings, for others allowing increasing incomes. This first inequitable effect of transitions was generated by the application of (and



Abandoned Communist Party Headquarters on Mount Buzludzha, Bulgaria.

obedient submission to) a 'shock doctrine', as recommended by international financial bodies. The overnight introduction of market relations exacerbated competitiveness deficiencies. A conspiratorial approach might even suggest this was intended – the market could then be subjected to foreign firm expansion.

Certainly, preferential privatisations did occur and fabulous, if barely licit, fortunes were made. The cost, oftentimes, was the destruction of communist industrial structures: inefficient as they were, dismantled factories were sold off in small units or restructured for large profits. Another related line of reasoning contested the ability of indigenous management, and foreign ownership was brought onto the scene. One contentious example is the sale of 51% of the national oil company (Petrom) to an Austrian entity (OMV), a sale generally thought to have sealed Romania's accession to the European Union. Admittedly, by the mid-2000s, the standard of living had risen, inflation had been tamed and the economy was functioning at 'full speed'.

The downside? Growing household indebtedness, spurred by growing product and service variety; this diversity confounded Romanian buyers, who could now satisfy all their needs and wants. While mounting levels of inequality and the impulse to 'keep up with the Joneses' augmented

the perception of attainable prosperity and induced excessive spending, a continually surging housing market fuelled a lending boom. Paralleled with political instability, the bubble was poised to burst, and the landing was anything but soft: austerity in government spending and higher taxes drained the resources needed to restore growth. Now, it seems that the economy is growing, but many feel this is despite government efforts, rather than as their result. Generally, real incomes have risen since the revolution and alignment with more advanced economies has been achieved to some extent, but the hitherto bumpy transition has proved uncomfortable and not everyone has enjoyed the benefits of the destination.

Labour Rules

Under socialism, lack of incentives generally led to disengagement, so much so that by communism's final years a dictum ruled labour relations: "they pretend to pay us, we pretend to work". Slacking off became a social norm – hence, acceptable. In light of labour rigidity during socialism, supervised work was derided as a communist concept: people tended to reject it in favour of becoming 'their own boss' by starting new businesses. The suppression of entrepreneurship under communism was replaced by euphoric business creation after 1990, and the effusion of entrepreneurs undermined the meaning of labour, as cut-throat economic struggles pierced through any social ►



By 2011, while per capita real income had almost doubled since 1989, Romania's market inequality (measured in pre-tax and transfer Gini coefficients) had exploded from 0.18 to 0.39.

THE PRICE WE PAY FOR FREEDOM AND PROGRESS IS RISK, BUT IT WILL BE WORTHWHILE

cohesion. The excesses of freedom have subsequently been tempered. Currently, the main concern is that the labour market is inefficient, given insufficient growth and an education system inadequate to real necessities. The comparison with the 'perfect' job allocation under communism is made, often disregarding the value of individuals pursuing their own interest. In addition, the present mobility of education and labour has no communist equivalent, highlighting the trade-off between opportunity and certainty.

It's All Politics

The regime overthrow did not produce a clean political slate – that would have been impossible. Predictably, the former communist elites, whose lifestyle had previously been envied, gained the upper hand in modern democratic politics and their subsequent financial gains show that little has changed. The multi-party system does theoretically allow the reflection of divergent views, but in practice political platforms are so similar that choices only favour the lesser evil. The dog-eat-dog, savage capitalist system applied in the past 25 years is simply a reflection of politics, where the quest for power has led to the alternation of predatory governments. Favouritism and corruption are still high, and many people fear that political parties have a tendency towards organised theft on a large scale, since they cannot be assured of continued governance. Some might even suggest that communists were lesser thieves, for they could not lose power. Until political stability is achieved and strong reforms are introduced, government efficiency will remain elusive.

What Does It All Mean?

Both communism and capitalism have serious flaws, but one thing is clear: the glory of old days is only an illusion. The belief in a better life under communism is largely held by people whom the new system has not benefited, mainly the urban and rural poor, especially in less advanced regions (both inside the country, and within Eastern Europe). Moreover, this belief applies solely to the period 1965-75, when some liberties were restored, only to later be retracted. Those who remember those days are dwindling in numbers, and are joined only by those too young to remember the deficiencies of communism. The tendency to recall only the good moments thus biases the intergenerational transfer of collective memory. History textbook writers also avoid discussing the period, as it is far too 'controversial', so any positive news is reinterpreted by youngsters and amplified in meaning, since it contradicts the official rejection of communist practices by post-revolutionary governments. So what conclusions can we draw?

Yes, some trains may be slower now than fifty years ago. Yes, industrial and agricultural production is perhaps lower than it used to be. Yes, there is considerably more uncertainty and capitalism has increased social and economic inequalities. However, the benefits of Westernisation are gradually coming to light: there is a wider degree of social, economic and spatial mobility, services are booming, and we are aligning to Western practices and living standards. People are free to choose, people are free to move, people are free to speak. Meanwhile, any failures of capitalism can at least partially be attributed to it being preceded by five decades of dysfunctional socialism. Looking towards Western models, we see that capitalism can be tamed and inequalities kept in check, and we must strive for attaining this goal. Indeed, the price we pay for freedom and progress is risk, but it will be worthwhile. ■



text
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FROM GROWTH TO DÉCROISSANCE: CAN THE ECONOMY GROW FOREVER?



‘**W**hen it adopted the model of classical Newtonian mechanics, notes Georgescu-Roegen, economics forgot that time is irreversible. It therefore overlooked entropy, or in other words the non-reversibility of transformations of energy and matter.’ writes Serge Latouche in his book ‘Farewell to Growth’. The fact that time does not go back is obvious, yet economists tend to overlook its irreversibility, constantly neglecting the incommensurable and irrecoverable losses that may come with economic growth.

The notion of unlimited economic growth has been around for a long time. It has been at the core of economics since its very beginning, it became the solution to mankind’s problems and invaded the political discourse everywhere. However, as the global economy seems to have outgrown Earth’s resources and the costs of growth have become more

and more evident, the supremacy of such an entrenched idea is being called into question. French economist Serge Latouche is a big voice in a current movement, which claims that degrowth (directly translated from the French word *décroissance*) is the key to solving environmental and social problems over the long run and to ‘creating integrated, self-sufficient and materially responsible societies’.

What is degrowth?

The perception that there are material limits to economic growth goes back to Malthus. However, it was not until the 1970s that criticisms of economic growth truly became widely recognized in economic sciences thanks to the works of Romanian economist Nicholas Georgescu-Roegen. In his 1971 book “The Entropy Law and the Economic Process”, he claimed that classical economics completely ignores the damages created by continuous growth. Economics’ ▶



Degrowth is the translation of the French word 'décroissance' which was used as a title of a collection of Georgescu-Roegen essays on economics and ecology. The word he used in his work was 'declining'.



mechanistic view left out the second law of thermodynamics, which concerns the irreversibility of energy transformations that makes unlimited growth not possible; hence his conclusion that "Economics will have to merge into ecology". In 1972, the release of the report "Limits to Growth" by the Club of Rome, an association of thinkers, stressed the incompatibility between infinite growth and physical finiteness, setting off a debate that has gained momentum in the most recent economic crisis.

What exactly is degrowth? The concept is defined in the Degrowth Declaration of the Paris 2008 conference as "the process by which right-sizing may be achieved in the wealthiest countries, and the global economy as a whole", where "right-sizing" means the reduction of the global ecological footprint. On the website of Research and Degrowth, an academic association on the topic, the concept is defined as the 'downscaling of production and consumption that increases human well-being and enhances ecological conditions and equity on the planet.' The idea is clear: improve quality of life without further jeopardizing the physical environment, which implies leaving behind a paradigm of infinite economic growth.

Degrowth is not just about a deep fundamental change in the way we think about the economy, but also a

political, cultural and environmental project. It is about a change in values and institutions, the pursuit of democracy and participation at a local level and meeting needs in a self-sufficient way. According to the Degrowth Declaration, degrowth entails 'quality of life rather than quantity of consumption', 'substantially reduced dependence on economic activity, and increase in free time, unremunerated activity, conviviality, sense of community and individual and collective health', among others.

The proponents of this movement highlight degrowth is not the same as negative growth. Serge Latouche finds a contraction scenario to be catastrophic, bringing societies into 'distress' as unemployment rises. Degrowth is also not 'sustainable development': in Latouche's perspective, the expression is paradoxical and the word 'sustainable' only adds a 'superficial ecological component' to development. However, a question that remains to be answered is how exactly can degrowth be socially (and politically) viable, that is to say, how can the concept be applied without causing economic disaster. In a 2012 paper, Damir Tokic laid out several possible devastating economic consequences of a degrowth strategy: degrowth can cause a stock market crash, deleveraging and deflation. 'As a result, the economy would implode', writes Tokic.

Truth be told, economic growth has come with countless problems: resource depletion, climate change, health issues, waste accumulation, income inequality, reduced environmental quality and the list goes on. As the world is not able to regenerate at a pace compatible with increasing demand, these damages represent serious concerns for those who have already embraced degrowth as a feasible alternative.

Steady-state economy

Herman Daly, one of the fathers of ecological economics, is another critic of economic growth. His major contribution has been the proposal of a steady-state economy: 'one that develops qualitatively (by improvement in science, technology, and ethics) without growing quantitatively in physical dimensions'. While negative economic growth is 'self-destructive', positive economic growth seems to have become 'uneconomic' with higher environmental and social costs than its benefits. According to Daly, unlimited growth would only be possible were one of the following conditions to hold: '1. If the economy were not an open subsystem of a finite and non-growing biophysical system, 2. If the economy were growing in a non-physical dimension, or 3. If the laws of thermodynamics did not hold.' Daly's policy suggestions for the implementation of a steady-state economy include controversial measures such as quotas on the



According to Global Footprint Network, we currently use resources equivalent to 1,5 planets.

DEGROWTH IS NOT JUST ABOUT A DEEP FUNDAMENTAL CHANGE IN THE WAY WE THINK ABOUT THE ECONOMY, BUT ALSO A POLITICAL, CULTURAL AND ENVIRONMENTAL PROJECT

use of basic resources like fossil fuels, the introduction of a maximum level of income and population control.

Degrowth and steady-state are obviously interrelated and complementary concepts: degrowth is a transitional voluntary process of reducing the size of the economy so that a steady-state is reached and maintained. An important aspect of these ideas concerns their distinction between rich or North countries and poor or South countries. Daly explains that 'It is absolutely a waste of time as well as morally backward to preach steady-state doctrines to underdeveloped countries before the overdeveloped countries have taken any measure to reduce either their own population growth or the growth of their per-capita resource consumption.' A steady-state paradigm must thus start in the richest and overconsuming countries.

The logic behind these concepts is reinforced by the idea that the link between GDP and important aspects

of human wellbeing is far from being straightforward. Indeed, the famous Easterlin paradox suggests that beyond a certain level of needs satisfaction, absolute income does not correlate with happiness. Nevertheless, the degrowth movement has been criticised for its pessimistic view of technology's potential to solve problems and even for its lack of clarity on how degrowth may be compatible with capitalism and how market economies can voluntarily enter a degrowth path. Yet, however revolutionary and utopian these ideas may sound, it is impossible not to worry about the issues they raise.

Social limits?

In 1977, Austrian economist Fred Hirsch called the physical limits to growth "distant and uncertain". He was not so much troubled by the natural limits of economic accumulation. He was concerned though with the social limits to economic growth, being the congestion and frustration caused by social scarcity – and not material or natural constraints – the real limit to growth.

Hirsch distinguished the "material economy" from the "positional economy". The material economy refers to goods and services whose quantity can be increased without "deterioration in quality". The positional economy, on the other hand, involves goods, services, social relationships that are not accessible to everybody, as they are "scarce in some absolute or socially imposed sense or subject to congestion or crowding". Being one's consumption of positional goods dependent on the consumption of others, these goods are hierarchical and allow individuals to be at a higher position in the social ladder. While economic growth does not pose a problem to the material economy, it fosters "positional competition". In what became known as the "paradox of affluence", Hirsch explained why the increasing scarcity of "positional goods" and subsequent "frustration" brought about by economic growth inevitably places a limit on society's ability to grow and increase welfare.

Limits to growth – physical or social – are ideas that question well-established paradigms. What about the facts? Europe is undeniably in the midst of an economic crisis that is taking longer to tackle than originally anticipated and developed economies, confronted with lower long term growth rates, are starting to look at thriving economic growth as an unrepeatable dream from the past. ■

LAST FILE UPDATE

The academic year 2013/2014 is nearly at its end! Last minute deadlines, exams and re-sits keep putting a lot of pressure on our fellow students. Soon after this, the hard work will pay off. While enjoying the long-awaited summer holiday, we will all have the chance to retrospectively look at our progress, attempting to become better students, better persons and better future professionals. But it is not only the students who have to draw the line, but also our beloved Faculty Student Council.

Before finishing our mandate and before the new council members take their seats (follow us for updates in that respect!), let us put you up to date with our latest projects and their progress.

Larisa Bagyinka, our project officer, writes on **Didactic Skills**: “Quality of teaching should be a priority at the FEB. As that is often not the case we started with into what could be implemented to improve this issue. We started with writing an advice to the faculty board in which we suggested hiring an in-house coach to provide teachers with feedback about their teaching skills and methods and to give them the necessary guidance for improvement. However, the faculty board did not see in our proposition a sustainable option and mentioned that they are already taking all the necessary measures for improving the didactic skills of teachers. As a consequence, we looked into what the faculty actually does regarding this matter and we brought this issue up again a few months later. We achieved that the faculty board recognized that there is a real problem regarding teaching at the FEB. They promised to have frequent meetings with the FSR so we can give them concrete advice on which teachers seek improvement, to name them. For the long-term, they will see how their current measure will improve the teaching quality and monitor it constantly.”

Casper Burik, our chairman, comments on **E-learning**: “We just recently joined a working group with the education director of the college of Economics & Business, together with a few teachers to start talking about E-Learning. The new director is a big supporter of eLearning and he will do his best, in collaboration with the following FSR and the other parties involved, to make sure education and its quality reach the highest standards. Hopefully, this will solve (or at least compensate for) the long-debated issue of the Audio Visual Study Facilities.”

Vlad Cristian Marin, our facilities officer, states on **REC Reconstruction**: “Since 2012, the Roeterseiland Campus has been under thorough restructuring, renovation and

reconstruction. The aim of the project is to facilitate the educational process for students of all faculties, providing them with a variety of functional, modern means of studying, but also enjoying their time in the campus. The role of the FSR FEB was on one hand supervisory and on the other advisory. However, due to the amplitude of the project, issues were inevitable. These include poor communication, bad management of resources, conflicts of interests between faculties and unjustified ambitions. By the end of the summer of 2014, REC E an H should be functional, so next year is a big year in terms of facilities and Reconstruction. On top of observing the whole process, we were often asked to give input on matters related to the new campus. Our role (as the FSR) also comprised maintaining a good relationship with the other faculties and always communicating to each other the news, the updates, in an eventual attempt to contribute ourselves to the decision making. Keep an eye on the updates!”

Sander Montanus, responsible for Quality of Education, comments about **Course evaluations**: “During the year we have been busy on implementing more extensive course evaluations. First, a pilot was started to involve students evaluating courses in the form student panels. Students, teachers and the board of the faculty were very positive. Now, we are working on implementing these panels together with the OC-EB. It is a delightful and rewarding project. It is expected to solve many issues and the odds are favorable!”

Other current projects comprise improving the study advising system or the Teaching and Examination Regulation (or the OER – Onderwijs en Examenregeling). The crazy amount of work will soon pay off and, the FSR FEB, is proud to have contributed towards finalizing these.

To wrap it up, this year was full of projects (for a complete history, always check our Facebook page, as well as our website), some of them very succesful, some troublesome and others are still in progress. We would like to thank you for your input, for always pointing out issues and bringing up problems and, finally, for your support in our activities! ■

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ALEXANDER RINNOOY KAN AWARDED 2014 ACADEMY MEDAL

Prof. Alexander Rinnooy Kan, university professor of Economics and Business at the University of Amsterdam (UvA), has been selected to receive the 2014 Academy Medal of the Royal Netherlands Academy of Arts and Sciences (KNAW).

UVA RISES IN THE WORLD REPUTATION RANKINGS

Following up on last year's strong performance, the University of Amsterdam has risen in the latest THE World Reputation Rankings 2014. In the THE Rankings, which is a list of the 100 universities with the best reputations worldwide, the UvA is listed in the group 71-80, making it the second highest rated Dutch university. Last year, the UvA was still in group 81-90.

***Soms hou je alle
opties open***
**Soms weet je direct waar je
aan de slag wilt**

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Tijdens je studie heb je een schat aan kennis opgedaan, je bent slim, sociaal en ambitieus en nu wil je aan de slag. Bij ons kun je al je kwaliteiten volop ontwikkelen.

Je ideeën zijn meer dan welkom

Ook wij zijn ambitieus. We werken in Nederland met 4.600 mensen in twaalf vestigingen op de gebieden Audit & Assurance, Tax & Human Resource Services, Advisory en Compliance Services. We willen de beste en meest innovatieve oplossingen bedenken voor de vraagstukken van onze klanten. Dat kan alleen als onze mensen vanuit allerlei oogpunten naar die vragen kijken. Dus maakt het minder uit wat je precies gestudeerd hebt. Het gaat om je ideeën.

Blijf je ontwikkelen

De lat ligt hoog, maar je staat er niet alleen voor. Je krijgt op dag één een coach die je begeleidt en ondersteunt bij je werk en bij het uitstippelen van je carrière. Je werkt samen in teams met inspirerende collega's en volgt opleidingen om je vaktechnisch en persoonlijk te blijven ontwikkelen. Zo ontdek je al doende waar je kracht ligt. Je kunt switchen tussen sectoren. Begin je bijvoorbeeld bij beursgenoteerde ondernemingen, dan kun je altijd overstappen naar de overheid. En andersom. Je kunt ook van PwC-vestiging veranderen, binnen Nederland of over de grens.

Pak de ruimte die je krijgt

Je gaat bij ons aan de slag in een open kennisorganisatie. We werken met passie en een gezonde dosis lef; zijn open, integer en eerlijk; zeggen geen ja als het nee moet zijn. Het gaat er bij ons informeel aan toe. Je krijgt echt de ruimte. We staan open voor je initiatieven. Je start je carrière vliegend, ontwikkelt je volop en haalt het beste in jezelf naar boven. Want daar worden onze klanten, wij én jij beter van.