THE ROYAL ECONOMIC SOCIETY

The 2012 Young Economist of the Year Competition

From the final shortlist of 18 essays drawn from a total entry of over 750, the judging panel of Professor Richard Blundell (RES), Charles Bean (Bank of England) and Stephanie Flanders (BBC) have selected four winners and wish to congratulate them all. Once again the overall standard was extremely high, with a number of entries from international schools. A list of highly commended entries and also a list of the schools and colleges from the UK and overseas that joined in for the 2012 competition is published at www.res.org.uk

This year the judges agreed that the best essay was by **Calum You** for his essay on:
"**Lamentations of a Chancellor: Is there a better way out of the debt crisis than austerity?"**
The judges found this to be 'a brilliantly crafted essay showing a clear understanding of a timely and complex subject. Mr You has evidently played close attention to recent debates over austerity and growth, in the FT and the New York Times as well as the academic literature. But in his essay he also demonstrates that he understands the underlying economics: for example, in his discussion of the size of the multiplier and his careful assessment of the various arguments for fiscal austerity. His essay is also well-organised, with a clear narrative thread and spirited prose style which makes it a pleasure to read. A thoroughly deserving winner of the RES 2011 Young Economist Competition.'

Second place was awarded to Ravi Prasad for his essay answering the question on
"A breakup of the euro provides the best hope for a durable recovery of the European economy. Discuss "
The judges commented that 'The essay is notable for its careful analysis of the roots of the current difficulties in the euro area, noting that there are three interlinked problems – a fiscal crisis, a banking crisis, and a growth crisis – which are, in part, a consequence of monetary union. The author identifies the need to restore the competitiveness of the periphery countries and provides a balanced discussion of how this would need to come about if a country remains inside the euro, or else if it exits and allows its exchange rate to depreciate. There is a particularly good discussion of the costs of exit, drawing on the experience of Argentina inter alia. The author employs a good selection of supporting charts and the essay is nicely written. A really excellent essay.'

This year the judges selected two winners for Joint Third Place: **James King and Andrew Mitson.**

Andrew Mitson's essay " To what extent can we use ideas drawn from behavioural economics to help address specific social and economic problems?"
provides a careful exploration of behavioural economics and its relationship to more standard economic analysis. It explores the idea that an individual's capacity for making decisions is limited and that such decisions may be influenced by the 'choice architecture'. Examples of laboratory experiments are used to show the ease with which choices can be manipulated. The essay connects this to herd behaviour and anchoring, arguing that this influences many social decisions from football refereeing to riots. It argues in policy makers need to be aware that choices and decisions will depend not only on the incentives people face but also the way choices are presented and on the behaviour of others. However, it also adds a note of caution toward policy that is designed to influence human thought and action.'

James King wrote on the question **"Africa is well placed to achieve rapid and sustainable development in the decade ahead. Do you agree?"**
The judges noted that "This essay showed an insightful and well-balanced understanding of the drivers of economic development in Africa. It provided a clear description of what sustainable development is and emphasized the key role of education and infrastructure. Political instability and effects of conflict were

argued to limit the degree of development in some areas while in others there were problems of extreme resource depletion. It was argued convincingly that the prospects for different regions within Africa were quite different and it was a mistake to lump them all together. A thorough analysis, not always optimistic, but always thoughtful and considered.'

The 2012 Young Economist of the Year is therefore **Calum You** of Eton College, who will receive the glass trophy and prize of £1,000. Second place goes to **Ravi Prasad** of Bradford Grammar School (£500) and joint third place to **James King** (St Paul's School, London) **and Andrew Mitson** (Sutton Grammar School for Boys) who will receive £250 each. All winners are invited to an award ceremony to take place at the RES Annual Public lecture at the Royal Institution in London on 22 November and their winning essays will be published on the RES website.

Richard Blundell, Charlie Bean, Stephanie Flanders,
August 2012.

The questions set by the Royal Economic Society President and judges were:

1. Africa is well-placed to achieve rapid and sustainable development in the decade ahead. Do you agree?
2. Over a million young people in the UK are unemployed. What should be done to address the problem?
3. A breakup of the euro provides the best hope for a durable recovery of the European economy. Discuss
4. To what extent can we use ideas drawn from behavioural economics to help address specific social and economic problems?
5. Manufacturing's share of the UK economy shrank from 19% in 1998 to 12% by 2007. Does this matter and, if so, how could policy revitalise British manufacturing?
6. Is there a better way out of the debt crisis than austerity?

Lamentations of a Chancellor: Is there a better way out of the debt crisis than austerity?

The date: April 25th 2012. The event: Britain's Office of National Statistics has just released its preliminary statistics for the first quarter of 2012. The news: double-dip recession.

George Osborne, the Chancellor for the current government, is in a quandary. The British economy shrunk by 0.5% over the fourth quarter of 2011 and the first quarter of 2012. Labour's Ed Miliband has seized the opportunity to disparage his political opposition, and it appears that Osborne's eclectic mix of fiscal austerity and monetary expansion has failed to encourage a healthy recovery. The Eurozone nations are embroiled in a sovereign debt crisis, threatening Britain's export demand, even as domestic consumer spending falls to new lows. Now he must consider his options: go along with the Europeans and Germany in their continued push for austerity, or look for possible alternatives?

To understand the problem, we should see what reasons proponents of fiscal austerity give for their stance on macroeconomic policy. The most obvious one is the drag on the national budget as interest payments rise and it becomes increasingly difficult to pay back debts. In a popular analogy, budget deficits are likened to a profligate family that spends more than it can earn. The end result is that the family is forced to recycle their debt, racking up ever more as they borrow to pay it off. Eventually, the family loses its creditworthiness and is left to fall into bankruptcy. Such moral reprimands are a common story in Europe at the moment. Angela Merkel, the German Chancellor has declared that 'no country can live beyond its means', condemning 'irresponsible amounts of government spending' as a cause for the current crisis. However, the evidence gives the lie to the tale. Spain is probably the best example of this: in 2007, prior to the financial crisis, Spain had national debt accounting for just 27% of GDP and was regarded as a paragon of fiscal responsibility in Europe. Germany itself had almost twice as much as this – yet now Spain has suffered a catastrophic bursting of a housing bubble. For comparison, Spain's house prices rose almost twice as much as the United States' between 1990 and 2008, attracting many workers into the housing market. The boom produced a generation of young people without employable skills or qualifications who, upon losing their jobs in real estate, now contribute towards Spain's 50% youth unemployment rate.

The upshot is that Spain's economic woes are, like those of the United States, very much to do with the collapse of a *huge* toxic subprime mortgage market and the resulting pressure to bail out those institutions approaching insolvency. Since they are a cause of the current government spendthrift, not a symptom, finance minister Cristobal Montoro's 'most austere budget … ever' is unlikely to be significantly effective in solving the problem. The subprime loans have not disappeared, they have just been transferred into other institutions or nationalized, and perhaps Standard & Poor's recent downgrading of Spain's debt to BBB+, three stages above junk, reflects the risk they represent.

But what about the other purported benefits of austerity? Jean-Claude Trichet, the former president of the European Central Bank, asserted that 'Confidence-inspiring policies will foster and not hamper economic recovery.' The idea, therefore, is that contractionary fiscal policy will (paradoxically) lead to economic expansion, due to the intervention of the so-called "confidence fairies". Yet looking at the results of austerity policies in Europe, this suggestion evidently does not hold water [graph]. Researchers at the International Monetary Fund also carried out a more detailed analysis of the effects of austerity programs, revealing that generally they led to slumps in both output and employment. In the long run, historically, 1 percent of fiscal consolidation generally led to approximately a 0.2% percent increase in unemployment. The effects may be even larger if economies are unable to negate some of the effects with monetary stimulus – something lacking in the many economies where central banks are already approaching their zero-bound on interest rates.

Indeed, it may be that austerity does not even do the one thing it is almost certainly designed to do: reduce budget deficits. Consider Robert Reich's assessment: 'A large debt with faster growth is preferable to a smaller debt sitting atop no growth at all. And it's infinitely better than a smaller debt on top of a contracting economy.' As such, the important measurement is not the nominal value of national debt but rather the ratio of debt to GDP, i.e. the level of debt as compared to the revenue of the country and its ability to pay the debt. Economists such as Brad DeLong and Lawrence Summers now calculate that using conservative estimates of the multiplier, recession-induced hysteresis and other factors, expansionary fiscal policy will pass most cost-benefit tests. Under the current extreme situations it is likely to be self-financing as the economy grows and tax revenue increases. Equally, it is not expansionary rises in spending but cuts due to austerity that require future tax rises.

The problem is that most European economies, Britain included, are in the unique liquidity trap scenario. We can see this from the huge monetary expansions in Western countries over the last few years – with over three years of 0.5% base interest rates, over £325 billion of quantitative easing and a 20% fall in the sterling since 2007, Britain has arguably had one of the largest monetary stimuli ever. Yet since there is no demand for credit, private borrowing has not increased. Austerians claim that government borrowing will prevent the private sector from borrowing, but the reality is that there is no private borrowing to crowd out. As Paul McCulley and Zoltan Pozsar put it: 'for the private sector to deleverage without causing a depression, the public sector has to move in the opposite direction and re-lever and effectively viewing the balance sheets of the monetary and fiscal authorities as a **consolidated whole**.' The impotence of central banks in offsetting fiscal austerity in a liquidity trap scenario is therefore the very reason why fiscal expansion is possible, indeed necessary, despite levels of debt – the consequent economic growth will actually produce a healthier budget in the future than cutting now.

In which case, what can we do instead of cutting budgets? From the problems with austerity, Keynesian fiscal stimulus is the evident alternative, despite critics attacking its efficacy. However, according to Robin Harding, American economists are 'close to consensus' that government intervention has significant and useful outcomes. In reference to the United States' economic stimulus of 2009, Mark Zandi, chief economist at Moody's, wrote that each dollar spent on infrastructure was creating $1.57 within a year. Alan Blinder, former vice chairman of the Federal Reserve, calculates that without the policy response, American real gross domestic product would be 15% lower, the unemployment rate would be almost 6.5% higher, and the United States might still be in deflation. China is not often mentioned in reference to the Great Recession and ensuing debt crisis, and for good reason: it announced a $586 billion stimulus plan in November 2008 – almost immediately after the global financial crisis. The result was that Chinese GDP growth rates recovered to pre-crisis levels by the end of 2009, which Premier Wen Jiabao credited to the early intervention.

So spending is effective, but what on? Renewable energy is a sensible option. Greece, one of the worst hit countries in the crisis, has oil comprising a staggering 88% of its imports. Considering the risk of a supply shock due to instability surrounding Iran and South Sudan, a spike in world oil prices could have a devastating effect on Greece's recovery. The planned *Helios* project, a ten gigawatt photovoltaic solar farm, is currently one of the foci of hope in Greece. With support from EU Energy Commissioner Guenther Oettinger and Germany's Environment Minister Juergen Becker, the €20 billion project has the potential to help engineer a recovery not just in Greece, but in neighbouring Italy and Balkan states, as construction of high-voltage cables provides a needed stimulus and subsequent inexpensive energy.

The other main target for fiscal stimulus is on infrastructure and development. For the distressed southern European economies, this is especially important, as their ties to the single currency area make it impossible for them to devalue their currency and compete globally on price. In general, Europe's peripheral economies such as Italy and Portugal have suffered from decreased productivity compared to Germany and their other northern neighbours during this recession. Improving infrastructure projects should help these countries regain some of their global competitiveness and stimulate export-led growth. The creation of so-called "shovel ready" jobs will also help reduce the problem of unemployment and, if production of vital goods such as food and shelter increases as a result, these economies can become more self-sustaining. Paul Krugman points out that even without significant new development projects, simply reversing the effects of recent austerity could be sufficient fiscal stimulus. Reemploying laid off state workers such as teachers could 'put well over a million people to work', and restarting cancelled building projects will provide an initial expansion. The "lack of projects" is therefore not a factor.

Outside of direct government expenditure, one major factor in restoring the effectiveness of monetary policy and pulling nations out of a liquidity trap is to target increased lending. Patrick Chovanec has noted that China's banks are 'creatures of the State', with the task of providing 'limitless investment.' The rapid rebound of the Chinese economy in 2009 may be partly to do with the fact that its four huge state banks were in the position of making credit readily available, without much regard to profitability. In the UK, there has been a significant disconnect between the Bank of Englands 0.5% base policy rate and the reality of prices of loans actually made available, which range from mortgages at over 3% through personal loans between 7-10% to some credit cards that are approaching 20%. Our George Osborne attempted to address this with his Project *Merlin* initiative, which has unfortunately failed to prevent lending to UK individuals and businesses dropping to 'their lowest level in two years' this February. Shadow Business Minister Chuka Umunna stated that 'the vast majority of business owners feel the government is not doing enough' to force banks to lend. Some alternatives such as a new state investment fund, or direct "credit easing" schemes have been proposed, but there has been little progress.

However, increasing the volume of lending is only possible if UK small and medium enterprises are willing to borrow. Jeremy Warner notes that UK corporations currently have cash funds of £754 billion, equivalent to about half of annual gross domestic product. The fact that investment is not increasing despite this stock of money suggests that the supply of credit is not the primary cause. In order to really return to sustained growth and assure investors that government debts are not a significant problem, it is vital that consumer and business confidence rises.

And therein lies the crux of the problem. Fears about debt loads must be assuaged by policies that target growth, and the policies currently being implemented in the UK and the eurozone are failing to do that. Perhaps I am being premature: the collapse of the Dutch government as it could not garner support for the EU's mandates on austerity and the pro-expansion stance of the leading candidate for the French presidency, François Hollande, suggest a change in the thinking of European leaders. If Mr. Hollande succeeds in his campaign and subsequently in renegotiating the austere European fiscal compact approved in March this year, I think that the eurozone may be able to turn its double-dip recession around. If not, we will be locked into another year of fiscal contraction, with all the continued recession that entails.

And for our unfortunate chancellor? George's budget slashing has thus far failed to prevent the reversal of Britain's recovery. Now, he needs to consider his options and spend in order to save. Growth through fiscal expansion will improve the country's debt situation, not the vicious circle of cutting and shrinking we are currently in. I certainly hope he reassesses the condition of the British economy, and takes some alternative action before this crisis worsens.

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A breakup of the euro provides the best hope for a durable recovery of the European economy. Discuss

By Ravi Prasad

"The monetary system of a people reflects everything that the nation wants, does, suffers, is."
Joseph Schumpeter

A recent paper by Jay Shambaugh from the Brookings Institution argues that the euro area is trapped amidst three crises. There is a sovereign debt crisis **(figure 1)**, where several countries are experiencing rising bond yields and face funding challenges. There is a banking crisis **(figure 2)**, where banks are reluctant to lend due to undercapitalization and liquidity problems. Finally, there is a growth crisis **(figure 3)** – with low overall growth in Europe, especially in the Eurozone (EZ).[1] While these three crises persist, the European economy will remain stagnant or decline. If a breakup of the euro is the best hope for a durable recovery, then it must be the most effective way of permanently resolving these crises.

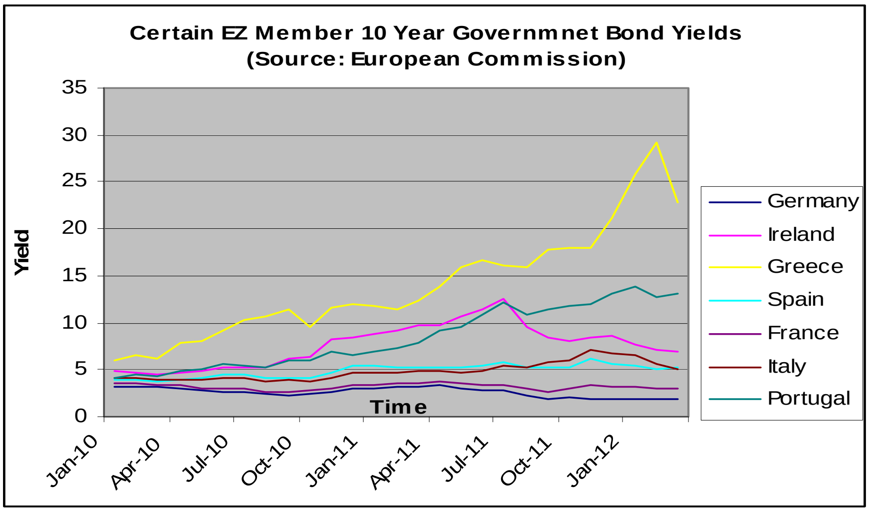

Figure 1: The Sovereign Debt Crisis. *Certain EZ countries are experiencing higher funding costs which threaten government insolvency*

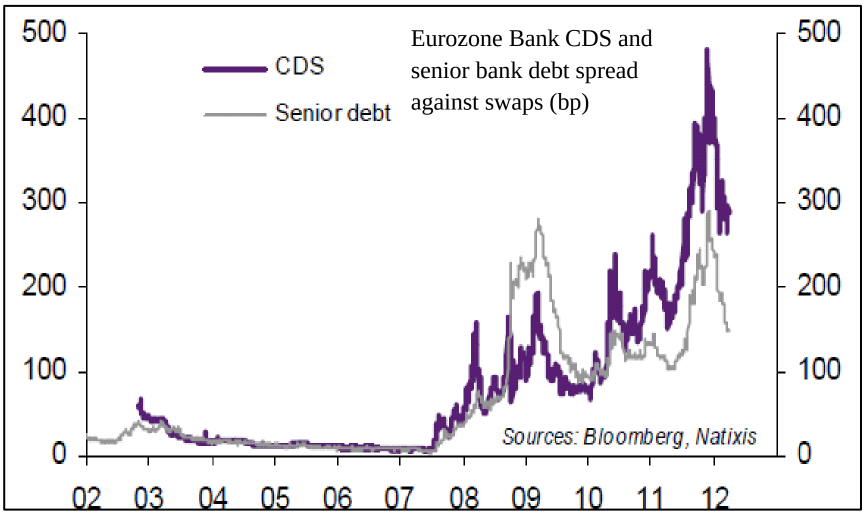

Figure 2: The Banking Crisis. *Banks' Credit Default Swap Premia still high despite the ECB's LTRO, highlighting banks' vulnerability to potential debt write-downs*

[1] IMF 2012 growth predictions: Europe 0.2%, EZ -0.3%

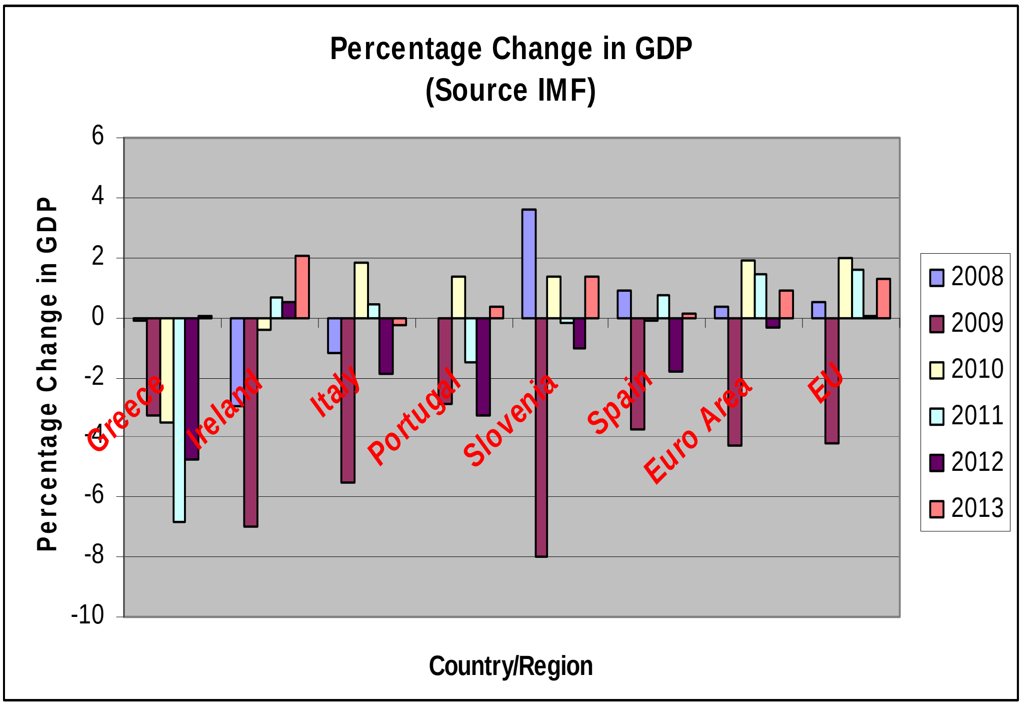

Figure 3: The Growth Crisis.
Bleak growth prospects lie ahead.

While many feel that the crises facing Europe originate from fiscal profligacy[2]; advocates of a breakup would argue that the debt fuelled booms which have now imploded were an inevitable result of the way the EZ was designed in the first place. They argue that the EZ does not fulfil the requirements of an optimum currency area due to the heterogeneous nature of member states, and consequently this leaves them prone to asymmetric shocks and trends. I.e. Nations react differently to a given variable, most noticeably that of interest rates.

When certain countries became members of the EZ[3]; they gained credibility[4] and their public and private sectors were able to borrow at considerably lower rates than previously. But once the capital stock adjusted to the higher levels implied by lower interest rates, the debt-fuelled booms ended. The investment had not significantly increased labour productivity as most of it took the form of residential construction, and as a result of high inflation in prices and wages, there was an erosion in competitiveness, signalled by enlarging current account deficits. Differentials in economic performance **(figure 4)** across member have left the European Central Bank (ECB) in a dilemma over interest rates decisions. In fact, monetary policy often exacerbated the problems faced by these economies; real interest rates were lowest for those countries which needed the highest interest rates, and conversely highest for those that needed the lowest rate. Sacrificing monetary sovereignty has meant certain member states have been allowed to overheat, and condemned them to a boom-bust cycle, what Olivier Blanchard has dubbed as the “rotating slumps” of monetary union.

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[2] Many countries broke the fiscal rules outlined in the Stability and Growth Pact
[3] E.g. the so called GIPSI countries
[4] Due to improved expectations of price stability, and because devaluing debt burdens as an easy route out of financial difficulty was now impossible.

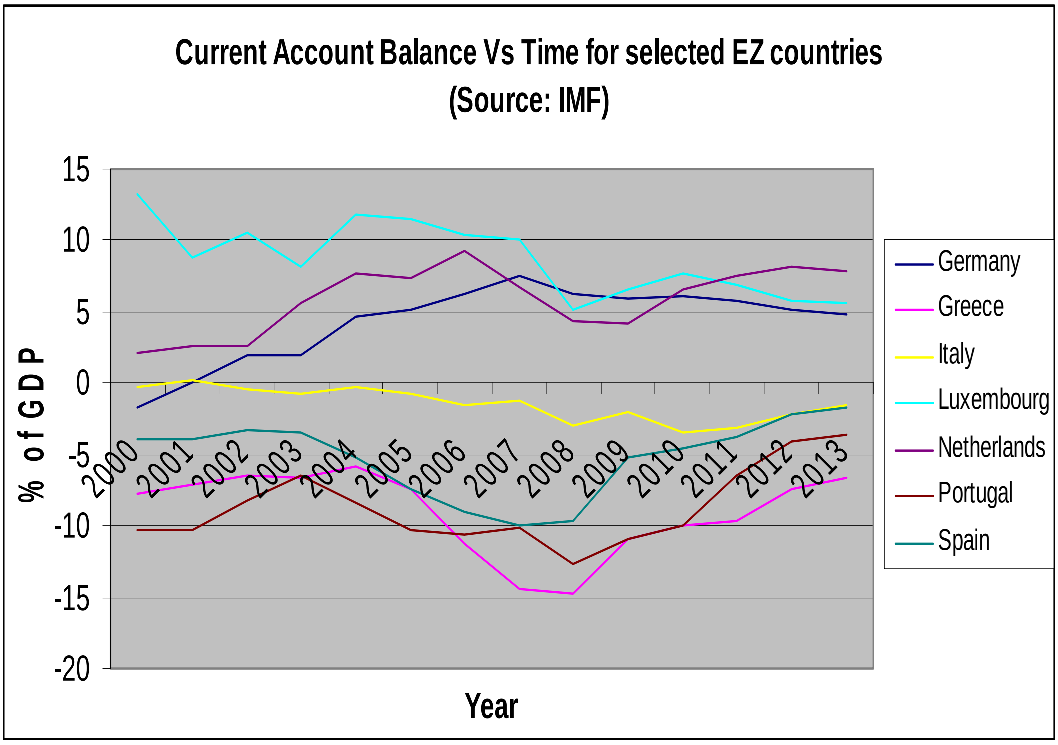

Figure 4: Current account differentials
signalling divergences in economic performance

Yet, "rotating slumps" can be avoided if labour is sufficiently mobile and moves from poorer to richer regions, allowing prices and wages to adjust back to normality as well as cushioning shocks. But language and cultural barriers, coupled with differences in federal policy (whether it be labour laws, regulation or taxation) have meant that the EZ has one of the lowest levels of labour mobility in the world, giving weight to the idea that it is and always will be a suboptimal currency area, and that a breakup should therefore ensue.

If it is true that "rotating slumps" reflect the problems of foregoing monetary autonomy at the highest level, then the persistence of such slumps could perpetuate the growth crisis. Coupled with this, supporters of a breakup also argue that the current strategy of internal devaluation is limiting growth prospects much further. Whilst they admit competitiveness needs to be restored[5], they argue that austerity is self-defeating; citing Keynesian theory that cutbacks during a recession could result in a permanent macroeconomic sub-equilibrium position being reached due to hysteresis effects. In recent weeks Spain's credit rating has been downgraded to BBB+, and bond yields are once again on the increase **(figure 5)**; reflecting mounting risks to net general government debt as a share of GDP in light of contracting economies swamped by austerity.

[5] In the last decade Greek prices have risen 20% compared to the EZ average

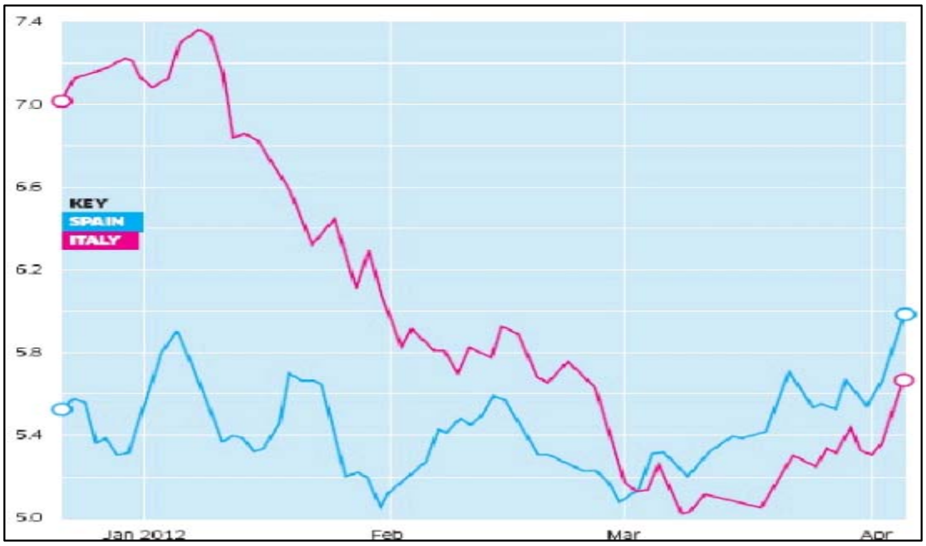

Figure 5: Rising Spanish and Italian 10 year bond yields
(Source: Bloomberg)

Instead, advocates of a breakup propose that the boost in competitiveness would be easier to come about if countries could depreciate or devalue their currencies. They use the UK example; where the sterling effective exchange rate index has depreciated by 25% since 2007, contributing to a significant improvement in the UK real trade balance **(figure 6).**

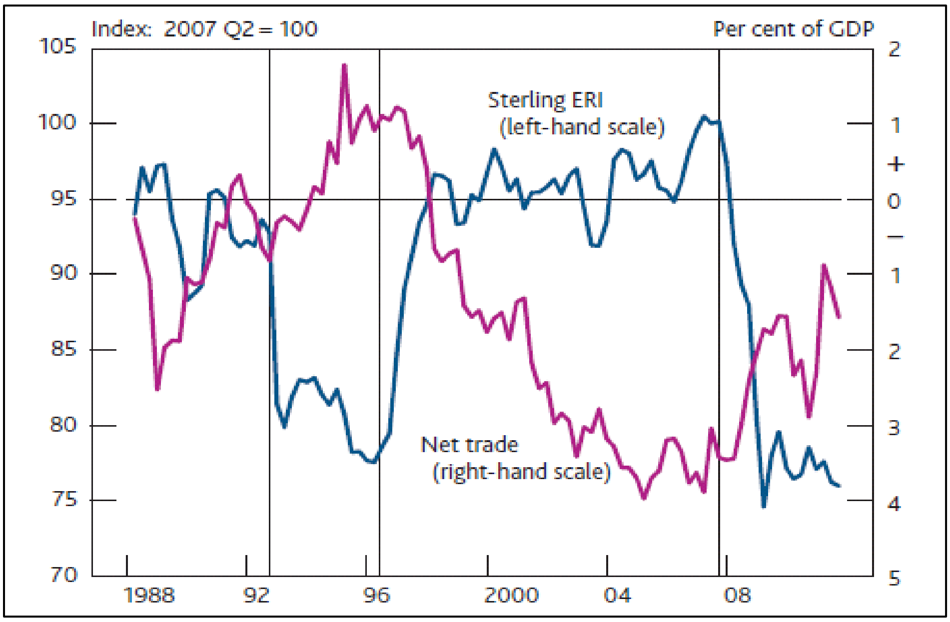

Figure 6: Sterling ERI and UK real net trade
(Sources: ONS, Bank of England)

Exchange rate devaluation is also claimed to be useful as a coordination device for decentralised wage bargaining. In a union dominated environment, (as is the case in Italy and Spain), each union may have sufficient bargaining power to limit the size of the wage cuts which are desperately needed to restore competitiveness. In these circumstances, a devaluation of the nominal exchange rate may be a useful coordinating device as it would cut real wages universally with each union holding its nominal contract wage constant.

However, critics of a breakup argue that depreciation is insufficient and that devaluation is superficial when it comes to restoring competitiveness. They say there is no guarantee that a falling exchange rate alone will lead to durable recovery[6]; as the underlying problems that are hampering competitiveness, namely inflexible labour markets[7] and general bureaucracy[8], will still exist. Moreover, competitive currency devaluations could trigger a 1990s style race to the bottom, putting the very existence of the single market (and its benefits of free trade) at risk once again. If other countries seek to devalue their currencies in retaliation; then firms in the initial devaluing nation that invested on the basis that their currency will remain undervalued are likely to suffer. [9] Moreover, even if we assume that a downwards spiral into a currency war does not occur, in a zero-sum game of intra-EZ trade, any gains by one member state from devaluation will be counteracted by losses from others, meaning that the net effect on growth and recovery is nil.

Attention also needs to be paid to the possible consequences in the immediate aftermath of a breakup. If a GIPSI country was to leave the EZ (they are regarded as the most likely to do so) then they would be forced to write-down a significant proportion of their debt to alleviate the sovereign debt crisis which would worsen considerably as debt ballooned in size after depreciation. But due to significant bank holdings of these countries' sovereign bonds and other assets, any breakup and write-down is likely to bring down banks too; with the situation escalating into a frenzy of financial contagion[10]. Investors would rush to take their remaining holdings out of foreign banks to avoid automatic depreciation. Once one country exits, markets will expect others in similar economic circumstances to ultimately experience the same outcome, and these fears could become self-fulfilling. Colossal financial sector losses are likely to result in the collapse of credit across Europe, deepening the banking crisis and prolonging the growth crisis, and making durable recovery even harder.

Supporters of a breakup believe that such devastation can be avoided if exit is organised correctly. They cite the recent Greek write-down as evidence that the financial system is prepared for a Eurozone exit. During the 53.5% Greek debt write-down, the pay-outs on credit default swaps meant that total exposure to Greek debt was a modest €3.2bn (compared to total Greek government debt of around €350bn). They also cite the example of Argentina which left the peso-dollar peg and defaulted on its debt in 2002. Admittedly its economy shrunk in size by around 60% in the immediate aftermath, yet it grew at an average rate of 9% from 2003-2007 **(figure 7),** and continues to grow strongly today. Those who are in favour of a breakup feel that the merits of monetary sovereignty and exchange rate flexibility are the best approaches for a sustainable recovery like that of Argentina.

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[6] The UK has fallen back into recession in April 2012 despite a falling exchange rate

[7] E.g. In Italy, firms with more than 15 workers cannot get rid of employees even in a downturn without risking legal action.

[8] E.g. World Bank ranks Spain as 133rd globally in terms of ease of setting up a business

[9] Japan's decline in the last two decades is partly attributed to the appreciation of its undervalued currency in 1987 – exporters who had invested on the basis of their undervalued currency were ruined.

[10] It is estimated that GIPSI countries owe UK banks in excess of £200bn

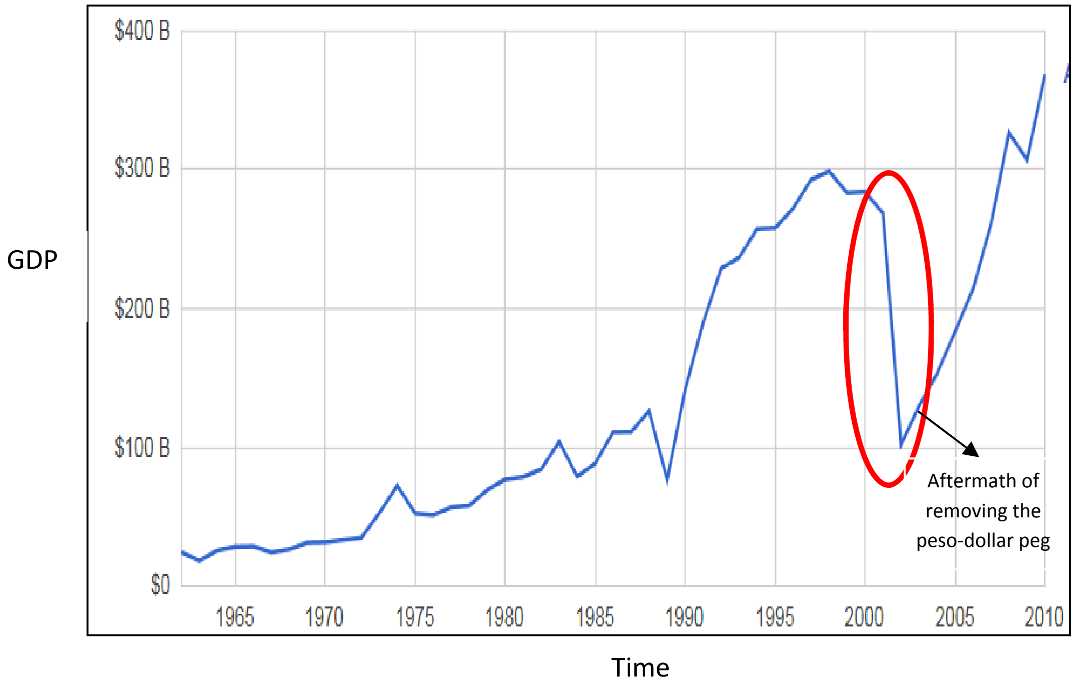

Figure 7: Argentinian GDP vs Time

It is easy to look at the three crises enveloping the EZ and to think that a breakup is the best way forward. Similarly, it is easy to forget the benefits the EZ brought in its first few years. Various econometric studies have attempted to quantify by how much the euro has actually increased trade and foreign direct investment (FDI), and while their estimates vary, they all agree that the euro has had a positive impact on both. The main channel by which this has worked is through the relative price channel, where the elimination of transaction costs and the pro-competitive effect the euro has induced on both EZ and non-EZ exporters has meant prices have fallen. The subsidiary channels are the improved expectations of exchange rate and price stability, which both act by reinforcing investor confidence.

Yet, it is undeniable that the EZ in its current form is inadequate and unstable; the comparison between Spain and the UK highlights the fault lines which have widened in recent times. As of April 2012, the two countries face broadly similar fiscal challenges, with Spain's debt to GDP ratio being lower than the UK's; but Spanish 10-year bonds rates are 6.0% against 2.1% in the UK. This phenomenon whereby EZ countries are more prone to fiscal crises is explained to some extent by the fact that there is no co-responsibility for public debt. If investors lose faith in a country's fiscal prospects, then this can trigger a wave of market attacks exposing an inherent fragility of a monetary union of states in which each stands behind its own debt but with the usual escape routes of devaluation and inflation no longer available. If these relentless market attacks on EZ states are to be prevented, then markets need to be convinced that the EZ is here to stay, and that leaders are willing to do all it takes to save it. Austerity, reform and the Long Term Refinancing Operation undertaken by the ECB do not seem to be sufficient. By pooling risk, a 'Eurobond' could provide a more durable counter to destabilizing liquidity crises, and a step towards fiscal integration would perhaps mitigate the chances of "rotating slumps" reoccurring. Without the fiscal integration that is required to offset shocks, a suboptimal EZ may make durable recovery even harder.

Regardless of a breakup or no-breakup, it may be the case that the crises facing Europe are more than just the euro. Durable recovery may not be possible unless Europe can respond to the fundamental challenges it has avoided for many years. At the heart of these challenges is the question; how should European nations respond to a world that is briskly changing around them? What if globalisation results in Europe being stripped of the technologies and industries that made it rich? What will Europe do if its unfavourable demography triggers a period of Japanese style protracted decline? If the risks these challenges pose cannot be lessened, Europe will suffer unavoidable setbacks to its recovery, whether it is through governments struggling to pay the welfare premiums for older societies, or through further jobs being lost to emerging economies around the world.

In an age of relative decline, maybe a stronger euro in a more united Europe would be better equipped to deal with these headwinds that will inevitably hinder European recovery. Operating as single entities in a broken up EZ; individual countries may be powerless to prevent economic deterioration. The world is becoming increasingly integrated, dominated by large countries, with large populations and large economies. The possibility of a more united Europe is, at this present time, a political non-starter. But if Europe is to compete in the ever changing global playing field, it may be that the fate of political and fiscal integration is forced upon them. Only then will the benefits of an optimum currency area be fully reaped.

In conclusion then, whilst Europe is gripped by three interrelated crises; durable recovery is something that will be difficult to achieve. Drastic times have called for drastic solutions; and a breakup of the euro is no longer thought of as the unthinkable, with certain think tanks such as the Centre for Economics and Business Research (CEBR) regarding a breakup as more likely than not. The EZ, in its current state, is suboptimal and the divergences we see today between member nations are a stark reminder of this. A breakup would restore monetary independence and exchange rate flexibility; tools which could be used to foster growth, but at the same time it will limit the benefits of higher trade and FDI which were a direct result from the adoption of the euro. A breakup could spur immediate and cataclysmic financial disaster, yet it may be that we are heading towards this same fate under the current strategy of austerity anyway. Thus Europe faces a blunt choice; it can choose to reverse what it called "irreversible" [11], or it can try to muddle through and preserve the euro; strengthening it economically and politically in attempt to make the currency area more optimal with the hope of preventing the crises we see today from happening again. In a changing world dynamic though; regardless of which path Europe follows, maybe the destiny of the European economy lies with the magnitude of the impact of the emerging and ever powerful players on the global economic playing field. As Schumpeter would say, the currency or currencies that Europe uses will merely reflect this inexorable truth; that the golden age for Europe may well be over, and consequently any road towards recovery will be a bumpy one.

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[11] A quote from Jose Manuel Barroso, European Commission President, December 2011

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To what extent can we use ideas drawn from behavioural economics to help address specific social and economic problems?

Although we may not like to admit it, human behaviour can in fact be analysed, measured and predicted. The illusion of ultimate free will we hold so dear is slowly withering away, as developments in neuroscience show more and more clearly that human thought and action are the product of external influence and heredity. We neither pick, nor choose. We merely react.

Classical economics seems to embrace this sobering truth. Its favoured theories and models are replete with an assumption of decisional cause and effect: that consumers will react to price changes; that firms will respond to increased demand; that government policy will impact public choices.

Behavioural economics "complements" this classical view. It broadens the scope of economics to include various sociological and psychological factors; it informs us that humans aren't always out to "maximise utility"; and, in doing so, it gives us a far more rounded and accurate understanding of human behaviour.

Uncertainty is never good for an economy: that's why governments have a preference for low, stable rates of inflation; why a universal currency, free from the caprice of exchange rates, is so strongly advocated amongst economists. The more we uncover about human behaviour, the better we can adapt our policies to the complexities of the human condition; the closer we come to a stable and secure economy; and the further we stride from uncertainty and estimation.

So, what can behavioural economics actually teach us? And, more importantly, how can we make use of these teachings?

Let us first look at an industry based (perhaps unwittingly) on economic behaviourism: marketing. A company's objective when marketing a product is simple: to get you, the consumer, to buy it. In other words, they want you to make a specific choice. And when making a choice, one must consider the options. Here is where classical and behavioural schools of thought begin to diverge: while classical economics posits unbounding human rationality in decision-making, behavioural economics understands that our rational capacity is far from unbounding; that we are easily mislead and that we are amenable to cognitive prejudice.

Put simply, the behaviouralist asserts that when making a decision, we do not always opt for the most rational option (the one with the promise of greatest benefit). Behavioural theorists, Richard Thaler and Cass Sunstein, in their book “Nudge”[1], identified the cause of this apparent irrationality to be the “choice architecture” - the way in which the options are presented to us.

Dan Ariely conducted an interesting experiment surrounding this idea.[2] He presented a group of 100 students with an advert from the Economist, offering three different subscription options:

1. An online subscription for **$59**
2. A print subscription for **$125**
3. A package deal, offering both the online and the print subscription for **$125**

Now, the reasonable man will quickly deduce that Option 3 strictly dominates Option 2; effectively, you are getting the online subscription for free. So, surely then, Option 2 is redundant? No one in their right mind would choose Option 2 over 3, and this led the professor to question why Option 2 was even there to start with.

With the second option in place, out of a sample of 100 MIT students, Ariely found that 84% selected Option 3, the more expensive option, and only 16% Option 1, the least expensive option. Unsurprisingly, no one chose Option 2.

However, when the second option was then removed and the experiment repeated, Option 1 rose in popularity to 68%, while Option 3 fell to 32%.

When assaying the options before them, the students weighed up the three deals. When comparing the first set of options, it appears the students looked at 2 and 3, and thought: “Option 3 is clearly the superior choice.” But they then “carried” that superiority over to their comparison between 1 and 3, steering their decision towards the latter. When Option 2 was removed, however, Option 3 no longer wielded that “carried superiority”, causing the majority to swing in favour of Option 1.

Having such an obvious “better option” made the decision easier for the students. As Ariely says, “thinking is difficult and sometimes unpleasant”. People are happy to choose the immediate option; they don’t have time to deconstruct each of their decisions to expose dialectic inconsistencies and indemnify against suboptimal action. They take the simpler option; the one that requires the least thought, which proved, with the second option in place, to be Option 3.

So what Ariely’s experiment shows is how the layout - or the “architecture” - used to convey a set of options can have a significant impact on the outcome. Whether or not the people at The Economist actually made a conscious effort to direct our choices toward Option 3 is another matter. What's important is how it shows the porosity of the human brain and the ease with which manipulation could occur.

We can see another example of this, with greater and more useful consequences, by examining organ donation rates. Another investigation carried out by Ariely observed a puzzling disparity in statistics between countries.

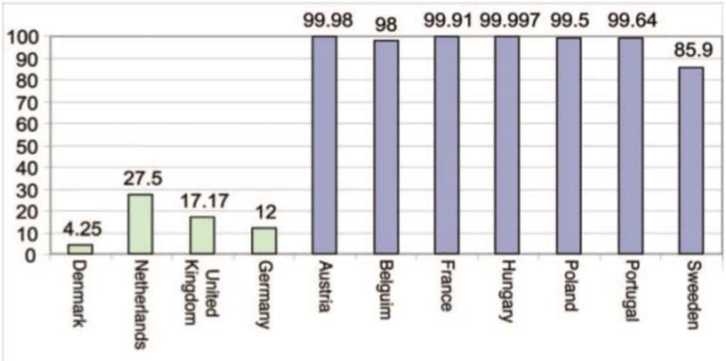

Fig 1. Graph showing the rate of consent to organ donation of European countries.
http://www.lyris.com/integrated-marketing/638-Behavioral-Economics-Opt-out-versus-Opt-in

But the ostensibly arbitrary set of results (Fig. 1) can be explained very easily, with a simple set of choices: "opt in" and "opt out". On the registration forms of the countries with high percentages of organ donation, the default option is to be opted *in.* For the low percentage countries, the default is to be opted *out.* A near negligible difference in "choice architecture" has borne profound results, demonstrating the surreptitious power of behavioural economics, to guide our thoughts without our knowledge.

So, if we wish to make an outcome more popular, making its being chosen easier seems to be an effectual method of doing so. But what if we wish to make a certain outcome *less* popular?

As the country trudged its way out of recession in 2010, it was followed by a 5% rise in divorce rates[3]. Without concerning ourselves with the religious and ethical controversies surrounding divorce, I think we can agree that, from the sights of social wellbeing, fewer divorces and more happy marriages would prove beneficial to a society.

But how can a government have any real effect on marital matters without breaching the boundaries of paternalism? Thaler and Sunstein discuss a rather unorthodox solution: the privatisation of marriage. They propose that the state should have no say in defining the conditions of marriage, and instead the task should be given to private organisations.

What would this achieve? Liberating marriage from the fetters of state control enables organisations to issue licenses as they see fit - and, naturally, the terms of each license offered will vary from supplier to supplier. Couples are subsequently forced to *think* about their decision to marry in far more detail. The actual terms of their partnership come into question and the decision becomes less easy and better thought through. Rash marriage is discouraged and, as couples ponder over which establishment offers the “best deal”, terms are picked that best suit the couple’s situation, reducing the “risk” of unsuccessful marriage. But, even if divorce rates aren’t reduced, because the terms of marriage can be chosen (terms covering custody issues, prenuptial agreements and inheritance arrangements), at the very least, the legal fireworks, stress and anxieties of divorce will be assuaged, improving social health in any case.

Another field explored by behavioural economics is that of heuristics. As mentioned before, we are not perfectly rational. At times, exhaustive examination of the costs and benefits of a particular decision can be somewhat time-consuming, so we find ourselves relying on heuristic measures.

An interesting application of behavioural theory, by Tobias Mozkowitz[4], explored how the inadvertent use of heuristics has led to inaccurate calls by referees and affected the outcomes of sports games.

When comparing win percentages, it was found that the home team wins 63% of English Premier League football matches. Rather than attributing the disproportion to bribery or haunted grounds, Mozkowitz proffers a natural explanation: “anchoring”.

During a game, the referee is inclined to subconsciously “crowdsource”; he will use the crowd’s opinion as a guide to his own. The mood of the crowd will, as expected at a home game, favour the home team. Almost unavoidably, then, the ref’s judgement will be “anchored” to the mood of the crowd. This results in a biased decision, in favour of the home side.

But anchoring poses far larger problems than just unfair refereeing. In 1774, Johann Wolfgang von Goethe published the Sorrows of Young Werther, which follows the tragic romantic entanglements of Werther, an affluent, bourgeois dilettante. The novel created a real cultural impact, causing many German teenagers to emulate the protagonist.

They dressed in his outfit of yellow and blue. And in-keeping with the book’s ending, the German teens loaded pistols and shot themselves in a wave of group suicide.

Here we have an extreme case of anchoring, perhaps more appropriately explained by Social Proof Theory[5]. The model proposes that when faced with an “ambiguous social scenario”, people will look to others for the correct course of action, resulting in “herd behaviour”. In Werther’s case, many of the victims were already in a confused and vulnerable mental position. With no clear course of action laid out before them, they looked to the action of others and found themselves captivated by Werther’s plight. As the suicidal movement gained momentum, even those unfamiliar with Werther’s story “joined in” - bound by the influence of social proof.

Last summer we witnessed another infamous case of herd behaviour: the London riots. The media blamed “gang culture”, the politicians blamed our “disaffected youth” and the rest blamed the parents of those involved – but this is where the analysis stopped. The *real* root of the problem lies far deeper within our mental constitution: If we wish to avert riotous behaviour, we must first tackle our “urge to join in”*.

This is no easy task. Humans are intrinsically imitative, and to remove this natural impulse we would have to override our evolutionary programming - unless we choose to resolve the situation externally. Once again, we could change the choice architecture. We could provide *more* options, *more* information, and force people (as we discussed with the marriage example) to *think* about their decisions.

Instead of restricting social media and the online circulation of information (like Mr Cameron suggested), for fear that it may popularise anti-social attitudes, we should promote its use to put people in touch with a collection of opposing and wide-ranging opinions. If all beliefs can be voiced freely, the threat of “opinion monopoly” diminishes.

We are left with an accessible forum of conflicting views, causing those in an "ambiguous social scenario" to suspend action, absorb the available information, and only then proceed – preventing impulsivity and irrational herd behaviour.

Our fear of "going against the grain" has been the cause of much unrest and inefficiency. In his book, the Economic Naturalist[6], Professor Robert Frank explains how herd behaviour has even found its way into our financial markets. In 2000, only 1% of the 28,000 recommendations made on US companies, by market analysts, advised their clients to sell their shares – a suspiciously low figure, especially when one considers that the stock value of many American companies depreciated by over 50% that same year.

Uncertain of their own predictions, analysts were quick to look to the actions of their colleagues. "Sell" was soon identified as the "unpopular option", and was consequently left behind. There was no rationale behind the majority's recommendation to "strong buy, buy or hold"; only a fear of opposing what had quickly become the preponderant view. Encouraging the spread of divergent and diverse views would, again, solve this issue.

But irrationality within financial markets doesn't stop there. Loss aversion, a theory championed by Kahneman and Tversky[7], asserts that "losses loom larger than gains". Put simply, people hate losing more than they enjoy winning. Investors tend to hold onto stocks for longer than perhaps they should, unable to resign themselves to a loss, holding onto an often false hope that stock prices will pick up again. What ends up happening, though, is that stock values plummet further, leaving the investor with an even greater loss to deal with.

We can observe a similar pattern in the real estate market. Unable to deal with falling house prices, many homeowners stand by their unrealistic valuations, holding out for a credulous customer with cash to spare. But when no one so gullible or affluent turns up, homeowners are forced to sell at an even lower price.

This reluctance of homeowners, to accept a price below their own valuation, carries several economic burdens. Geographical immobility of labour is worsened; the media uses the falling house prices to feed economic pessimism; and the government is forced to pay out housing benefits whilst foregoing the associated tax revenues.

Fortunately, subduing loss aversion is possible - but it isn't exactly straight forward. If we were able to show the loss-averse that, actually, in most cases, refusing to accept a minor loss will only lead to a larger loss, we could subvert their natural tendencies and bring them round to the rational course of action; to sell now, before prices drop further. But it is no good telling someone that “house prices have dropped by 3%”. Instead, we should inform them that they lost £300 today, waiting for a buyer, and that tomorrow they will lose another £500 – and see how the react to that.

Behavioural economics teaches us that a change in behaviour need not be precipitated by a change in incentive. Altering the architecture can be just as powerful as changing the content.

But despite all the potential positives of incorporating the ideas and concepts of behavioural economics into social and economic policy-making, there remains something unshakably sinister about the entire process. Perhaps we are probing too deep, delving too far into the human mind, discovering that which is best left undiscovered. J S Mill once wrote that “over one’s mind and over one’s body, the individual is sovereign”[8]. And perhaps the power of behavioural economics - to influence, in such furtive manner, human thought and action - impinges upon that sovereignty; and I think it is this which, for many I am sure, will prove unsettling if behavioural economic theory is to be fostered more actively by the powers above. For while there is much good that can be done with an improved understanding of human function, considerable evil may also be carried out - under the reign of a misguided politician or the avarice of a transnational corporation. Before any government or party can employ strategies founded on the concepts set forth by behavioural economics, they must evaluate thoroughly the consequences of such action and examine themselves, to ensure that they are not guilty of the very irrationalities they wish to exploit and amend.

Word Count: 2486

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6. *http://www.robert-h-frank.com/book.html*

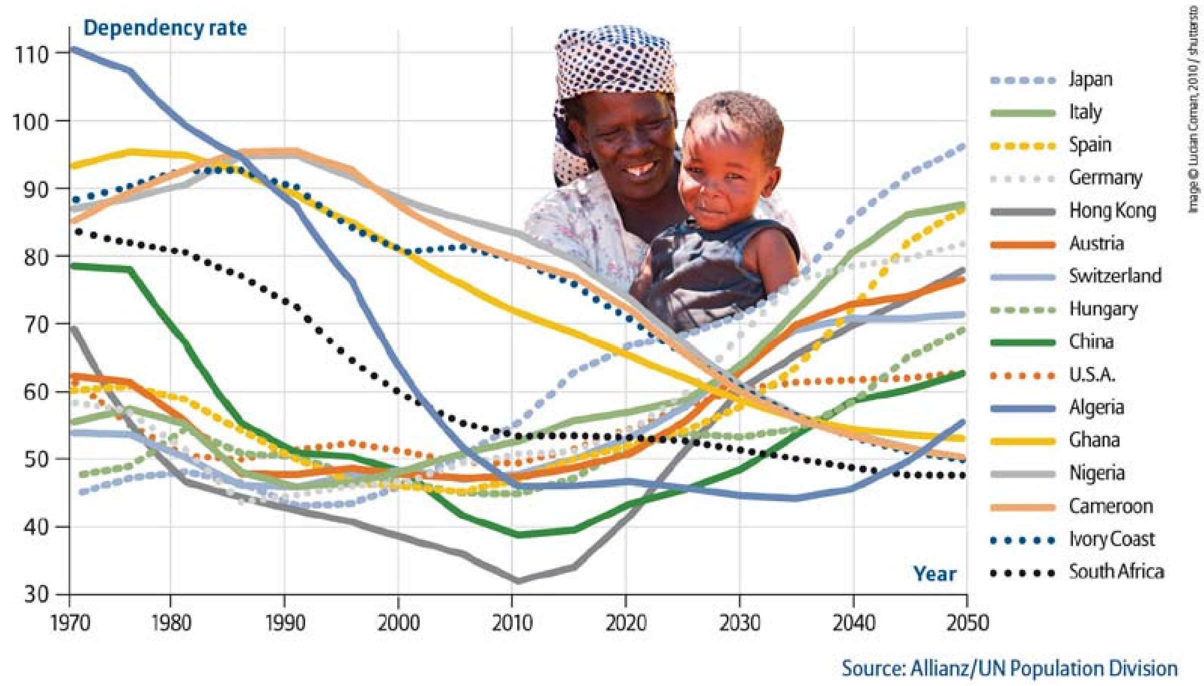
7. *The Endowment Effect, Loss Aversion, and Status Quo Bias; Source: http://pages.uoregon.edu/sdhodges/458regrt.htm*

8. *On Liberty and The Subjection of Women – J S Mill*

Africa is well-placed to achieve rapid and sustainable development in the decade ahead. Do you agree?

Sustainable development, as defined by the Brundtland Commission, is *"Development that meets the needs of the present without compromising the ability of future generations to meet their own needs"*.[1] With this in mind during this essay we need to examine whether any growth potential in Africa will harm the standard of living of future generations. We next need to ascertain what development itself encounters and which type of development to examine. I believe the most appropriate type to look at is economic development which the World Bank defines as *"Qualitative change and restructuring in a country's economy in connection with technological and social progress"*.[2] Factors necessary for this restructuring include: reliable access to raw resources, large and consistent levels of investment, a low dependency ratio, political stability and a sound base level of infrastructure. To grasp how well placed Africa is for rapid and sustainable development I will focus on political stability and investment in the continent, as these are perhaps the most important factors when considering the issue of sustainability.

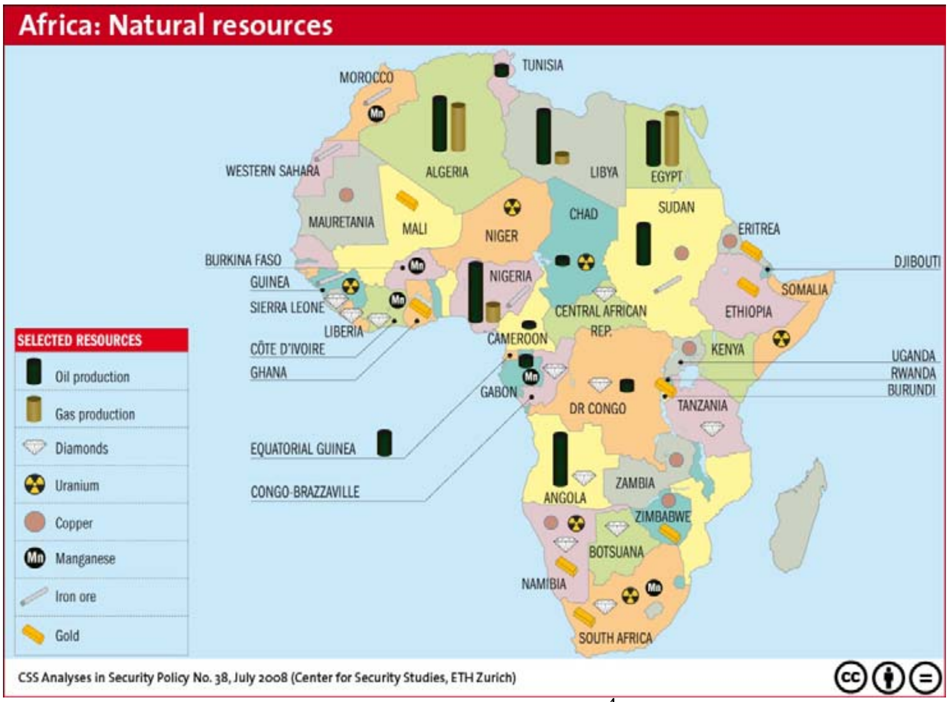
Investment is crucial to help development in Africa as it will help to bring enterprise and capital to the continent, which are in my opinion the only two factors of production it is currently missing. Africa has a very young and large population which means that it will soon have a large workforce. Africa's population in 2010 grew larger than 1 billion thus making it the second most populous continent in the world. Moreover as can be seen from the graph below, the dependency ratio in many African countries is falling quite rapidly.



[1] http://www.un.org/documents/ga/res/42/ares42-187.htm
[2] http://www.worldbank.org/depweb/english/beyond/global/glossary.html

The dependency ratio is measured by dividing the number of people not working i.e. those who are retired or still in school, by the country's total workforce. A low dependency ratio means that less money in an economy needs to be spent on caring for the elederly which enables more money to be re-invested back into the economy. A young workforce is also likely to be highly efficient as younger workers may have more energy and be able to work longer hours than older workers. The combination of a young and large workforce would suggest sustainable development in the next decade for Africa as the greater the supply of labour, the lower the price of labour is, which means that firms can produce more goods and servicves thus allowing the economy to grow.

Africa is a huge continent measuring 30, 323 km^2[3]; to give an idea of scale Africa can fit, China, Europe and the USA with room to spare. Although a lot of this land is desert or rainforest and therefore not suitable for economic activities, it is obivous that land is not a limiting factor holding the continent back from rapid development. If there is plenty of available land this decresases firms start up costs which allows new firms to enter the market and help aid economic growth. Africa is also not lacking in raw resources, it has a wide range of natural minerals from uranium to gold and as shown in the diagram below they are spread quite evenly across the continent.



South Africa's mineral wealth is estimated at $2.5 trillion[4] making it the largest mineral wealth in the world and Nigeria's proven oil reserves in 2010 were 37.20 billion barrels[5] which means it has the 8^{th} largest reserves out of all OPEC countries.

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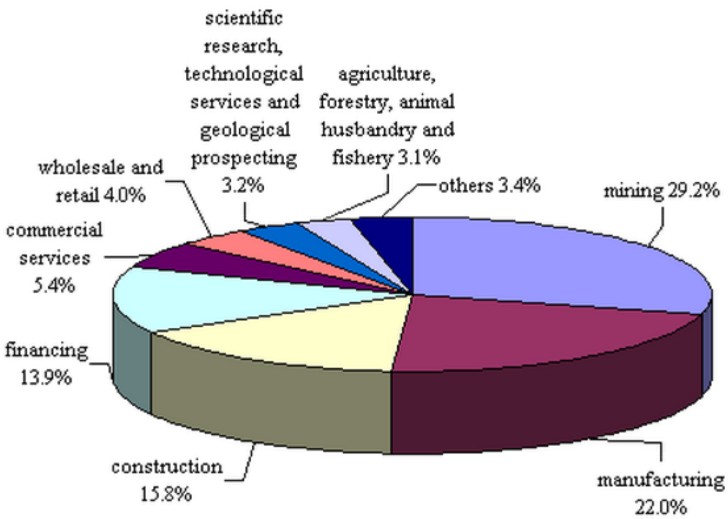
[3] http://www.oecd.org/document/0,3746,en_2649_201185_46462759_1_1_1_1,00.html – United Nations, Department of Economic and Social Affairs, Population Division, World Population Prospects, The 2008 Revision.

[4] http://www.economist.com/node/21547285

The large levels of natural resources advocate that Africa is well placed for economic development as not only can it use metals such as iron ore to help increase the amount it produces, it can export minerals such as gold to help generate revenue which could be re-invested back in the economy to assist development.

Given that Africa has a large and young workforce, a lot of available land and a wide variety of natural resources could make one question why Africa is not very well developed already. One reason is the political instability in the continent which will be explored later; the other is to do with a lack of enterprise and technologically advanced capital. Both of these factors of production require large levels of investment, which up until the last few years Africa has lacked. This restricts development as it means some countries in Africa for example do not have the mining infrastructure to extract the vast amount of minerals that lie within their territory. The lack of investment partly stems from the history of subsistence living in the continent which means the African population do not have a high marginal propensity to save thus making it hard for entrepreneurs, even if they have a good idea, to fund their projects. Political instability and corruption in multiple countries has led to a lack of government investment in the continent. The best solution to these problems is foreign direct investment which has now arrived largely from privately and state owned Chinese companies who are looking to take advantage of the favourable factors of production already set in place in the continent.

Although China has been investing in African countries since the 1980s it is only in the last decade that it has really begun to show just how interested it is in doing business with the continent as its total FDI in Africa increased from $490 million in 2003 to $9.33 billion by the end of 2009[6]. It has invested in 49 different countries including, Egypt, South Africa, Nigeria and Sudan and has aided multiple industries. A complete breakdown of industries invested in is shown below:

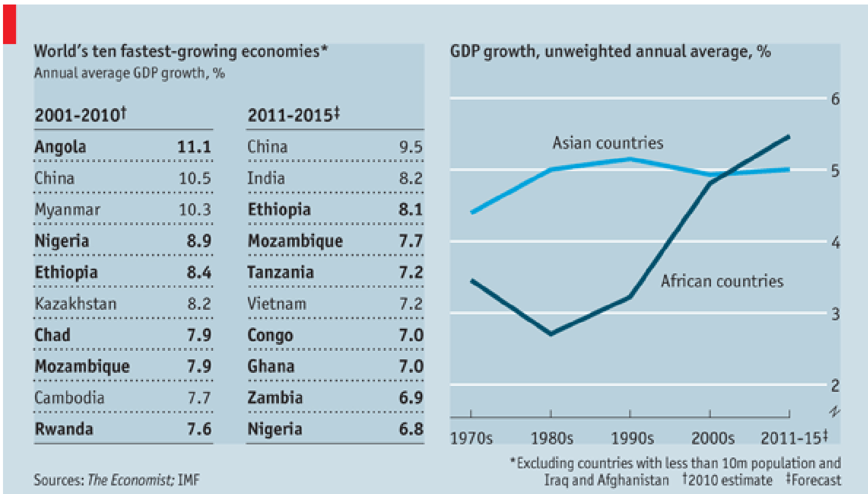


[5] http://www.opec.org/opec_web/en/data_graphs/330.htm
[6] http://english.gov.cn/official/2010-12/23/content_1771603_4.htm

Clearly the Chinese are looking to gain something from these investments and have for example made agreements with African countries that mean Chinese firms avoid double taxation. Despite these concessions the continent is still benefiting hugely from China's investment for example the creation of "*The Zambia-China Economic and Trade Cooperation Zone*" which specialises in mining, chemical engineering and construction has already led to $600 million worth of investment in the country and even more importantly the creation of 6,000 jobs for local people. The Chinese have also helped to build fundamental infrastructure in Africa for instance by helping to build the 1,860 km Tanzania-Zambia railway in the 1970s. By helping to improve infrastructure in the continent China is enabling Africa to develop at a faster rate as it is reducing the friction of distance in the huge continent. Better infrastructure helps speed up production processes as firms have to wait less time between ordering raw materials and receiving them which means output in the economy can increase.

A lot of investment by China is through loans to individuals which help encourage entrepreneurship and are more sustainable than lump sums of money given sporadically to different industries. From 2007-2009 China provided $5 billion of preferential loans to Africa with a promise of a further $10 billion of preferential loans from 2010 to 2012. This helps decrease the danger for Africa of China simply pulling all money out of the continent if for example they decided it would be more profitable to invest in Brazil.

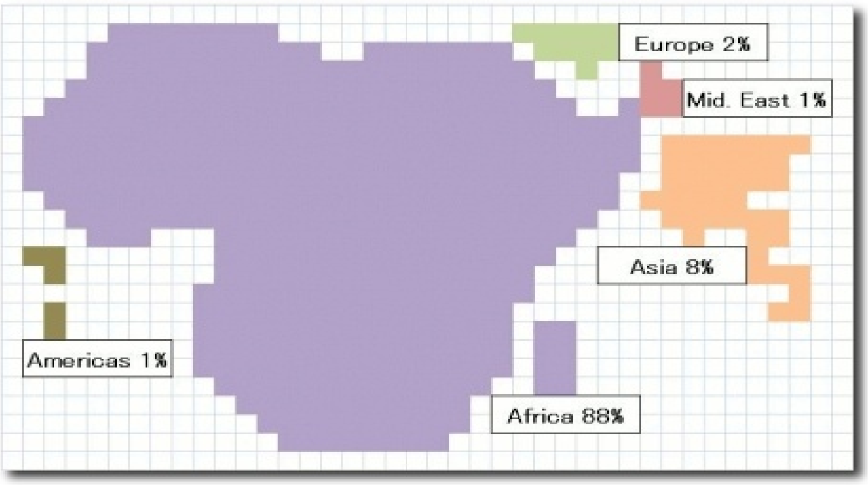
The large level of Chinese investment, good access to raw resources, low dependency ratios and a growing base level of infrastructure suggest that the continent is indeed well placed to achieve rapid and sustainable development in the decade ahead. It could be argued that this rapid development has already started as the average real GDP growth of countries in Africa in 2010 was 5.5% and in some cases such as Equatorial Guinea was as high as 12.9%[7]. What is even more promising is the fact that only one country, Zimbabwe, had negative growth of -3.1%. The data below also suggests that Africa is already, and will continue to develop rapidly as between 2001 and 2010 six of the world's 10 fastest growing economies were African countries and from 2011-2015 this number is projected to rise to seven.



[7] http://www.oecd.org/document/0,3746,en_2649_201185_46462759_1_1_1_1,00.html – United Nations, Department of Economic and Social Affairs, Population Division, World Population Prospects, The 2008 Revision.

Everything discussed so far implies that Africa is very well placed to achieve rapid sustainable development in the next decade, and some countries may already have begun to do so. However, there is a major problem in many parts of Africa that in my opinion could severely debilitate the continent's growth potential in the next decade; the problem is political instability. Political problems have led to civil or international wars between countries as well as dictator's leading countries for multiple decades. This hampers economic opportunities for many reasons the most simple of which is to do with the disruption war can have on daily life in a country. Economic activities such as manufacturing are likely have to shut down as it is possible that the workers in factories may be taking an active role in the political fighting, or else the turmoil in the country will disrupt transport and infrastructure links making it impossible for manufacturers to receive their raw materials. If the war continues for a long time then there could be a large decrease in the country's output, causing economic decline rather than development.

Unpopular and corrupt dictators and regimes can hamper development. For example, if governments can be easily bribed to give large companies an absolute advantage in a particular country, then smaller rival companies may struggle to stay in business thus giving the original company a monopoly. Monopolies can lead to inefficient economic practices which slows development. Equally if a government acts in a way that other countries in the international community disapprove of, then they could risk economic sanctions being imposed on their country. For instance in late November 2011 the Arab League approved sanctions on Syria that include an asset freeze and an embargo on investments[8] as members of the league are unhappy about how the Syrian government has dealt with recent political problems. A lack of political stability can mean that there is unlikely to be long term sustainable development in a country as if there is a constantly changing government then there may be no long term focus or goals set in place. Governments may only be concerned with pleasing people in the present and so will not invest in vital sectors such as education and healthcare. This is important for development as without adequate healthcare and education the country may find in a few decades they have an uneducated and inefficient workforce with hardly any entrepreneurs.



[8] http://www.bbc.co.uk/news/world-middle-east-15901360

To give an idea of the scale of conflict in Africa over the last few decades Virgil Hawkins, author of "*Stealth Conflicts; How the World's Worst Violence Is Ignored*" made the map shown above which represents conflict death tolls between 1990 and 2007 where the square area of continents/regions corresponds to their proportion of conflict death tolls. These conflicts have caused there to be over 9 million refugees and internally displaced people in the continent over the same time period[9]. Naturally war is likely to slow "*technological and social progress*" and therefore disrupt countries' economic development. Although some argue that many of the conflicts in Africa have been resolved there are still enough ongoing issues to delay sustainable development over the next decade. For example the Arab revolts which occurred in Tunisia, Egypt and Libya in 2011 show the North of Africa is a very politically tense zone. Some argue that the result of the uprisings will be more stable and less corrupt governments that will encourage sustainable development greatly, however, I believe that it will take several years for firm and fair governments to be established in this area which means that rapid sustainable development is unlikely in this region in the next decade. The fighting in central Africa which is centred in the Democratic Republic of Congo has recently decreased but is nevertheless still ongoing. Since its outbreak in August 1998 the war, which involves seven nations, has caused both directly and indirectly 5.4 million deaths and continues to cause 45,000 people to die each month[10], making it the most deadly conflict since World War Two. The fighting severely disrupts trade in the area as it is hard for countries to import and export through war zones. It is therefore sensible to assume that there can be no real sustainable development in the area until the conflict is brought to a complete end and the 1.5 million refugees of the conflict are returned home.

There are other crucial reasons why regions in Africa are not well placed to achieve rapid sustainable development. The Sahel region is suffering from extreme desertification at the moment which is causing shortages of food, water and fuel wood as it is decreasing the biological potential of the soil which decreases crop yields. There have also been large levels of population growth in countries in the region; in Burkina Faso the estimated growth rate for 2012 is 3.073%, the 9th largest in the world and in Mauritania it is an estimated 2.323%, the 35th largest in the world[11]. The combination of these issues means that local populations are fast exceeding the carrying capacity of the land which would suggest there is very little room for economic growth as if the region is currently struggling to support a largely subsistence based culture it will not be able to support increased industrial activity.

In conclusion, I do not agree with the statement. Firstly, I do not believe it is fair to generalise as much as the question does when talking about as diverse and large a continent as Africa. I believe that some countries like South Africa are well placed for rapid development as they have a relatively stable government, a huge amount of natural resources and easy access to large markets such as South America and Asia. However, despite China's large levels of investment across the continent I think a lot of other regions are not well placed for rapid development. Many lack the basic level of infrastructure and moderately well educated workforce necessary to progress economically. Central Africa seems still too

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[9] http://www.globalissues.org/article/84/conflicts-in-africa-introduction
[10] http://www.globalissues.org/article/87/the-democratic-republic-of-congo
[11] https://www.cia.gov/library/publications/the-world-factbook/geos/mr.html

politically unstable and affected by war to see any rapid improvements over the coming decade. Some regions like Sahel are not well placed due to environmental issues such as desertification. I would finally like to challenge whether it is actually possible for a country to develop in a way that is both sustainable and rapid. The term "sustainable" means using resources today without compromising the needs of future generations. As development of any kind means an increase in the demand for resources, it seems fair to assume that rapid development will put a huge strain on existing resources. Even if countries grow by only a few percent a year, the evidence suggests that there is not the infrastructure in Africa to be able to access resources quickly enough to support this growth. Given the current food and water shortages in Africa, especially in the East, it does not seem possible that a decade of rapid economic growth can be supported without severely compromising the needs of future generations.

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