

Better Together: How We Build Economic, Political, And Environmental Sustainability

BETTER TOGETHER: HOW WE BUILD ECONOMIC, POLITICAL, AND ENVIRONMENTAL SUSTAINABILITY

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University of Leeds Open Books



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DEDICATION

This book is dedicated to my mother and my father.

In earlier times, people built public fountains, places where anyone could stop to quench their thirst and continue their journey. These fountains were often created in the name of loved ones, not for recognition, but as a lasting contribution to society, something meant to serve others quietly and freely.

What you are reading is my parents' fountain.

If reading these pages has helped to quench your thirst for clarity, curiosity, or reflection, even briefly, then this is their contribution to you. If you feel appreciation, gratitude, or positive energy as a result, let it flow back to them, in whatever way feels right to you.

All credit and appreciation belong to them.

PEER REVIEW AND ACKNOWLEDGEMENTS

This open education resource is peer-reviewed by James Roberts, Lecturer in Strategy and Organisation from University of Leeds Business School and Professor Omar Al-Tabbaa, Professor of International Business & Strategy & Director of Research and Innovation, University of Leeds Business School.

The open book is proofread by Kirstine McDermid (Open Education Manager, University of Leeds Libraries) with the help of Grammarly. Kirstine additionally reviewed the materials for accessibility, copyright, and licensing compliance before publication.

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THE TRANSFORMATIVE POTENTIAL OF ECONOMIC LITERACY

Everything we experience around us, whether we notice it or not, is shaped directly or indirectly by political and economic choices. Our living standards and everyday routines, the quality of our lives, how many hours we work, how much leisure time we have, what we are paid and how secure our jobs feel, the kind of housing we can afford, and whether we rent or buy, all sit on top of decisions about institutions, markets, and power. The interest rate on your mortgage, the fees you pay to your bank, how easy it is to get a loan, and why credit suddenly becomes tighter, are not simply personal matters, they are outcomes of financial rules, central bank policy, and the behaviour of large institutions. The price of your weekly grocery shopping, the quiet shrinkage of what fits in the same basket, and the feeling that your salary buys less each year all link back to inflation, market structure, wages, taxes, and supply chains that stretch across borders. The cost of petrol, why it rises sharply after a geopolitical shock, why it sometimes falls slowly, and how energy prices spill into transport costs and then into everything you buy, are also political economy in action. So are your savings, whether they grow or lose value in real terms, why pension funds invest where they do, how stock markets shape business decisions, and why global market swings can end up affecting your retirement. The rapid spread of artificial intelligence, the rise of cryptocurrencies, and the development of blockchain systems raise further questions about who controls data, how value is created and distributed, and who benefits from technological change. These technologies are also tied to very real economic choices about energy consumption, the environmental footprint of data centres and mining activities, and the urgency of investing in green energy and sustainable infrastructure. Healthcare, life expectancy, and the innovations that make life easier and more enjoyable, from new medicines and medical technologies to the phones in our pockets and the digital services we use every day, emerge from choices about public investment, regulation, competition, and what societies decide to prioritise. Even the ethical questions behind your favourite brand, who made it, under what conditions, and at what environmental cost, come down to the rules that govern global production and trade. All of these are not neutral developments; they emerge from specific institutional settings, investment priorities, and political decisions.

Over time, humanity has learned a crucial lesson. Societies flourish not when they are permanently preparing for conflict, but when they manage to establish internal peace. When peace is achieved, energy and resources no longer need to be wasted on defence, repression, or domination. Instead, they can be directed towards education, innovation, healthcare, and shared prosperity. This insight led, in a limited number of places, to the gradual construction of democratic systems based on the rule of law, human rights, and freedom of thought. Where these values were genuinely implemented, societies became more productive, more

innovative, and ultimately more prosperous. People lived longer, healthier lives and enjoyed higher levels of well being.

Yet this achievement was deeply incomplete. The democratic order that enabled internal peace was largely confined within national borders. Outside those borders, the same societies often behaved in ways that were far from democratic. Other regions of the world were seen not as equal partners, but as territories to be exploited, markets to be captured, or sources of cheap labour and raw materials. Democracy was rarely extended beyond the boundaries of the nation state, and there was little genuine effort to build similar institutional frameworks elsewhere.

At the same time, the economic system that developed alongside these narrow democratic spaces was built on a simple and powerful principle, produce as much as possible and maximise profits. Environmental limits were ignored, social costs were externalised, and long term consequences were pushed aside in favour of short term gains. For a while, this model appeared successful. Output increased, consumption expanded, and wealth accumulated in parts of the world. However, the deeper costs of this arrangement were accumulating quietly in the background.

Today, those costs are impossible to ignore. Environmental systems are under severe stress, climate change is accelerating, biodiversity is collapsing, and oceans are filling with plastic. At the same time, social tensions are rising. Inequality is widening, trust in institutions is eroding, and large scale movements of displaced people are becoming a defining feature of our age. These are not isolated crises. They are interconnected outcomes of a distorted global order in which democratic values were narrowly applied and many stakeholders, including future generations and the natural world itself, were excluded from consideration.

This raises uncomfortable but necessary questions. Are the societies that are often described as economically successful truly successful in a broader sense. Is high income alone a sufficient measure of progress. What does the other side of the medal reveal when we look beyond national averages and aggregate growth figures. If democratic values had been extended beyond borders, and if advanced societies had behaved more democratically in their global actions, would our world look different today. It is also worth asking whether those societies have begun to forget the very principles that once enabled their internal peace and prosperity. Among younger generations, awareness of the link between democracy, institutional quality, and economic success appears to be weakening. This loss of awareness carries the risk of gradual erosion and reversal.

For societies that remain less developed, the challenge is different but equally serious. Many do not fully understand the structural reasons behind their economic struggles. Without strong democratic institutions, independent courts, free media, and protections for thought and expression, sustainable development remains elusive. Economic outcomes are not determined by fate or culture, but by institutions. Where these foundations are absent, prosperity cannot take root.

The task ahead, therefore, is not merely to defend democracy within a narrow space, but to expand it. This expansion must be social, global, and forward looking. It must include not only all human societies, but also the natural environment on which we depend. It must even anticipate future actors, including advanced

artificial intelligence systems whose power and impact are already being debated. Any sustainable order must take all these elements into account.

In this process, the most important actor is the individual. Democratic systems function only when individuals understand their role and exercise it consciously. At the micro level, individuals make choices about consumption, work, savings, and investment that shape markets and production. At the macro level, they elect policymakers, evaluate institutions, express dissent, and hold power to account through democratic means, including the right to protest. For individuals to perform this role effectively, economic literacy is essential.

Economic literacy empowers people to make better decisions in their own lives, while also understanding how those decisions connect to broader social and environmental outcomes. It enables individuals to protect not only their own interests, but also the interests of others, including those they will never meet. It allows them to participate meaningfully in debates about public policy and to influence the direction of collective choices.

This is precisely the role of this book. It shows how the culture of living together is inseparable from political economy. From environmental challenges and production decisions, to labour markets and working conditions, from why some societies develop while others fall behind, to plastic pollution in oceans, urban planning, central bank independence, media freedom, international trade, global supply chains, and the role of the US dollar in the world economy, all these issues are connected. At first glance, they may seem unrelated. Yet again and again, the discussion leads back to the same conclusion.

Everything works better together.

You may be surprised by how often the argument returns to this simple idea. By the end, it becomes clear why this political economy book carries the title *Better Together*. These two words capture the essence of what holds societies together and what allows them to thrive. Understanding this requires awareness of democratic values, strong institutions, and the separation of powers. Increasing political and economic literacy is not a luxury. It is a necessity.

If this understanding resonates with you, then this book has achieved its purpose. And if it does, I invite you to share it with others. Because the future we face can only be built, and sustained, together.

DESIGNED FOR FLEXIBILITY AND CLARITY

To enhance your reading experience and ensure that you can integrate this knowledge seamlessly into your busy life, each section of this book is kept concise and focused. You can dive into as many sections as you like in one sitting or explore them one at a time at your own pace. The structure allows you to easily pick up where you left off, making it effortless to start a new section whenever you're ready. This approach ensures that the book is not only informative but also incredibly accessible and easy to follow, no matter your schedule or prior knowledge.

The first chapter of this book addresses a vital question: why have some nations achieved economic progress while others have not? Even if you don't read the entire book, that opening section offers valuable insight and is well worth your attention. From there, the content branches into both micro and macroeconomic themes. If you're particularly interested in macro issues, feel free to jump directly into those sections.

For educators considering this book as a resource for teaching economics to non-economists, it's designed with accessibility in mind. You won't find technical jargon, complex diagrams, or equations here. The language is clear and straightforward. If you'd like to incorporate traditional economic tools into your teaching, you're welcome to build on the content as you see fit.

PART I

FROM MAGNA CARTA TO MODERN GROWTH: THE JOURNEY OF DEMOCRATIC AND ECONOMIC PROGRESS

1.

BE BETTER TOGETHER: CRAFTING A SUSTAINABLE FUTURE

I want to name this book ***Better Together*** because that idea is at the core of everything it stands for. The book explores how humanity, the environment, living creatures, and even non-living forces are all interconnected as stakeholders within a shared and boundless system. It shows that when we care for each other and work as a team, we can build a kinder and stronger world. It's not just about doing things alone, but about sharing, supporting, and growing together. Being better together isn't just a nice phrase, it's something real we can all be part of. This book invites us to imagine and build a world where everyone and everything can thrive, side by side.

Nature itself operates on principles of sustainability, maintaining a balance that supports diverse life forms. However, this delicate balance is often disrupted by human activities. Our decisions, whether they are driven by economic motives or political agendas, have profound implications that ripple across our social and environmental landscapes. These decisions can originate from various sources, from individual households to global corporations and governments; their impacts are both individual and collective, influencing society at large.

The narrative further explores key principles that should guide our actions and decisions, highlighting the responsibility of firms in making environmentally sound production choices, and of individuals in electing representatives who prioritize the collective good. These principles are not just theoretical; they are practical guides that steer everyday decisions towards more sustainable and equitable outcomes. As we navigate our daily lives, these principles act as a moral compass, ensuring that our choices contribute positively to the broader community.

In aiming to build a sustainable world that is economically viable, politically stable, and environmentally sound, these principles serve as the foundation. They address not only specific environmental issues like plastic pollution and climate change but also broader societal challenges such as managing refugee crises and combating authoritarian regimes. The success of this transformative vision depends heavily on educating and informing people about these fundamental principles, which are crucial for the advancement of any nation. For instance, in developing nations like Afghanistan, there is a pressing need to raise awareness about these principles to harness their potential for improving well-being. Conversely, in more developed countries like Germany, United States, France, United Kingdom, these principles have been instrumental in achieving progress, though there is always the danger that their significance might be forgotten or undervalued over time.

The book stresses the importance of imparting these principles to new generations, regardless of one's

profession or educational background. Whether one is a medical doctor, teacher, carpenter, or taxi driver, the capacity to make informed, principled decisions is paramount. Education plays a crucial role here, but it must go beyond traditional subjects to inspire a deep understanding of these guiding principles. Societal progress is truly achieved when individuals, equipped with this knowledge, participate actively in decision-making processes that shape a better society.

Ultimately, *Better Together* aims to both deepen and refine these principles, acknowledging their profound impact on our living standards throughout history. On the other hand, we must also face the consequences of our past choices and confront urgent concerns about the future. We have already inflicted serious damage on the environment, and now we stand before the emerging challenge of superintelligent AI, a stakeholder whose influence could surpass anything humanity has previously known.

It calls for a rethinking and redesigning based on contemporary insights, ensuring that future generations can build on a strong framework capable of continuous improvement. The exploration of these principles and their transformative role in our lives is both a journey and a call to action, inviting readers to engage deeply and thoughtfully with the ideas presented.

2.

THE EVOLUTION OF HUMAN FREEDOM AND THE PATH TO PROSPERITY

When we reflect on human life through the lens of economic development, social issues, and transformative advancements, a pivotal moment emerges. Today's world is defined by the widespread presence of technology, artificial intelligence (AI), and significant medical breakthroughs, among various other innovations. The combination of these technological and medical advancements significantly enhances our living standards and aids in our pursuit of a longer, higher-quality life.

Central to these profound changes is the concept of human freedom. Throughout history, progress in the economic, social, and technological realms has been closely linked to the evolution of human freedom. A key attribute distinguishing humans from other animals is our ability to achieve true freedom. This includes living in peace, free from fear, and having the freedom to explore new ideas, think independently, and express our thoughts freely. Such freedom fuels creativity, innovation, and increased productivity in society.

The historical record demonstrates that nations, irrespective of their natural resource wealth, can achieve high living standards by fostering environments characterised by true freedom. This is a powerful assertion that holds true even today. A nation that invests in resources beyond mere natural wealth by promoting true democracy, human rights, the rule of law, and free speech can flourish and prosper.

In establishing the groundwork for this book, the goal is to embark on a historical exploration of our origins, understanding where we have come from, and considering the trajectory of our collective journey. This foundational discussion sets the stage for a detailed exploration of various economic subjects, all of which are highlighted by the central argument that human freedom is the foundation of progress, innovation, and prosperity.

It has been known for a long time that missionaries of every religion open schools in foreign countries. There are many examples of this from both the West and the East. Instead of these schools trying to gain supporters for their spiritual claims or imposing their language and religion on others, if they had transferred the core values of a culture of living together, as discussed in this book, to the societies they entered, they could have raised generations who were advocates of these values and principles. These generations, fighting for human rights, supporting freedom, and standing for democracy, would have played a significant role in making the places they lived more liveable through the decisions they made. In a world that is liveable for everyone, no one would feel the need to leave their homeland, risking their lives on the roads, crossing borders in the hands of cartels, searching for a better life.

3.

HARMONY FOR PROSPERITY: BUILDING A SUSTAINABLE SOCIETY FOR COLLECTIVE WELLBEING

Our ability to coexist peacefully has always been a cornerstone of human history. The olive branch, a symbol of peace, serves as a reminder of our collective journey towards harmony. Consider the olive tree itself; it takes years to bear fruit, symbolising that true peace also requires patience and perseverance. In ancient times, tribes would sometimes destroy each other's trees during conflicts, illustrating the depths of their animosity. Cutting down these trees wasn't just an act of destruction; it was a deliberate attempt to harm the enemy, a representation of the devastation caused by discord.

However, there's a profound lesson hidden in this historical anecdote. When a region has flourishing fruit trees, it signifies more than agricultural success; it's evidence that peace has been sustained there for some time. These orchards become emblems of enduring peace, standing as silent protectors of cooperation over conflict.

As we reflect on our shared history, the olive tree emerges as a living link across generations, reinforcing the enduring significance of peace. It stands as a testament, urging us to contemplate peace through the patient growth of its branches and the resilience of its fruit-bearing capabilities.

Disagreements are an inherent part of human nature. Whether it's with a spouse, sibling, or friend, we often find ourselves in conflict with others. These disputes can extend beyond personal relationships, affecting entire families, tribes, and even nations. Unfortunately, minor disagreements can escalate and spread, potentially leading to significant global conflicts.

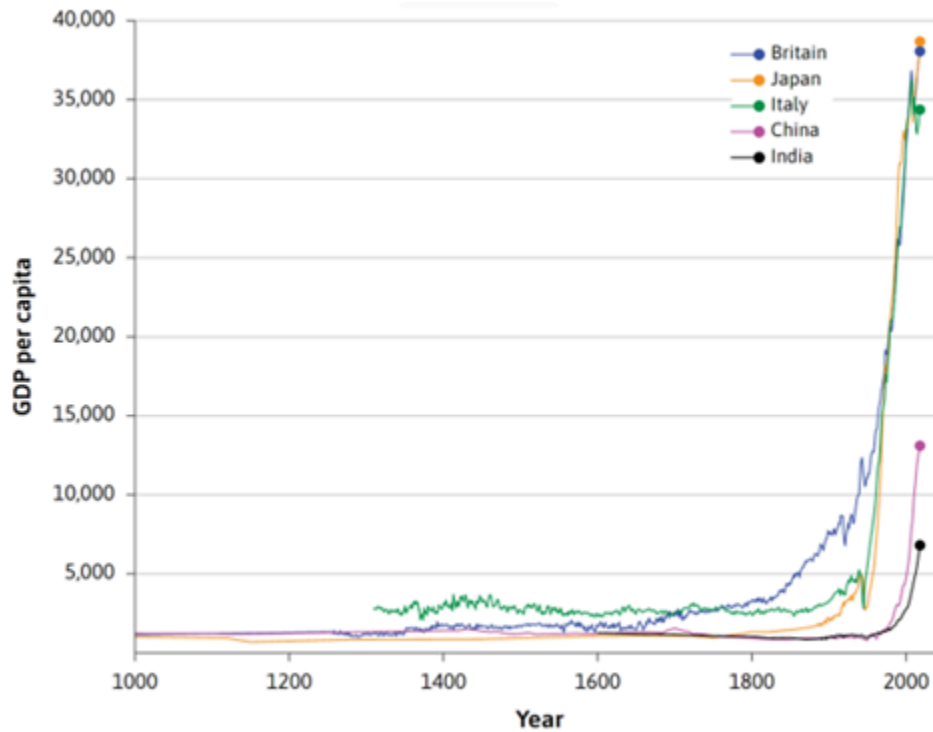
This reality has shaped the design of some of the world's most famous tourist destinations. Consider Venice, for instance, built among reeds not just to improve daily life but also to safeguard its inhabitants from potential adversaries. Similarly, the Dutch city of Groningen is adorned with a meticulous network of canals. While these canals enhance the city's charm, they were originally designed for defence against external threats.

Cities around the world narrate tales of human resilience and the deep-seated need for security amidst conflict. Each cityscape, with its unique architecture and street layouts, stands as a living testament to humanity's quest for safety and peace. Exploring these cities uncovers a crucial link between urban planning and the age-old pursuit of a stable, secure society in an ever-changing world.

For centuries, daily life remained relatively unchanged (please see Figure 1). Before the 18th century, people lived much as their ancestors did, with minimal economic progress. Envision a time when the majority of the populace worked in fields, heavily dependent on weather conditions for survival. A successful season meant a

decent harvest, but a poor one could result in famine. This era lacked modern medicine, and life expectancy was short, with frequent wars further reducing it.

Figure 1: Why Some Nations Got Rich: GDP per Capita Since 1000



Source: The Core Econ

During this time, most people were illiterate and rarely questioned the political or social systems governing them. Decisions about war and peace were made by a few powerful families, kings, or lords, who could mobilize entire communities for battle. For the majority, the opportunity to challenge the established order was virtually non-existent.

Yet, history reveals that some societies eventually broke free from this cycle, paving the way for progress. The signing of the Magna Carta in the 1200s was a pivotal moment. This document laid down fundamental rules for coexistence, setting the foundation for a society where peace could foster progress. This breakthrough allowed societies to envision a future where security and fairness were attainable goals.

Progress required a departure from a life dominated by survival and conflict. People began to focus on improving everyday life and building peaceful communities. This shift extended beyond human interactions to include animals, the environment, and the cosmos at large. However, for this comprehensive perspective to take root, people needed to find common ground and establish systems that worked for everyone.

The transition from constant conflict to a focus on cooperation took time and necessitated a mental shift

towards caring for others and the environment. Over time, people developed an interest in creating a fair society where diverse voices were heard and considered.

This evolution from division to unity marked a significant change in how people viewed life together. It represented a choice to prioritise peace and well-being, forging a future where progress and harmony could coexist.

The move from nomadic lifestyles to structured societies hinged on creating systems that balanced individual needs with collective safety. At the heart of this transformation was humanity's desire for stability and influence. History is replete with examples of fierce battles for power, often at great cost. In both economic and political realms, life often seemed stagnant, with little opportunity for improvement. Political power was typically concentrated among a privileged few, leaving the majority with limited options.

Those who dared to question this system faced serious risks. Speaking out against war, for example, could result in imprisonment or worse. This situation is still relevant today, as seen in conflicts like the one between Russia and Ukraine, where citizens face the tough choice between going to war or facing imprisonment. These scenarios highlight how limited freedom and autonomy can be when power is concentrated in the hands of a few.

Throughout history, three main sources of power have dominated: religious institutions, monarchies, and society itself. Often, society found itself struggling against the overwhelming strength of the other two. The stakes were high, as these powerful entities set the rules and controlled people's lives.

Here, I'd like to share a story of my own. Once, while visiting my dear and long-time friend Ersin in Germany, he had to leave early in the morning to teach at the school where he worked. I asked if he could drop me in a nearby small town so I could find a coffee shop, sit for a while, and maybe later walk around. He dropped me off in a quiet neighbourhood, and I stepped into a small café filled with local people. It was early, calm, and warm inside. A waitress came to take my order, but she didn't understand English. Before I could figure out what to do, a woman sitting nearby gently stepped in, translated my order into German, and helped us both.

She turned to me and said it was clear I wasn't from this little town – here, everyone knows everyone. We started talking. When she learned that I was a university professor in England, her face lit up. She told me about an old university not far from there: Helmstedt University. It was no longer active, she said, but it had a fascinating history. She kindly offered to guide me around, and I gladly accepted.

We visited the old campus, which was now used as a space for art exhibitions and conferences. The buildings stood with quiet dignity. There were no students, no lectures – but there was memory in every corridor. She spoke about the remarkable minds who had once studied and taught there. One name stood out to her and, eventually, to me too – Professor Giordano Bruno.

He wasn't originally German, and he wasn't based solely at Helmstedt, but his ideas and influence passed through European universities like this one. He was a philosopher and cosmologist who challenged the central teachings of the Catholic Church. He believed in an infinite universe, filled with countless worlds like our own. These were radical ideas for the time, and they deeply threatened the religious authorities. Bruno was accused

of heresy. After years of trials and imprisonment, he was taken to Rome, and, in a public act meant to silence others like him, he was burnt at the stake.

Hearing this story there, on the grounds of a once-great university, was different. It didn't feel like history. It felt close. Personal. It reminded me how fragile the space for free thought can be and how power, when unchallenged, will go to terrifying lengths to protect itself.

This reluctance to embrace change or challenge established systems has left a profound mark on history. Often, any threat to the status quo was quickly suppressed. The concept of a free society, with its potential to challenge entrenched power structures, was fiercely resisted. The actions of those in power to maintain control have shaped our understanding of freedom and individual rights over time.

Considering all this, we are now better prepared to explore economic and political issues from a broader, more integrated perspective. By grounding our discussions in the values of a balanced society, we can better understand how different professions and sectors contribute to the overall structure of civilisation. This approach allows us to view economic and political landscapes with fresh eyes, appreciating the role each sector plays in advancing the foundational principles that bind us together.

Media Attributions

- The Business Cycle

4.

UNLOCKING HUMAN POTENTIAL: THE VITAL ROLE OF FREEDOM AND INNOVATION IN ENHANCING LIVING STANDARDS AND QUALITY OF LIFE

Before the widespread discussion of democratic principles, monarchies predominantly ruled, an era when the ideas of democracy were either completely absent or only just beginning to form. Imagine the greatness of kings and their courts, where they symbolised entire nations. Every step they took toward their thrones was met with deep respect, shown by kissing their hands, skirts and robes. Power was passed down through families, often leading to internal conflicts and complex political struggles.

History is full of stories of wars fought by armies under the command of powerful families. The loss of countless young men in these battles reminds us of the harsh truth behind the saying, “If boxing is a sport, then war is the Olympics.” Yet, not all monarchs claimed their thrones through violence. Some societies, firmly rooted in monarchy, sought stability by inviting foreign rulers. For example, the British welcomed a Dutch king, and the Hungarians a German king, showing how nations sometimes turned to outsiders for renewal and leadership.

This era of monarchy provides a compelling chapter in our historical records, where the dynamics of power, warfare, and diplomatic strategies profoundly influenced the destinies of nations and left a lasting imprint on the collective consciousness of humanity.

From a primitive perspective, there is a deeply held belief that the state is a sacred entity. However, upon closer examination, it becomes clear that the sacredness is attributed not to the state itself but to the individual. This perspective challenges the traditional view of the state as an all-powerful entity, urging a reconsideration of the relationship between citizens and their governments.

Contrary to the traditional reverence for the state, where questioning or challenging its authority is often seen as fraught with danger, a pre-civilized perspective holds that true holiness resides in humanity itself. This shift in understanding encourages a critical examination of power dynamics and challenges the notion that a select few should hold monopolistic control over power for their personal benefit.

In today’s global context, we find numerous examples of anti-democratic practices carried out by those in power. Notable among these are the one-party rule in China and authoritarian regimes that present themselves

as democracies, such as Putin's Russia. It is particularly alarming to observe how countries rich in natural resources can suppress dissent and maintain oppressive regimes.

Additionally, there is a concerning trend where societal narratives are manipulated, enabling those in power to present ordinary items as luxury goods, exploiting populations that have previously suffered from poverty and deprivation. The control over media and propaganda further perpetuates this deception, contributing to a quality of life that is below what is globally acceptable.

A pre-civilised perspective challenges us to rethink power, reminding us that people's worth should be valued over blind loyalty to the state. Power can be used for both good and harm, and societies must remain cautious to protect democracy from manipulation and authoritarian rule.

In today's world, ensuring fair living standards begins with understanding the role of the state. Society is made up of people from different backgrounds, ages, beliefs, and cultures, further shaped by migration and globalisation. The state provides a platform where these differences come together, allowing us to create shared rules, make collective decisions, and establish rights and protections that guide how we live together.

At its core, the state is not just a system of authority; it is a space where people unite to define the principles of communal life. It ensures that no single group dominates others, giving everyone a voice and a stake in decision-making. It is not merely a hierarchy of power but a structure built on shared values, cooperation, and mutual respect.

Ideally, the state should serve as a safeguard against groups or political factions seeking to take control for their own interests. It should prevent the rise of alternative power structures that distort governance and instead ensure that decisions reflect the collective will of society. In its best form, the state is a tool for fairness and justice, where representation and constitutional rights are not just ideals but lived realities that support a thriving and stable society.

Ultimately, the state is a shared project, something we shape together to ensure a fair and prosperous life for all. It is a framework that allows different voices to come together, creating a balance between individual rights and collective well-being. The ability to maintain and improve this structure is key to sustaining democracy and ensuring that progress benefits everyone, not just a privileged few.

Throughout history, human civilisation has depended on rules to organise life, from small family units to entire nations. Western societies have been particularly effective at managing diversity through systems that grant representation and protect individual rights. The United States, with its 50 states and a democratic tradition spanning centuries, exemplifies this approach. However, history also teaches us that democracy must not be used as a tool for exploitation, as seen in colonial practices. Instead of repeating past mistakes, societies must learn from them and work toward a system that prioritises fairness, cooperation, and true inclusion.

Democracy has faced challenges along the way, but these have been recognised and addressed over time. A key milestone in this journey was the election of Barack Obama, the first African American president of the United States. His election marked a major shift, breaking long-standing barriers and demonstrating the nation's commitment to inclusivity.

The progress toward greater diversity in leadership is evident worldwide. Today, the former Prime Minister

of the UK, of Indian descent, and the Prime Minister of Scotland, of Pakistani heritage, highlight how leadership roles are becoming more reflective of diverse societies. These examples are especially significant given democracy's deep historical roots, with foundational moments like the Magna Carta shaping its evolution.

Democracy is an ongoing process of growth, learning from past mistakes, and striving for a future that is fairer and more inclusive. While challenges remain, each step forward reinforces the principle that governance should represent and serve all people.

The foundation of a thriving society lies in maintaining internal peace. When we look back at the past five centuries, we see that the nations leading in discovery, innovation, and development all share a key characteristic, strong social harmony. This harmony is not just about having efficient governments or well-functioning institutions; it is rooted in a deep respect for individuals and their rights. Societies that prioritise peace and mutual respect tend to create environments where people can flourish, express themselves freely, and contribute to the common good.

A clear example of this is England, where the relationship between the state and its citizens is built on a foundation of trust. One of the most striking reflections of this trust is the fact that police officers do not routinely carry firearms. This is not just a matter of policy; it is a cultural statement that emphasises the importance of resolving conflicts without force. By choosing not to arm officers in daily patrols, the state signals a commitment to de-escalation, reducing fear, and ensuring that citizens do not feel constantly threatened by authority figures. Unlike in many other countries where law enforcement relies heavily on intimidation and strict identity checks, England's approach fosters a sense of security and mutual understanding between the public and those entrusted with maintaining order.

This focus on social harmony and individual dignity extends beyond law enforcement; it shapes the very fabric of these societies. When people feel safe, valued, and respected, they are more likely to engage positively with their communities and participate in democratic processes. The long-term impact of this approach goes far beyond policies or laws; it forms the core of a philosophy that sees peace not just as the absence of conflict, but as an essential condition for progress, well-being, and a high quality of life.

By prioritising internal peace and social cohesion, societies create the foundation for sustainable growth, innovation, and overall prosperity. History shows that nations that invest in these values are the ones that build lasting success, not just in economic terms, but in the strength of their communities and the happiness of their people.

Delving into the historical trajectory encapsulated in economic tables invites us to consider a narrative where per capita income serves as a barometer for economic development and the evolution of living standards. Historically, these living standards, indicative of our collective prosperity, remained relatively unchanged for centuries, tracing a stagnant trajectory. However, this historical pattern was notably disrupted by transformative actions taken by countries like England, followed by pioneers such as the United States and the Netherlands.

In this detailed exploration, we encounter China, a modern economic powerhouse that has achieved extraordinary economic growth over the past two decades. Despite its rapid progress, China is at the beginning

of a long developmental journey. The critical question that arises is whether China can replicate the growth trajectory of more developed nations, which would necessitate a substantial increase in its standard of living.

I strongly believe that China's long-term success depends on embracing the kind of social harmony that has proven essential for progress in other leading nations. This means integrating democratic values, upholding the rule of law, protecting human rights, and ensuring that individual freedoms are at the heart of societal development. A truly prosperous and stable society is not just defined by economic growth or technological advancements but by how well it fosters fairness, equality, and a sense of shared purpose among its people.

If China does not fully commit to these principles, it risks becoming a destabilising force in the global order rather than a leader that inspires respect and cooperation. While rapid economic growth has lifted many into the middle class, a large portion of the population still struggles with poverty and limited opportunities. A country's strength is not measured solely by its wealth but by how evenly that wealth is distributed and whether all citizens, regardless of their background, have the opportunity to improve their lives.

The challenge for China is not just economic but deeply social and political. If it fails to address the inequalities within its borders and does not align itself with universally recognised values such as justice, freedom, and human dignity, its progress will remain unbalanced. A nation cannot sustain long-term success if large segments of its people feel left behind or restricted in their ability to shape their future.

To truly thrive and be seen as a responsible global power, China must bridge this divide and move forward with a commitment to values that resonate across cultures and societies. The ability to balance economic growth with genuine social harmony, political fairness, and respect for human rights will determine whether China's rise is a lasting success or an unstable ascent that ultimately limits its full potential.

The story of human civilisation is one of struggle, progress, and the pursuit of fundamental values such as democracy, human rights, the rule of law, and free speech. Yet, newer generations often overlook this long and complex journey, taking for granted the freedoms and rights that were hard-won through centuries of effort and sacrifice. To ensure a future built on peace and cooperation, we must continually highlight and reinforce these core principles that form the foundation of a just and civilized society.

However, modern discourse often shifts the focus toward historical conflicts between nations, fostering division rather than unity. Nationalism and political agendas frequently emphasize what separates us rather than what binds us together. This deliberate focus on past struggles, rather than shared progress, raises an important question: Are we unintentionally weakening the very principles that should unite us?

One of the greatest challenges we face is society's growing tendency to forget its own history. The sacrifices made by those who fought for democracy, human rights, and free speech risk being buried beneath waves of misinformation, political rhetoric, and short-term interests. Their stories need to be retold, their struggles remembered, and their victories celebrated, not as distant history but as vital lessons that still shape our lives today. Understanding how our society was built helps us appreciate the importance of protecting these values against those who seek to erode them.

No matter our differences, whether in race, religion, gender, or beliefs, we share a common right to express ourselves freely and to advocate for the principles that sustain our civilisation. A world that forgets its history is

doomed to repeat its mistakes. That is why it is our responsibility to remind future generations of the long and difficult road that led to the freedoms we enjoy today. Only by keeping these values alive can we ensure that our society continues to move forward, embracing inclusivity, justice, and a shared commitment to a better future.

Every profession contributes to the strength and progress of our society. From skilled doctors, poets, and engineers to talented mathematicians, lawyers, carpenters, chefs, singers, and cleaners, each person plays a crucial role in shaping our civilisation. However, the significance of their work goes beyond their specific expertise. What truly matters is not just professional excellence but a deeper understanding of the shared values that hold our society together.

Sometimes, people hold degrees, yet we still consider them ignorant. Their ignorance is not about the subject they studied but rather their lack of awareness of the values that civilisation has built. Excelling in a profession is important, but it becomes even more meaningful when accompanied by a commitment to democracy, human rights, the rule of law, and free speech. These values are the foundation of a fair and just society, ensuring that progress is not only technological or economic but also social and ethical.

The idea is simple but profound: despite our different roles and backgrounds, we are all part of a larger system that relies on cooperation and shared principles. A society where individuals work only for their own success, without considering the broader framework that allows that success to exist, risks losing its direction. Skills and knowledge are powerful, but without a guiding sense of purpose, they can become disconnected from the greater good.

Keeping these values alive is not a passive task; it requires active participation. We must not only acknowledge their importance but engage in discussions that refine and strengthen them over time. Civilisation is not a fixed concept; it evolves with each generation, and its survival depends on our willingness to protect and improve its core principles.

Ultimately, the responsibility does not end with us. It must be passed on to future generations, ensuring that they understand the importance of their contributions, regardless of their chosen path. More than just technical skills or professional success, true progress comes from a collective effort to uphold and enhance the values that define our society. This broader perspective transforms work into something more than just a job; it becomes part of a shared mission to build a better, more just world for all.

5.

NAVIGATING BEYOND IGNORANCE IN THE PURSUIT OF ENLIGHTENMENT

Beyond the tangible measures of academic success and professional achievements lies a deeper understanding of knowledge that goes beyond diplomas and degrees. These certificates, typically viewed as proof of specialised study and practical experience, are merely the initial steps toward true enlightenment. Enlightenment, in its fullest expression, is realised through an extensive embrace of the accumulated wisdom of human civilisation spanning various centuries. This broader comprehension involves engaging with the dynamic consciousness and evolving sensitivities that mark humanity's continuous journey through history.

The journey to eradicate ignorance involves more than just intellectual might; it necessitates cultivating a deep awareness of and commitment to democratic principles. This commitment includes recognising and advocating for the inherent equality of all individuals, cutting across the barriers of religion, language, race, or gender. Such an endeavour requires active participation in the cultural and democratic evolution, understanding and applying the nuances of constitutional frameworks, legal rules, and orders. These elements are crucial for fostering not just peaceful coexistence but also a thriving, harmonious societal fabric.

Breaking free from ignorance is, therefore, a holistic task. It demands a dedication not only to upholding human rights but also to maintaining a conscious awareness of environmental issues. Those who advance both human and environmental well-being demonstrate a comprehensive understanding of how societal health and ecological sustainability are deeply intertwined. From this expanded perspective, enlightenment is seen as a continuous progression towards a more inclusive, just, and enlightened global society.

The discussions and analyses presented in the preceding essays have elucidated the fundamental forces that have propelled humanity to its current levels of prosperity – an era characterised by increased life expectancy and enhanced quality of life. As we delve deeper into this book, we shift our focus towards economic issues, with the specific goal of enhancing economic literacy. The aim here is to equip individuals with a strong foundation in economic knowledge, enabling them to understand the complexities of economic phenomena and to develop the skills needed to critically evaluate the events and trends around them.

This empowerment, however, hinges on the foundational values of the civilisation we have discussed. In an ideal setting where economically literate individuals enjoy true freedom, they are empowered to advocate for environmental issues publicly. These efforts, framed within the context of basic human rights and freedoms, become powerful tools for driving societal change. Journalists, who are economically savvy and operate in an environment that values transparency, act as catalysts for public awareness, moulding public perceptions through the power of independent media. In societies where loyalty to those in power is not prioritised over

merit, but where careers are built on ability and expertise, independent institutions led by qualified individuals can uphold a true balance of power. Such institutions will safeguard the system we call democracy and will not allow it to be undermined by authoritarian, one-man rule.

In lands where these principles are respected and upheld, individuals have the opportunity to actively shape their environment. The ability to elect leaders who share one's vision, in nations where the courts and system of justice operate independently of political influences, is the cornerstone of a true democracy. Such a system not only fosters economic prosperity but also enhances the collective sense of well-being. The impulse to migrate diminishes significantly when the ideas discussed in this book are adopted on a wider scale, as implementing these concepts across different regions promotes self-care and encourages environmentally sustainable lifestyles.

The impact of these ideas extends beyond personal well-being; by addressing the core issues outlined in this discussion, we can mitigate refugee crises, restore dignity to those displaced by migration, and contribute to ending conflicts, making the world a more liveable place. At the heart of this vision is the transformative power of globally embracing these principles, crafting a world where humanity not only flourishes economically but also lives in harmony and sustainability.

6.

UNEVEN PROGRESS, SHARED FUTURE

For a long time, when people spoke of stakeholders, the only ones we recognised were ourselves. Humanity assumed it was alone at the table of history. Other possible stakeholders, the environment, plants, animals, even forces or intelligences we could not yet imagine, were not acknowledged, let alone invited into any kind of agreement. We were too busy negotiating among ourselves, caught in struggles of language, religion, race, and power. Out of that struggle, humanity dreamed that through democracy and collective agreement, we might build a better place to live.

Wherever this dream was partially realised, remarkable things happened. People gained freedoms, innovation flourished, and societies created institutions that improved life in countless ways. Human beings lived longer and with a greater quality of life. These were not small achievements.

But there was a hidden flaw. All of these advances were designed as though humans were the only players in the system. Other stakeholders were ignored. And in liberating ourselves, in extending our own lives, we shortened the lives of many other things. Most strikingly, we left the environment without a seat at the table. We treated it as if it did not matter, and we are now living with the consequences.

We turned the earth into a dumping ground for plastics, filled the skies with gases, and even pushed our waste into space, though we rarely notice because the debris does not wash back onto our beaches. Some dismiss the environment as soulless, as something that cannot be spoken to, cannot be a partner. But who declared it soulless? Who decided it cannot feel? Look around; can you not see how it responds to us? When we abuse it, it replies in kind. We now experience storms and natural events that once seemed confined to faraway lands. As a child on the Mediterranean coast, I remember hearing of hurricanes in the Americas, tornadoes sweeping across the south, or tropical storms striking distant shores. Now such events feel ordinary in every part of the world. Living outside seasonal norms has become the new normal. Unbearable heat and unusual cold have become part of our daily lives. Nature is speaking back, loudly, because we never treated it as a partner.

And while this was happening, humankind continued to mistreat itself. Wars raged, young people died for no justifiable reason, and power-holders, driven by nationalism or religion, hypnotised masses and sent them to their deaths. If humanity could not respect its own members, how could it possibly respect other stakeholders?

Today, some fear that superintelligent AI may one day spell the end of humankind. But ask yourself, in a world where humans are capable of destroying one another so casually, why should we be surprised if another stakeholder also challenges our existence? The real ignorance lies in believing we were ever alone, in imagining that agreements like the Magna Carta represented a universal covenant, when in fact they were only pacts

among ourselves. We forgot that outside our circle there are countless others, entities living and non-living, that shape or are shaped by the system we all share.

Before we move forward, it is worth pausing for a moment. What I have described so far is not just about our relationship with other stakeholders but also about the path humanity itself has travelled. This is the journey of humanity, a story of how history unfolded differently across the world and how some nations succeeded while others did not. The data and patterns from the past make this clear.

For many centuries, income per capita and living standards remained almost flat. Then, gradually, starting around the 1300s and 1400s, some countries began to show signs of movement. By the 1700s and 1800s, that movement turned into a sharp and rapid rise, but only in certain places. Why did this transformation occur in some countries and not in others? The answer, as discussed throughout this book, is not simply luck. The countries that succeeded did so because they struggled, often over generations, for the values we have been exploring. These values were not just empty words; they were truly embraced and put into practice.

The countries that were left behind did not take part in this struggle. And what they missed is exactly what this book has highlighted from the start: the commitment to values, institutions, and ideas that support meaningful progress.

Throughout the earlier sections, we have referred to these ideas in various ways, through different historical contexts, symbolic stories, and political, economic, and cultural experiences. But the underlying thread has remained constant. At the heart of this book lies the conviction that for societies to achieve political stability, economic prosperity, and environmental sustainability, both individuals and institutions must act with greater awareness, responsibility, and purpose.

This requires more than policy change; it demands a deeper cultural shift. It means recognising that the quality of our institutions depends on the values we practice daily, values like accountability, fairness, participation, and care for the collective good. These are not only democratic virtues; they are the foundations of resilience in a world facing rapid change, uncertainty, and crisis.

At this point, it is helpful to pause and articulate what these values actually are. Democracy is not just a form of government; it is a culture of shared responsibility and co-existence. Throughout this book, we will often return to the democratic virtues that have proven essential to building just, peaceful, and prosperous societies. These include:

- **Participation and Representation:** Democracies give citizens the right to take part in decision-making. Through elections and institutions of representation, the voices of the people help shape the rules we live by.
- **Accountability:** Leaders in democratic societies are accountable to the public and limited in their power by time, law, and civic scrutiny.
- **Rule of Law:** No one is above the law. Democratic societies function with transparent, fair, and predictable legal systems that reinforce justice and equality.

- **Freedom of Expression and Pluralism:** A healthy democracy values diverse opinions, media freedom, academic independence, and the right to criticise those in power. This diversity strengthens society.
- **Peaceful Dialogue and the Culture of Compromise:** Democracy avoids violence and encourages consensus-building, negotiation, and common ground.
- **Social Equality and Justice:** Democratic ideals promote fairness, equal rights, access to services, and protection under the law for all, regardless of background or identity.

These are not abstract ideals; they are the living foundations of successful nations. When societies internalise and institutionalise these principles, they create conditions for sustained growth, innovation, and human well-being.

Now we will begin to explore both micro and macro cases. These will include real-world examples of how individuals, businesses, and governments make decisions. We will often return to this foundation, because whether we are discussing small-scale choices or national-level outcomes, these core ideas continue to shape the future.

7.

FURTHER READING AND EXPLORATION

- North, D. C. (1990), *Institutions, Institutional Change and Economic Performance*
- Acemoglu, D. and Robinson, J. A. (2012), *Why Nations Fail*
- Sen, A. (1999), *Development as Freedom*
- Mokyr, J. (2016), *A Culture of Growth*
- Piketty, T. (2020), *Capital and Ideology*

PART II

UNDERSTANDING THE BIGGER PICTURE: MACROECONOMIC PERFORMANCE AND THE WELL-BEING OF SOCIETY

In this part of the book, my goal is to provide you with detailed methods for evaluating the overall economic health of any country. While this book offers a broad overview using selected country examples, it is not possible to cover data for every nation. To support your own exploration and analysis, I have included a list of useful resources at the end of this section. These sources provide access to a wide range of reliable numerical data. If you're interested in looking up specific countries or comparing different cases, you may find these platforms helpful. In this section, the main aim is to make economic indicators easy to understand for those who are not familiar with economic details. Additionally, since these economic figures change every year, the methods I discuss will be useful for updating your evaluations with the latest data.

Let's embark on our journey. At the time of scripting this book, the global economy boasted a valuation of approximately 80 trillion dollars, with the United States accounting for a quarter of this sum, roughly 20 trillion dollars. But how does the U.S. command such a significant share? Does it syphon off a quarter of the world's economic potential, hoarding it for itself? This notion hints at a discourse suggesting that if the world's wealth were evenly distributed, universal prosperity would ensue, eradicating global hunger. But is this proposition accurate?

Historically, western powers once imposed colonial dominion over vast swathes of the globe, exploiting their resources for economic gain. However, contemporary academia in these western nations critically examines and acknowledges these past injustices. Yet, in everyday discourse, one often hears enquiries into the wealth disparity between the West and the rest of the world, with the convenient answer being exploitation. This narrative, while convenient, absolves individuals of accountability and obscures deeper complexities.

It's important not to focus only on past problems but to stay aware of current realities. People who focus only on past wrongs may miss current situations and the reasons for their own lack of progress. Instead, we need to examine both history and the present. While many Western nations once presided over colonial empires, these systems collapsed in the mid-20th century. Consider the Netherlands, which achieved an impressive literacy rate exceeding eighty percent in the early 1700s, a milestone not attained by some nations until the mid-1800s or later. This discrepancy underscores a centuries-long lag between nations. Developing

countries need to acknowledge historical injustices, but they must also look beyond them to understand the multifaceted reasons for their current state of development.

The gap or difference being discussed is not limited to just how well people can read or write. It also appears in other important areas of society, such as the design and structure of buildings (architecture), creative expressions (art), the development of cities (urban planning), and progress in technology. In other words, the divide impacts multiple aspects of life, not just education. The internet, the telescope, the diesel engine, penicillin, smartphones, powered flight, and space exploration – these groundbreaking inventions predominantly hail from western nations, epitomizing centuries of scientific and cultural progress. Exemplary urban planning, as evidenced by historic locales like Ortigia in Italy or Carcassonne in France, underscores centuries of development and innovation. These cities stand as testaments to human creativity and progress, serving as inspirations for future advancements.

However, from the perspective of underdeveloped nations, the goal isn't to praise the West but to make thoughtful evaluations and move forward with clear intention. Societies that embrace democracy and build strong institutions have the potential to become modern and successful. Failing to do so is a setback they cause for themselves. Whether through oppressive leadership or by blindly following charismatic leaders in so-called democratic systems, the responsibility lies with those in power. Blaming past wrongs or focusing on conspiracy theories only holds back progress. The responsibility is on underdeveloped nations to shape their own future.

In regions where individuals assume responsibility and align personal visions with societal development, tangible progress unfolds. Economic analyses must henceforth be reframed within this context. The disproportionate economic prowess of certain nations, like the United States and Europe, reflects not theft but rather the cumulative output of their institutions, organizations, and populace. Economic power stems from the value generated by individuals and entities within a nation – be it through medical procedures, mechanical repairs, or technological innovations. This amalgamation of productive endeavours culminates in the Gross Domestic Product (GDP), a quantitative measure of a nation's economic output over a given period.

Now, let's explore the methods for measuring and interpreting the size and performance of national economies. Economists employ various methodologies, often centered on either income or expenditure. One prevalent approach revolves around total expenditures, encapsulating the sum of all expenditures within a nation. This demand-centric methodology serves as a cornerstone for gauging economic vitality and delineating the contours of national prosperity.

Think of a country's economy. Like a big machine, it's made up of several large moving parts. When we look at the total value of everything produced in that country, all the goods and services created over a certain period, we give it a name: Y. You've probably heard the official term for this: Gross Domestic Product, or GDP for short.

GDP is a useful way to capture the entire size of an economy in a single number. But what's even more important is to understand what makes up that number. It's not just a lump sum that appears out of nowhere. It's built from four major components, and understanding these gives us a clearer view of how an economy works, how it grows, and what we can do if it starts to struggle.

The first and biggest part is private consumption, usually represented by the letter C. This is the total spending by households, people like you and me buying food, clothes, furniture, going to the cinema, taking a holiday, and so on. In many countries, this is the largest part of the economy because it's all about everyday life.

A Quick Look at the Business Cycle: What Has Happened Over the Last 40–50 Years?

For those who are curious about how economies behave over time, here's a brief overview of key ups and downs from recent decades. It's a reminder that economic growth doesn't follow a straight path – it moves in cycles, with booms and busts, expansions and recessions.

Late 1980s – Boom Years

Many Western economies, especially the US and UK, experienced strong growth during the late 1980s. This period was marked by rising consumer confidence, financial deregulation, and low inflation. But this didn't last forever.

Early 1990s – Recession

In the early 1990s, growth slowed. Interest rates had risen to fight inflation, credit markets tightened, and some countries experienced banking crises. The result was a mild to moderate recession.

The second part is investment, written as I. This isn't stock market speculation. It refers to real investment inside the country: businesses building factories, buying machines, or governments investing in infrastructure. These are the kinds of investments that help the economy grow in the future.

Then we have government spending, represented as G. This is what the government spends on public services like education, healthcare, roads, public salaries, defence, and so on. It's a significant part of the economy and plays a crucial role, especially when private activity slows down.

The last part brings in the global picture: exports and imports. When a country exports goods and services and sells things to the rest of the world, it earns money. When it imports, it spends money on things it buys from abroad. We take the value of exports (X) and subtract imports

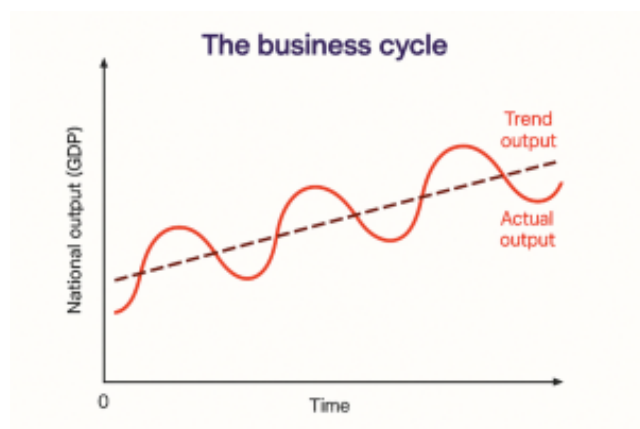
(M), and what we get is net exports, or $(X - M)$. If exports are higher than imports, this number is positive. If a country imports more than it exports, it's negative.

When we put it all together, the basic formula for GDP looks like this:

$$Y = C + I + G + (X - M)$$

This simple-looking equation helps us understand what's happening inside a very complex system. It also helps governments design economic policies – whether the goal is to encourage spending, boost investment, manage public budgets, or improve trade balances. These four components give us a starting point to evaluate any economy, anywhere in the world.

The graphical representation provided above maps out the trajectory of Gross Domestic Product (GDP) over time, serving as a visual indicator of a country's economic performance. Every nation possesses inherent economic potential, which can be assessed by examining both the total labour force and the accumulation of capital resources within its borders. An economy's potential level represents the maximum output it can sustainably achieve when all available resources, including labour, capital, and technology, are utilised efficiently. Think of it as the economy's capacity to produce goods and services without causing undue strain or inflationary pressures. This potential level is often depicted as a trend line on the graph plotting economic output over time.



A Quick Look at the Business Cycle: What Has Happened Over the Last 40–50 Years?

2001 – The Dot-Com Crash and Mild Recession

The bubble burst in 2000–2001. Many tech firms collapsed. The crash was followed by a brief recession in the US, made worse by the shock of the 9/11 attacks.

2008–2009 – The Global Financial Crisis

One of the most significant economic downturns in modern history. It was caused by excessive risk-taking in financial markets, especially around housing loans in the US. Banks failed, unemployment rose sharply, and governments around the world responded with emergency rescue packages.

2009–2020 – Long Recovery and Expansion

Despite the depth of the crisis, the recovery that followed became one of the longest expansions ever recorded. Interest rates stayed low for years. Unemployment gradually fell, and technological change continued, but the recovery was uneven, and inequality remained a challenge.

2020 – The COVID-19 Shock

A sudden and deep recession struck in early 2020 as the world shut down to control the spread of the virus. Economic activity collapsed, but governments responded with massive support, and most economies bounced back strongly in 2021.

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However, the actual output of an economy rarely remains precisely at its potential level. Fluctuations occur

due to various factors, leading the economy to operate either above or below its potential. These fluctuations are integral to economic life and are influenced by a multitude of internal and external forces. One reason for fluctuations is the inherent dynamism of market economies. Supply and demand conditions, consumer preferences, technological advancements, and external shocks all contribute to changes in economic activity. For example, during periods of robust economic growth, demand for goods and services may outpace the economy's capacity to supply them, leading to inflationary pressures and an output level above potential. Conversely, during economic downturns or recessions, demand may fall, causing unemployment and a contraction in output below potential.

Moreover, changes in government policies, fiscal and monetary measures, and international trade dynamics can also affect the economy's trajectory. Government spending, taxation policies, interest rates, and exchange rate fluctuations all play a role in shaping economic outcomes. For instance, expansionary fiscal policies, such as increased government spending or tax cuts, can stimulate demand and boost output, potentially pushing the economy above its potential level. Conversely, contractionary monetary policies, like raising interest rates to curb inflation, can dampen demand and lead to output falling below potential.

External factors, such as changes in global economic conditions, geopolitical events, natural disasters, or pandemics, can also influence economic fluctuations. These exogenous shocks can disrupt supply chains, affect consumer confidence, or alter investment decisions, leading to deviations from the economy's potential level.

Overall, the economy fluctuates around its potential level due to the complex interplay of numerous factors, including market dynamics, government policies, and external shocks. Understanding these fluctuations and their underlying causes is essential for policymakers and businesses to formulate effective strategies to manage economic risks and foster sustainable growth.

Should the economy operate below this potential threshold, analysis utilising the formula (1) elucidated earlier becomes imperative. A shortfall in performance may be attributed to various factors, such as decreased private sector expenditures, diminished investment levels, inadequate public spending, or a deficit in international trade – where imports surpass exports. Pinpointing the source of underperformance is crucial to implementing corrective measures aimed at realigning the economy with its true potential.

Conversely, when the economy operates above its potential, it signals a scenario where certain sectors exceed their maximum capacity. This situation can lead to inflationary pressures, the formation of speculative bubbles, or unsustainable growth. In such instances, it becomes essential to implement policies aimed at stabilising and moderating economic activity, steering it back towards its sustainable trajectory.

These fluctuations in economic performance are inherent to the economic landscape and necessitate adept management to ensure stability and growth. The response to these fluctuations hinges on differing economic ideologies regarding the role of government intervention. Traditional economic theory, rooted in the principles of supply-side economics, advocates for minimal government interference, positing that market forces will naturally correct imbalances over time.

Contrastingly, proponents of Keynesian economics, influenced by the work of British economist John Maynard Keynes, advocate for proactive government intervention, particularly during periods of economic

downturn. Keynes argued that relying solely on market mechanisms to rectify economic imbalances could prolong periods of recession or depression, leading to prolonged unemployment and economic hardship.

Central to Keynesian intervention is the concept of fiscal policy, wherein governments increase spending to stimulate demand and propel economic growth. However, this often necessitates borrowing to finance increased expenditure. While deficit spending can be an effective tool for revitalising a sluggish economy, prudent management is essential to ensure debt remains sustainable and manageable.

The sustainability of government debt is contingent upon its ratio to national income, with economists generally recommending that this ratio does not exceed a certain threshold, typically around 65 per cent. Exceeding this threshold poses risks to the repayment of debt and undermines the efficacy of government interventions.

In addressing high levels of debt, some governments may consider austerity measures aimed at reducing expenditure. However, such measures can exacerbate economic downturns by further contracting aggregate demand and stifling growth. Alternatively, governments can utilise monetary policy tools, such as interest rate adjustments or tax reforms, to stimulate economic activity and foster growth.

Case studies, such as Ireland's tax reforms in the 1990s, underscore the potential efficacy of targeted interventions in driving economic growth. By reducing taxes and implementing favourable monetary policies, governments can incentivise investment and consumption, thus propelling the economy towards its potential output.

Throughout this discussion, it's crucial to recognise that economic management is a multifaceted endeavour, requiring a nuanced understanding of both macroeconomic principles and real-world dynamics. In subsequent chapters, we will delve deeper into policy recommendations and explore strategies for navigating economic fluctuations while fostering sustainable growth and prosperity.

Frequently, we encounter discussions about the world's largest economies, often highlighted during gatherings like the G7 or G20 summits, where leaders from the most economically potent nations convene. These rankings are typically determined by assessing the cumulative economic output of these countries in conjunction with their potential economic power. Let's delve into the significance of these rankings by examining the table provided below.

Top 20 Countries by GDP in Trillions of USD (2025)

GDP by country, 2025 (trillion USD)

Rank	Country	GDP (trillion USD)
1	United States	22.9
2	China	16.9
3	Japan	4.9
4	Germany	4.2
5	India	3.5
6	United Kingdom	3.1
7	France	2.9
8	Italy	2.1
9	Canada	2.0
10	South Korea	1.8
11	Russia	1.7
12	Brazil	1.5
13	Australia	1.4
14	Spain	1.4
15	Mexico	1.3
16	Indonesia	1.2
17	Netherlands	1.0
18	Saudi Arabia	0.9
19	Turkey	0.8
20	Switzerland	0.7

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Source: ...

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The global economic landscape is dominated by powerhouses like the United States, which alone contributes approximately a quarter to the world's economy, with China closely trailing as the second-largest economic entity. This begs the question: Is the sheer size of an economy an achievement in itself? While a sizable economy undoubtedly grants a nation significant global influence and the ability to enact impactful policies, it's imperative to explore the broader implications and responsibilities that accompany such economic stature.

In the realm of global influence, major economies are not only financial titans but also leverage their economic muscle to advance national interests. This can take the form of military interventions or economic sanctions, such as those imposed by the United States on Turkey in 2018. The effectiveness of these sanctions often correlates directly with the economic might of the country imposing them, highlighting the importance of economic scale in international relations.

The European Union, a conglomerate of 27 member states, many of which rank among the world's most developed nations, stands as a testament to the collective economic power matching that of the United States. This unified economic strength underpins ambitious projects, like space exploration, facilitated by organisations such as the European Space Agency (ESA) and Airbus. These initiatives illustrate how a large economy can foster innovation and competitiveness, offering industries the scale needed to thrive and compete on a global stage.

However, the advantages of being a leading economy extend beyond mere economic prosperity. Authoritarian regimes, for example, may exploit the substantial government revenue from taxes to fund military operations abroad or sustain domestic propaganda campaigns, using their economic dominance to cement their authority and project power internationally.

As we look to the future, populous nations like China and India are on the cusp of realising immense economic power due to their large populations and burgeoning economies. Their approach to integrating democratic values, human rights, and the rule of law will crucially influence their international relations and role on the global stage. The commitment to these universal principles is essential for fostering peaceful and cooperative international relations.

Yet, the rise of these economies also carries the risk of geopolitical tensions if they do not improve their democratic and governance standards. Vigilant monitoring of their policies will be essential to navigate the potential challenges their economic ascension may pose to global diplomacy and peace.

Despite the prominence of these large economies, it's vital to consider the internal quality of life they offer their citizens. Russia, for instance, despite being the 11th largest economy, may not provide a standard of living comparable to smaller economies like Norway, which boasts a significantly higher quality of life. This highlights the necessity of evaluating nations not just by their economic size but by factors such as income distribution, social welfare, and overall well-being.

To gain a comprehensive understanding of a country's economic standing, one must look beyond gross economic output. Delving into per capita income, which offers insight into the distribution of economic wealth among individuals, reveals much about the standard of living and prosperity within a nation. This approach underscores the complexity of assessing economic performance, emphasizing the importance of a multifaceted analysis to truly grasp a country's economic and social health.

Top 20 Countries by GDP Per Capita (2025)

GDP Per Capita by Country, 2025 (in USD)

Rank	Country	GDP Per Capita (USD)
1	Luxembourg	120,000
2	Switzerland	85,000
3	Norway	81,000
4	Ireland	79,000
5	Qatar	75,000
6	United States	70,000
7	Singapore	65,000
8	Denmark	60,000
9	Australia	58,000
10	Sweden	57,000
11	Netherlands	56,000
12	Austria	54,000
13	Finland	53,000
14	Germany	51,000
15	Belgium	50,000
16	Canada	49,000
17	United Kingdom	48,000
18	France	47,000
19	Japan	46,000
20	Italy	45,000

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Source: ...

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Observing the table above, a striking trend emerges: many of the world's largest economies vanish from contention when considering per capita GDP, revealing a stark disparity in income distribution. Conversely, nations previously overlooked in discussions of economic giants now emerge prominently, boasting higher per capita incomes despite their absence from the top economic echelons.

Returning to our scrutiny of the globe's top 20 largest economies, a disconcerting reality unfolds as we

examine their per capita income figures. Despite China's position as the second-largest economy globally, its per capita income languishes below the world average at \$9770. Similarly, India, flaunting the 5th largest economy, grapples with widespread poverty, evident in its meager per capita income of approximately \$2000. Even Russia, ranking 11th in economic magnitude and often wielding influence on the world stage, falls short of the global average in terms of per capita income.

Yet, the narrative takes a transformative turn when we broaden our perspective beyond the top 20 economies. Many nations, hitherto overlooked in discussions of economic might, now shine brightly in terms of per capita income. Among the roughly 180 countries represented, Russia occupies the 57th spot, China the 64th, Turkey the 70th, and India an alarming 137th in per capita income rankings.

This glaring incongruity underscores the fallacy of assessing economic prosperity solely through sheer size. While a robust economy is undoubtedly essential for a nation's progress, genuine prosperity manifests in the well-being and standard of living experienced by its populace. By delving into metrics like per capita income, we gain invaluable insights into a country's economic landscape and the realities confronting its citizens.

Analysing per capita income offers a nuanced understanding of countries' economic performance beyond mere economic size. Expressing these figures in dollars allows for a standardised comparison across nations, providing valuable insights into each country's economic standing. However, it's essential to recognise that using dollars as a common denominator doesn't capture the full picture. The purchasing power of a dollar varies significantly from one country to another, rendering a direct dollar comparison somewhat misleading.

Top 20 Countries by GDP Per Capita Based on PPP (2025)

GDP Per Capita Based on PPP by Country, 2025 (USD)

Rank	Country	PPP GDP Per Capita (USD)
1	Luxembourg	140,694.70
2	Singapore	131,580.40
3	Qatar	114,929.50
4	Ireland	112,769.30
5	Switzerland	96,788.80
6	United Arab Emirates	88,489.00
7	Norway	114,049.20
8	United States	76,027.60
9	Brunei	85,011.10
10	Hong Kong	69,072.30
11	Denmark	74,897.00
12	San Marino	85,235.00
13	Iceland	69,615.50
14	Macau	61,231.00
15	Sweden	65,157.00
16	Netherlands	65,088.50
17	Austria	62,597.10
18	Germany	61,585.00
19	Australia	60,887.10
20	Belgium	60,735.60

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Source: ...

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For instance, consider the disparity in living costs between different countries. In India, a simple haircut may cost \$1 at a local barbershop, while the same service could amount to \$10 in the UK. Similarly, the rent for a two-bedroom apartment in an average UK city might total \$1300, whereas a similar dwelling with a stunning sea view in an elite district of Izmir, Turkey, could be as low as \$450. Moreover, the affordability of goods and services, such as technology products, also differs between developed and developing nations.

To shed light on this disparity, The Economist magazine introduced The Big Mac Index, which examines the

price of a Big Mac sandwich across countries to gauge the purchasing power of the dollar. Similarly, institutions like the World Bank adjust and rank per capita incomes by factoring in the purchasing power parity (PPP) of the dollar in each country. This recalibration often leads to shifts in countries' rankings, highlighting the relative differences in living standards.

For example, when considering PPP, Turkey's per capita income ranking ascends from 70th to 51st place, reflecting a more accurate assessment of its citizens' purchasing power. Conversely, Russia's position in the ranking sees a marginal change, climbing from 57th to 54th place, mainly due to the high cost of living, particularly in urban centers like Moscow. Meanwhile, China's ranking experiences a notable decline, dropping from 63rd to 73rd place when accounting for the purchasing power of the Chinese yuan.

Certainly, delving into the purchasing power of the dollar has expanded our understanding. However, our evaluation of economic performance is far from complete. The subsequent inquiry we must pose is crucial: while per capita income figures give us an insight into average income within a country, do they accurately reflect how income is distributed among its populace? The unequivocal answer is no.

Let's take Turkey as an example, where the reported per capita income is approximately \$9,000. But how many individuals within the population actually earn this amount annually? Sadly, very few. This stark reality underscores the pressing need to examine the fairness of income distribution within a nation. To scrutinize this aspect, statisticians utilize a metric known as the Gini Index.

Top 20 Countries with the Lowest Gini Coefficients (More Equal Income Distribution)

Lowest Gini Coefficients by Country

Rank	Country	Gini Coefficient	Year
1	Slovakia	21.6	2023
2	Slovenia	23.4	2021
3	Czech Republic	24.0	2021
4	Belarus	24.4	2020
5	Ukraine	25.0	2020
6	Norway	25.1	2021
7	Finland	25.7	2021
8	Belgium	25.9	2021
9	Austria	26.0	2021
10	Sweden	26.2	2021
11	Denmark	26.3	2021
12	Iceland	26.5	2021
13	Hungary	26.9	2021
14	Germany	27.0	2021
15	France	27.3	2021
16	Netherlands	27.6	2021
17	South Korea	28.0	2021
18	Luxembourg	28.5	2021
19	Switzerland	28.7	2021
20	Canada	29.0	2021

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Source: ...

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Bottom 20 Countries with the Highest Gini Coefficients (Less Equal Income Distribution)

Highest Gini Coefficients by Country

Rank	Country	Gini Coefficient	Year
1	South Africa	63.0	2014
2	Namibia	59.1	2015
3	Suriname	57.9	1999
4	Zambia	57.1	2015
5	Eswatini	54.6	2016
6	Mozambique	54.0	2014
7	Botswana	53.3	2015
8	Lesotho	53.3	1998
9	Central African Republic	52.9	2010
10	Haiti	52.9	2012
11	Angola	51.3	2018
12	Honduras	50.5	2019
13	Colombia	50.3	2019
14	Brazil	48.9	2019
15	Panama	48.2	2019
16	Paraguay	48.0	2019
17	Guatemala	48.3	2014
18	Chile	44.9	2020
19	Mexico	45.4	2020
20	Costa Rica	48.2	2020

The Gini Index assigns countries a score on a scale ranging from zero to one. A score of zero signifies perfect income equality, where every individual earns an identical share of the national income. Conversely, a score of one indicates extreme income inequality, where a single individual monopolises all income within the country.

In nations with skewed income distribution, such as many middle-income countries, the wealthiest 10 per cent of the population luxuriates in opulence surpassing even the standards of developed nations. Meanwhile, the poorest 10 per cent grapple with destitution, enduring living conditions that fall below the poverty threshold observed in some African nations.

This disparity is palpable in everyday life, especially in countries like Mexico, where stark contrasts between affluence and poverty manifest themselves vividly. One can witness affluent families residing in sprawling luxury villas adjacent to impoverished families struggling to eke out a living in makeshift tents. Such disparities

underscore the pressing need for policies aimed at promoting greater income equality and socioeconomic inclusion.

The table provided above offers insights into the income distribution performance of OECD countries. Upon careful analysis, several noteworthy observations emerge. Firstly, there appears to be a concerning trend of poor income distribution among nations occupying the pinnacle of the global economy, boasting sizable economies and high per capita incomes.

For instance, let's consider the United States, where per capita income stands at a substantial \$75,000 annually. Yet, even within this prosperous economy, substantial income disparities persist. Unskilled workers earn, on average, only between \$25,000 and \$30,000 per year – less than half the national average. Reflecting this significant gap, the U.S. currently has a Gini coefficient of approximately 0.488, among the highest of all developed nations. While such inequality may not pose immediate existential threats in wealthy nations like the United States, it still creates notable social and economic challenges, and its effects are especially severe in economically disadvantaged countries.

Indeed, homelessness remains a pressing issue in the USA, rooted in a complex interplay of economic, sociological, and psychological factors that defy simple analysis. However, countries with robust welfare state frameworks, such as those in Europe, possess mechanisms to mitigate income disparities through alternate means.

Take the UK, for example, where income distribution appears less than ideal. Despite this, the nation affords its citizens extensive social rights and benefits. The state offers affordable housing options, provides financial assistance, and guarantees free access to healthcare through the National Health Service (NHS). This comprehensive welfare system ensures that even amidst income disparities, individuals can still enjoy essential support and protection, significantly reducing the adverse effects typically associated with economic inequality.

To better understand the nuances of income distribution within developed nations, it's essential to evaluate each country individually. This reveals that countries like Germany, the Netherlands, and Denmark tend to offer a higher average quality of life compared to nations like England and Spain.

Furthermore, within the realm of income distribution, disparities exist even among neighbouring countries. Belgium, for instance, demonstrates a more favourable income distribution landscape compared to the Netherlands. However, despite this disparity, the Netherlands outpaces Belgium in terms of overall quality of life due to its greater wealth and robust social infrastructure.

For instance, while both countries boast extensive railway networks, the Netherlands offers superior service quality across all classes, including second-class compartments that rival first-class standards in Belgium. Thus, living a second-class life in the Netherlands equates to a first-class experience by Belgian standards, highlighting the nuanced complexities of income distribution and quality of life comparisons.

If you'd like to carry out your own investigation on any of the variables we've discussed, whether for countries we covered or others we didn't, I've listed some useful data sources for you below.

Key Resources for Macroeconomic and Societal Data

1. [**World Bank – World Development Indicators \(WDI\)**](#) Offers extensive time-series data on GDP, inequality, education, health, trade, and more.
2. [**International Monetary Fund \(IMF\) – Data Portal**](#)
Provides global macroeconomic indicators, including inflation, growth rates, and fiscal data.
3. [**Organisation for Economic Co-operation and Development \(OECD\) – Data**](#)
Ideal for cross-country comparisons of income, productivity, employment, social well-being, and environmental indicators.
4. [**United Nations – UN Data and Human Development Reports**](#)
Includes human development indexes, inequality data, and sustainability metrics.
5. [**Eurostat**](#)
The statistical office of the European Union, with detailed regional economic and social statistics.
6. [**Our World in Data**](#)
A data-rich, accessible platform providing charts and analysis on global development, health, inequality, environment, and more.
7. [**Trading Economics**](#)
Offers current and historical macroeconomic data for over 200 countries, including forecasts.
8. [**National Statistical Offices**](#)
[US Bureau of Economic Analysis](#), [US Bureau of Labor Statistics](#)

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Source: ...

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8.

MACROECONOMICS AND THE ART OF LIVING TOGETHER

When people hear the word macroeconomics, they often imagine distant institutions and cold numbers. Gross domestic product. Inflation. Interest rates. Government debt. These ideas can sound like a conversation meant for experts sitting in central banks or finance ministries, not for ordinary people trying to live ordinary lives.

But macroeconomics is not distant at all. It shapes whether prices feel stable or frightening, whether jobs feel secure or fragile, whether young people can plan a future, and whether societies feel confident or anxious about what lies ahead. It shapes whether a sudden crisis turns into a temporary shock or a long-lasting wound.

At its core, macroeconomics is the study of how we live together at scale.

It asks how millions of individual decisions interact, how institutions coordinate those decisions, and how shared rules shape collective outcomes. It is not simply about output or efficiency. It is about stability, resilience, fairness, and trust.

In *Better Together*, macroeconomics is not treated as a neutral machine governed only by technical rules. It is treated as a human system, built by people, through political choices, institutional design, and social values. The economy we experience is not inevitable. It reflects who has voice, who has protection, who can organise, and who is forced to absorb risks when things go wrong.

This is why democracy, human rights, rule of law, and free speech are not side topics in macroeconomics. They are part of its foundation.

A society that protects free speech is not simply morally stronger. It is economically more capable of learning. Bad policies can be criticised before they become disasters. Corruption can be investigated rather than hidden. Scientific ideas can challenge old assumptions. Entrepreneurs can innovate without fear. When people are allowed to question authority, the system gains the ability to correct itself.

Authoritarian systems may sometimes deliver rapid growth, especially in the short run. But they often struggle with honesty, accountability, and adaptation. When mistakes cannot be openly discussed, they persist longer and cost more. When a system cannot tolerate criticism, it also cannot reliably identify its own failures.

This chapter also introduces a second idea that will run through everything that follows: trust.

Trust is not a vague or soft concept. It is one of the most powerful economic forces we have. When people trust their institutions, they invest, they save, they plan, and they take risks that lead to innovation. When trust collapses, behaviour changes. People move money abroad. They stop believing that effort will be rewarded fairly. They delay decisions, withdraw from public life, and focus on short-term survival.

Once trust erodes, an economy becomes fragile. Growth may still occur, but it becomes unstable and uneven. Inequality widens. Crises become more frequent and more painful.

Macroeconomic stability, then, is not produced by formulas alone. It is produced by institutions that people believe in.

This is why ideas such as central bank independence, fiscal responsibility, property rights, and transparent governance cannot be understood as purely technical arrangements. They are social agreements. They reflect a collective decision to restrain short-term temptation in favour of long-term wellbeing.

An independent central bank, for example, is not a rejection of democracy. It is a democratic commitment to protect money from political cycles, to prevent inflation from becoming a hidden tax on those least able to protect themselves, and to preserve trust across generations. Without democracy, without rule of law, such independence becomes meaningless. Institutions cannot be independent where power is unchecked.

The same logic applies beyond national borders. Foreign investment does not flow simply to where wages are lowest or taxes are smallest. It flows to places where contracts are enforced, courts are credible, information flows freely, and rules are predictable. Capital does not only seek profit. It seeks reliability. And reliability is built on institutions.

Economic growth itself must also be treated with care. Growth can raise living standards, but it can also hide environmental destruction, social stress, and deepening inequality. Numbers can rise while trust falls. Production can increase while wellbeing declines.

That is why, in *Better Together*, macroeconomics asks a different set of questions.

Not only how fast the economy is growing, but who benefits and who carries the risk.

Not only how low inflation is, but whether stability is achieved fairly.

Not only how competitive markets are, but whether competition serves society rather than dominates it.

Not only how innovative economies appear, but whether creativity is free, inclusive, and sustainable.

This approach does not reject markets, trade, or institutions. It takes them seriously enough to ask what they are for.

Macroeconomics, seen this way, becomes a study of shared responsibility. It reminds us that prosperity is not produced by isolated individuals acting alone, but by systems that coordinate millions of lives. When those systems are built on trust, openness, and fairness, societies thrive. When they are built on fear, concentration of power, and silenced voices, they eventually fracture.

The chapters that follow explore labour markets, money and finance, trade, development, and sustainability through this lens. Each topic is connected to the same underlying question:

What kind of economic system allows people not just to survive, but to live with dignity, security, and hope, together?

That is the macroeconomic question at the heart of *Better Together*.

9.

FOUNDATIONS OF ECONOMIC DEVELOPMENT

In the preceding section, we investigated the quantification of a nation's economic activities and the distribution of economic value across its populace. The emergence of Gross Domestic Product (GDP) as a metric gained prominence, particularly post-World War II, becoming a standard measure in many countries. However, delving deeper into history reveals a stark contrast.

Before the 1750s, for thousands of years, the idea of economic growth and improving living standards didn't really exist. People's income and quality of life stayed the same, hardly changing over centuries. Changes were mainly due to seasonal changes in farming. Good harvests brought better times and more people, but this was often followed by bad times or even famine, reducing the population. This cycle went on for thousands of years, leading to very little improvement in living conditions. Basically, people were stuck in a never-ending loop where farming cycles controlled their well-being.

Expanding on this historical perspective helps us understand the importance of modern economic growth. The continuous economic progress, driven by industrialisation and technological advancements, marks a huge change from the past. Unlike earlier times of repeated stagnation, the last few centuries have seen ongoing growth and development.

This change has not only transformed economies but also profoundly affected society, significantly improving living standards and creating more opportunities for billions of people worldwide. Understanding this historical context gives us valuable insights into the importance of sustained economic growth and the need to support conditions that allow it to continue.

Economic growth and development became significant with the start of the Industrial Revolution in Europe and later in the USA around the 1750s, marking a major turning point in history. Since then, average income per person has grown about one and a half per cent each year, leading to better living standards with each generation. To give some perspective, before the Industrial Revolution, it took thousands of years for the economy to double. Since 1750, however, the economy has doubled every 50 years, showing the remarkable speed of economic progress.

This remarkable path of economic development can be divided into three key phases, each marked by major advancements. The first phase, highlighted by innovations like steam engines, railways, and the mechanisation of cotton processing, marked the beginning of industrialisation, drastically changing production and distribution methods.

The second phase, about a century after the Industrial Revolution, saw electricity become a part of daily

life, bringing about an era of unmatched connectivity and efficiency. This period saw cities become widely electrified, transforming industries, transportation, and communication on a global scale.

Now, we are in the third phase, characterised by information technology. With the rise of digital technologies, data-driven insights, interconnected systems, and advancements in artificial intelligence and quantum computing, the economy is undergoing significant transformations. Information technology has not only sped up innovation but also transformed entire industries, enabling new ways of production, consumption, and global interaction. This era is marked by the emergence of smart technologies and powerful computational capabilities that are reshaping how we access, analyse, and leverage data across all sectors.

The path of economic development shows humanity's constant drive for progress and innovation. Each phase represents a significant leap in our ability to use technological advancements to improve society. As we navigate the digital age, it's crucial to recognise the ongoing importance of adaptation, collaboration, and forward-thinking strategies in shaping future economic growth and development.

In today's world, many international organisations work to understand global economic trends and share their findings with the public. There is increased focus on the performance of both individual national economies and the global economy as a whole. This discussion is especially important for many developing countries.

The need for economic development is strongly felt, driven by factors like population growth and the desire for better living standards. However, despite these aspirations and the recognition of the need for economic progress, many nations struggle with stagnation, unable to keep up with the rapid advancements seen in developed economies.

This difference raises important questions within society, especially in underdeveloped nations, about why economic paths have diverged between the West and other regions. People wonder about the missed opportunities and overlooked strategies that have hindered progress and prosperity. Why have some nations prospered and achieved significant wealth, while others remain underdeveloped?

These questions highlight the need to reflect on historical dynamics and the structural inequalities that have shaped global economic systems. They prompt a closer look at the policies, institutions, and external factors that have either helped or hindered economic progress. It is a quest to identify missed opportunities, misguided policies, and systemic barriers that have caused disparities in wealth and living standards.

In many developing or underdeveloped countries, people often ask: "Where did our ancestors go wrong? Why did we fall behind while other nations advanced?" It's a common frustration, looking at the world today and wondering what missteps led to this gap in progress.

The truth is, yes, somewhere along the way, past generations missed critical turning points in history. They failed to keep up with the milestones that shaped modern civilisation, the very pillars we have discussed throughout this book. We have framed these historical shifts as the five generations of industrial revolutions. If a nation missed the first and second industrial revolutions, it inevitably struggled to keep pace with countries that embraced these transformations early on.

But here's the real question: what about you? Complaining about the past is easy, but it's also a mindset of

complacency. You are alive right now, in a time when multiple new industrial revolutions are unfolding. Have you embraced them? Have you made an effort to adapt, innovate, or contribute to the world in a meaningful way?

It's not just about technology, it's about mindset. Have you elevated your perspective to match that of modern, forward-thinking societies? Have you aligned your values with those of developed nations, their democratic principles, their social progress, and their environmental consciousness? Have you made an effort to contribute to the kind of change that propels societies forward?

If the answer is no, then perhaps it's not just about what your ancestors missed, but what you are choosing to overlook today. Progress is not something handed down through history; it is something each generation must seize for itself.

The pursuit of economic development in the third world is not just about catching up with the West but also about understanding the complexities of historical legacies, global economic systems, and structural obstacles. It is a journey towards empowerment, resilience, and fair prosperity, guided by a deep understanding of past failures and future goals.

It is disheartening to see that despite years of discussion, there has been little real progress in addressing this issue. Looking back, it's clear that the development train left centuries ago, yet many countries, especially in the underdeveloped world, have struggled to catch up. While some regions, like the Middle East, have faced unique challenges, neighbouring countries in Asia have made significant strides towards modernisation. However, even in these regions, there remains a significant gap between aspiration and achievement. The lack of representation from underdeveloped nations among economically and socially advanced countries is a harsh reality. Despite being surrounded by examples of progress, these countries have faltered in their quest for development.

This stagnation makes us question where the fault lies. If a critical issue has been under scrutiny for 250 years without progress, it indicates a systemic flaw that must be addressed. The failure to advance suggests a need for deeper introspection and reevaluation of existing strategies. It also highlights the importance of international cooperation and support mechanisms to help nations facing developmental challenges.

Primarily, the issue lies in a deeply ingrained mentality. Until fundamental shifts occur in mindset, a nation may remain stagnant in global standings. Just as economic progress historically unfolded slowly over centuries, so did the evolution of mentalities.

Certain transformations go beyond mere financial investment; they require nurturing a collective consciousness over generations. Trying to speed up such changes with money alone is futile. It is unrealistic, for instance, to expect a globally influential state to emerge from the heart of Africa in a short time, no matter how much money is spent.

Nonetheless, today's world offers a very different landscape for societal evolution. Rapid advancements in communication and education can speed up transformative change. However, the direction of such change is still debated. Those in power can shape societal narratives for better or worse, depending on their goals. Conversely, individuals have the power to critically analyze and choose their ideological paths. Humanity,

endowed with intellect and reason, must engage in continual learning and reflection to steer the course of societal progress.

Until 1945, Korea was under Japanese colonial rule, emerging into independence and then dividing into two nations. After World War II, many prestigious global organisations believed that both South Korea and Japan were limited to rice production, overlooking the educational advancements and literacy rates in these nations. Despite these initial assessments, both countries defied expectations by quickly becoming leading centres of civilisation.

The remarkable transformation of South Korea and Japan shows the potential for rapid economic and social progress within relatively short periods. Their success demonstrates the transformative power of internal dynamics and cultural values. With advancements in technology and unprecedented societal interconnectedness through platforms like social media, the pace of such transformations in today's world could be even faster.

The historical progress of South Korea and Japan highlights the importance of recognising the hidden potential within societies and the opportunities for swift advancement enabled by modern tools and communication channels. It also suggests that with the right conditions and strategic investments, nations can achieve significant development milestones in remarkably short timeframes.

Reflecting on history, Henry Ford's founding of the Ford company in 1903 laid the groundwork for significant advancements in the automobile industry. The social dynamics that drove Ford to his achievements highlight the importance of visionary leadership and entrepreneurial spirit. His contributions reshaped the American landscape in the early 20th century, setting a foundation for mass production, economic transformation, and technological progress.

Consider also the example of Steve Jobs, whose adoption into a modest family did not stop him from co-founding Apple and revolutionising technology. This shows the potential of individuals from diverse backgrounds to spark innovation and drive progress. Steve Jobs was the son of a Syrian father. If he had been born in Syria, instead of leading groundbreaking technological advancements, he might have ended up sidelined as a regime sympathiser, possibly imprisoned for dissent against the government, or trying to start anew as a successful immigrant in another country.

Furthermore, the context in which individuals are nurtured plays a crucial role in shaping their potential. If Einstein had been born in less favourable circumstances, his genius might have gone unnoticed, highlighting the importance of providing opportunities and fostering talent regardless of background. Ultimately, the choice lies in how societies nurture and support their visionaries. Investing in education, fostering innovation, and promoting inclusivity are essential for unlocking a nation's potential for rapid and sustainable development. By embracing diversity, empowering individuals, and fostering a culture of innovation, countries can chart a course toward lasting prosperity and global leadership.

In any nation, the absence of a strong legal framework undermines its potential for economic development. Without economic advancement, progress in the realms of aesthetics, science, and art remains elusive. Central to addressing this is a comprehensive understanding of the state apparatus. The state goes beyond mere power

centres or entities to be seized; it represents a collective entity embodying the populace, regardless of the group or political party in power.

For the state to function effectively, it is crucial that civil servants prioritise the interests of the state over partisan affiliations or personal agendas. This means not aligning their actions solely with the political ambitions of any particular party. Instead, civil servants must remain committed to serving the overarching principles and values of the state.

The state operates like a grand symphony orchestra, with diverse voices and perspectives harmonising to create a cohesive whole. It serves as a platform where many viewpoints converge, fostering an environment where the “art of living together” flourishes. In essence, the state embodies the coming together of diverse individuals rallying around common principles, ensuring the preservation of freedom and the celebration of differences.

Therefore, the essence of a well-functioning state lies in safeguarding these differences while upholding shared principles and values. It serves as a guarantor of societal cohesion, providing the necessary framework for economic prosperity and the advancement of culture, science, and art. Ultimately, a state that embraces diversity and nurtures unity paves the way for sustainable development and progress on all fronts.

The role of the state should not be one of authoritarian control or dictating a single ideology to society. Instead, it should act as a facilitator for individuals and non-governmental organisations to collectively shape and design society. When a society is restricted to producing only state-approved art, literature, and scientific or artistic endeavours, it is bound to stagnate and deteriorate over time. Boundaries imposed by the state limit not only physical movement but also intellectual and creative exploration, preventing individuals from reaching their full potential.

Indeed, a society constrained by state-imposed borders remains confined, unable to transcend the limitations set by those in power. Whether these boundaries are physical or ideological, they confine the human spirit, hindering its ability to reach great heights or achieve greatness in various fields. Innovation, creativity, and progress thrive in environments where individuals are free to explore, experiment, and express themselves without fear of state censorship or control.

Moreover, it’s crucial to recognize that true transformation and advancement cannot be achieved within the confines of state-sanctioned limitations. Whether it’s the wisdom of a poet, the bold exploration of pioneers, the groundbreaking discoveries of scientists, the vivid imagination of painters, the visionary planning of urban developers, or the enchanting melodies of musicians, these transformative forces flourish in environments of freedom and openness.

Therefore, it’s imperative that we break free from the constraints imposed by the state and foster an environment of genuine intellectual and creative freedom. Only then can humanity unleash its full potential and chart a course towards a brighter, more innovative future.

Establishing a climate of free thought is crucial for cultivating a society’s intellectual depth, which is essential for fostering innovative actions and unleashing individual creativity. Freedom must remain uncompromised,

as restrictions on liberties can inflict lasting traumas on societies, taking generations to overcome. Western societies have faced such experiences; consider Spain, which endured dictatorship until 1975.

To illustrate the lasting impact of such regimes, let's look at a personal story shared by a Spanish acquaintance. When this person excitedly told their father about being chosen as a representative among PhD students, the father responded with caution. He urged them to avoid drawing attention to themselves, fearing repercussions from authorities or professors that could hinder their academic pursuits. This paternal concern stemmed from his experiences of repression under the dictatorship, where speaking out or seeking justice often led to severe consequences.

The anecdote vividly illustrates how the scars of authoritarianism can linger for generations, shaping individuals' behaviour and perceptions long after the regime's end. The father's apprehension reflects the deep-seated fears and ingrained caution instilled by years of living under oppressive rule. Even after the transition to democracy, the psychological impact endured, highlighting the profound and lasting effects of restricted freedoms on the societal psyche.

This example underscores the importance of safeguarding and promoting freedom of thought and expression as fundamental pillars of a healthy and progressive society. It serves as a poignant reminder of the lasting legacy of past injustices and the necessity of nurturing an environment where individuals feel empowered to voice their opinions and pursue their aspirations without fear of reprisal.

Freedom serves as the cornerstone for nurturing enlightened generations capable of shaping the world. Its absence equates to the stagnation of thought, akin to the deprivation of vital blood flow to the brain, leading to a partial or metaphorical paralysis. A society trapped by walls of fear perceives life through a lens of anxiety, lacking self-assurance and hesitating to express itself. Such a society cannot aspire to lead the world effectively.

The Universal Declaration of Human Rights clearly underscores the importance of safeguarding the rights and freedoms of individuals. We don't need to create new principles; the Magna Carta, signed 800 years ago, was a pivotal moment in history, marking the collapse of oppressive governance in the eyes of the British crown. These historical documents contain a powerful essence capable of shaping societies into works of art, where freedoms are interwoven with the art of communal living. Yet, in the contemporary era, these values are not upheld as they ought to be across all regions.

There is a pressing need for skilled thinkers who can use this powerful idea and weave it into society. These individuals, like artists, must sew the threads of freedom and coexistence deeply into our collective awareness. Unfortunately, in today's world, these values do not get the recognition they deserve, showing a big gap in our global conversation.

It is crucial that we urgently focus on creating a society where everyone can live together harmoniously. We must teach children from a young age how to live together peacefully. It is wonderful to see a diverse humanity, where people of different colours, races, languages, and religions come together. Yet, we must fully embrace the principles of a civil constitution that supports the representation of diverse perspectives in government and parliament.

How unfortunate it is that some people still struggle to express themselves in their native language, create

their own schools, or celebrate their cultural heritage through song. The essence that sustains and enriches our collective existence is like the life-giving marrow within bones.

In a recent conversation with Marianne, someone close to me from the Netherlands, I used the phrase “tolerate differences”. However, she rightly pointed out that merely tolerating differences implies a grudging acceptance, rather than a genuine celebration of diversity. The key to fostering lasting harmony lies in this deeper understanding – one that goes beyond mere tolerance to embrace a sincere acceptance of each other’s inherent worth and uniqueness. Therefore, the foundation for sustainable coexistence rests upon our ability to find common ground, uphold shared principles, and genuinely embrace one another as equals, with mutual respect and understanding.

If we lacked any historical context, the events happening in the world today would still make us think deeply. Recently, I visited Helmstedt, a charming German town on the outskirts. While sitting in a local café and talking with a German resident, they learnt about my academic background and eagerly took me to the University of Helmstedt. Once a centre of scientific study, it is now closed and turned into an art gallery. Founded in 1576, this institution was once a hub of intellectual activity, nurturing great minds like Gauss, whose work had a significant impact throughout the 19th century. The very room where Gauss wrote his important doctoral dissertation remains unchanged, silently showcasing the wisdom of the past.

Yet, as one walks through the halls of this esteemed institution, one cannot help but ponder the unpredictability of fate. What caused the decline of this respected centre of learning, which for centuries nurtured minds that shaped human civilisation? The story is filled with irony and tragedy. Consider the fate of the young Professor Giordano Bruno, born in 1548, who dared to propose philosophical ideas known as Cosmic Pluralism. His bold theories, which went against the prevailing Christian beliefs, led to his tragic end at the hands of the Roman Inquisition; he was burnt at the stake before he reached the age of fifty.

Describing the stark contrast between the Middle Ages and today is a challenging task in the 21st century. Until very recently, we know that women did not have the right to study or work, even in the Western world. In England, which hosted the Industrial Revolution, many universities did not allow female students to study until relatively recent times. When we visited the Beamish Museum in England, a presentation there mentioned a detail that was still occurring in our century: girls’ teeth were being completely removed and replaced with dentures so they could marry wealthier and more affluent men. The fact that this practice continued until very recently made me reflect deeply. The West has emerged from its dark historical past, with its capitals now serving as vibrant hubs of freedom, welcoming people of diverse religions, languages, and races. These cities, once shrouded in darkness, now have well-lit streets where no one feels lost or threatened. The shift from historical darkness to a reality based on the rule of law and universally recognised human rights standards serves as a beacon, guiding these cities towards progress and inclusivity.

This transformation is evident in recent assessments such as the Rule of Law Index, where European and Scandinavian countries consistently occupy top positions. These nations have not only embraced the principles of the rule of law but have also integrated them into their legal systems, ensuring equal protection and access to justice for all citizens. This commitment to upholding legal standards has contributed to the

establishment of stable and prosperous societies, where the rights and dignity of every individual are respected and upheld.

Furthermore, beyond statistical rankings, the tangible effects of this progress are evident in the everyday lives of citizens. From strong legal frameworks protecting civil liberties to institutions dedicated to upholding justice and accountability, these countries have created environments that foster social harmony and economic prosperity. As a result, their cities stand as shining examples of the triumph of enlightenment over darkness, inspiring hope for a brighter future globally.

Every day, governments around the world may introduce new judicial packages and craft eloquent legal doctrines, but their effectiveness lies in real-world implementation, not just rhetoric. Merely having a large set of laws and regulations, or impressive buildings of justice, does little to uphold the rule of law if those laws are not effectively enforced or if legal principles are not deeply ingrained within society. True legal systems are defined not by the quantity of legislation but by the quality of their execution.

Consider nations without a written constitution; despite lacking formal legal documents, they may excel in upholding human rights and the rule of law through practical application. This highlights the importance of embodying legal values in societal norms and practices rather than relying solely on written laws.

The essence of law lies in its application by skilled jurists who are not only well-trained but also deeply committed to the principles of justice and the rule of law. These jurists must uphold universal values, possess a broad perspective, and remain free from political pressures. Only through the dedication of such individuals can the foundation of a just and fair legal system be laid, fostering a society where the rule of law prevails.

The Top 20 Countries in the Rule of Law Index for 2024

Rank	Country	Score
1	Finland	100.0
2	Denmark	98.6
3	Singapore	95.7
4	Luxembourg	95.4
5	Norway	95.3
6	Switzerland	95.0
7	New Zealand	94.5
8	Austria	93.9
9	Iceland	93.9
10	Sweden	93.5
11	Netherlands	92.8
12	Canada	90.6
13	Japan	90.4
14	Germany	89.8
15	Ireland	89.6
16	Australia	89.2
17	Estonia	87.2
18	United Kingdom	86.9
19	United States	85.9
20	Belgium	85.3

While Russia's exact ranking in the 2024 Rule of Law Index is not specified in the available summaries, various credible reports indicate a significant deterioration in the country's adherence to the rule of law. Notably, Russia was ranked 154th out of 180 countries in Transparency International's 2024 Corruption Perceptions Index, marking its lowest score ever. The political landscape has also seen increased repression. A United Nations expert reported that state repression in Russia has intensified since the invasion of Ukraine, with over 1,300 political prisoners detained on fabricated charges. The country is described as being governed by a system of fear and punishment, including the use of torture with impunity.

On the other hand, China is ranked 95th among the countries assessed, with a score of 0.47, showing its relative standing in following the rule of law based on the index's criteria. In contrast, Hong Kong SAR, a special administrative region of China, is ranked 23rd globally with a score of 0.72. This higher ranking suggests a stronger adherence to rule of law principles in Hong Kong compared to mainland China. The

difference in economic development between countries like South Korea and North Korea raises important questions about the reasons for such a gap. The historical context of Korea's division into two states in 1953 clearly shows this difference. Initially, both North and South Korea started with similar per capita income. However, over time, South Korea's per capita income has risen to \$30,000, while North Korea's is only \$1,700.

The key factor that led to the significant difference between the two Koreas was the series of legal reforms in South Korea, especially those related to property rights, which were successfully implemented. These reforms paved the way for South Korea's economic transformation, leading to growth and prosperity since the 1970s.

Similarly, China's economic rise over the past few decades provides another strong example. Despite many challenges, including a large population and initially low levels of development, China began economic reforms, particularly with the regulation of property rights after Mao's death. This change sparked China's impressive economic growth, using its vast labour force to become a global economic powerhouse.

However, it's important to recognise that economic progress alone does not ensure long-term prosperity. Like South Korea, China still faces significant issues related to democracy, human rights, the rule of law, and freedoms. Addressing these challenges will be crucial for China to sustain its economic growth and go beyond just achieving an average per capita income.

The experiences of South Korea and China highlight the critical role of legal and institutional reforms in driving economic development. However, sustainable progress requires a comprehensive approach that includes not just economic growth but also addresses broader societal and governance issues. Only by tackling these challenges can countries truly achieve long-term prosperity and become the success stories of the future.

To gain insight into the trajectory of this effort, it's helpful to examine the Economic Freedom Index, an annual report by the Heritage Foundation. This index covers various factors, including the rule of law, protection of property rights, government intervention in the economy, freedom in business and finance, and integration into global markets through trade and finance.

Among the top ten countries in this index, we find examples of strong economic systems where these factors are well-maintained and encouraged. Conversely, China, despite its economic strength, ranks relatively low at 100th place, indicating areas for further improvement. The stark contrast becomes clear when we look at nations like North Korea and Venezuela, which are at the bottom of the index.

The disparity between countries at the top and bottom of the index highlights the importance of these factors in shaping economic activity. A healthy economy is characterised not only by its structure but also by its effectiveness and efficiency.

To illustrate this difference further, let's compare starting a business in Venezuela to a country at the top of the index. In Venezuela, the bureaucratic process involves navigating through a lengthy 17-step procedure, often taking over 100 days to establish a business. In contrast, in top-ranking countries, starting a business is streamlined and efficient, often requiring just a simple online form submission followed by quick activation.

This difference in ease of doing business highlights the significant impact of economic freedom on entrepreneurship and economic development. Countries with greater economic freedom tend to have more dynamic and vibrant business environments, fostering innovation, investment, and economic growth.

Top 20 Countries in the 2024 Index of Economic Freedom

Index of Economic Freedom, 2024 — Top 20

Rank	Country	Score
1	Singapore	89.1
2	Hong Kong	89.1
3	New Zealand	84.1
4	Switzerland	82.0
5	Ireland	80.9
6	Australia	80.9
7	Denmark	80.4
8	United Kingdom	79.3
9	Canada	79.2
10	Estonia	78.2
11	United Arab Emirates	76.2
12	Taiwan	77.1
13	Iceland	77.1
14	Georgia	77.1
15	Netherlands	77.0
16	Lithuania	76.9
17	Luxembourg	76.7
18	Finland	75.7
19	Malaysia	74.7
20	Germany	74.5

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Source: ...

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Bottom 20 Countries in the 2024 Index of Economic Freedom

**Index of Economic Freedom, 2024 —
Bottom 20**

Rank	Country	Score
157	Sudan	45.0
158	Zimbabwe	43.1
159	Bolivia	42.8
160	Iran	49.2
161	Algeria	46.2
162	Timor-Leste	45.9
163	Equatorial Guinea	45.0
164	Eritrea	44.8
165	Republic of Congo	44.7
166	Cuba	44.6
167	Venezuela	25.2
168	North Korea	5.2
169	Turkmenistan	46.4
170	Central African Republic	45.6
171	Chad	45.4
172	Guinea	45.3
173	Guinea-Bissau	45.2
174	Haiti	45.1
175	Libya	45.0
176	Syria	43.5

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Source: Heritage Foundation, 2024 Index of Economic Freedom.

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In today's fast-paced world, characterised by rapid digital connectivity, nations hindered by bureaucratic barriers risk falling significantly behind. Many countries resist integrating into the global community, clinging to outdated practices. The sustainability of this resistance is uncertain, especially for countries like China and India, which strive to emulate successful development models.

A nation stuck in an economy reliant on imitation faces considerable challenges. While initially beneficial

for learning and adaptation, excessive reliance on imitation stifles innovation and limits progress. Countries that successfully transition from imitation-based economies to innovation-driven ones make significant strides toward securing their future. Today, embracing values such as the rule of law, property rights, human rights, and freedom of thought is essential for nations aspiring to move beyond the limitations of imitation.

Moreover, prioritising research and development activities to harness the potential of a well-educated populace is crucial for enhancing productivity and competitiveness globally. Transitioning from an imitation-based economy to one grounded in innovation is essential for countries seeking sustained growth and relevance in an ever-evolving global landscape.

In many developing countries, the allocation of funds for research and development is less than one percent of the national income, significantly below the OECD average of 2.4 percent. In contrast, South Korea, known for its strong research and development initiatives, invests 4.9 per cent of its national income in this sector. As a result, South Korea has consistently topped global innovation rankings for the past six years. This stark contrast highlights the need for underdeveloped countries to move from a culture of imitation to one of innovation, thereby rising to the levels of global leadership.

Particularly in the current economic landscape, elevating the nation's living standards requires the development of sectors focused on high-value-added production. This transformation cannot happen spontaneously; it demands strategic improvements in research and development infrastructure. By undertaking rigorous and effective research and development efforts, a nation can position itself as a strong competitor on the global stage.

South Korea's relentless pursuit of innovation has propelled it to the forefront, with other nations striving to emulate its success. Notably, in 2019, Germany made significant strides in the innovation index, closing in on South Korea's lead to much applause. In a remarkable turn of events, Germany claimed the title of innovation champion in the 2020 index, ending South Korea's six-year reign. By 2024, Switzerland leads the ranking, with Sweden, the United States, , Singapore and the United Kingdom following in succession. This shift in leadership highlights the dynamic nature of the global innovation landscape and underscores the importance of sustained investment and commitment to research and development for maintaining competitiveness and driving progress.

Top 20 Most Innovative Countries in the Global Innovation Index, 2024

**Global Innovation Index 2024 —
Top 20**

Rank	Country	Score
1	Switzerland	67.5
2	Sweden	64.5
3	United States	62.4
4	Singapore	61.2
5	United Kingdom	61.0
6	South Korea	60.9
7	Finland	59.4
8	Netherlands	58.8
9	Germany	58.1
10	Denmark	57.1
11	China	56.3
12	France	55.4
13	Japan	54.1
14	Canada	52.9
15	Israel	52.7
16	Estonia	52.3
17	Austria	50.3
18	Hong Kong	50.1
19	Ireland	50.0
20	Luxembourg	49.1

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Source: WIPO, Global Innovation Index 2024.

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Nations that excel in innovation deeply embed key societal values such as democracy, human rights, the rule of law, and free speech. This foundational ethos fosters an environment conducive to living together harmoniously. Within this framework, the state acts as a facilitator, creating a platform where citizens collectively establish and adhere to the principles guiding their coexistence. This collaborative approach is central to building a society where innovative actions thrive, supported by a commitment to shared values and

mutual respect. Society faces a crucial challenge: overcoming its pervasive fears and embracing a culture of risk-taking, especially in encouraging children to explore areas where their talents and creativity can flourish.

In societies worried about the future, people often choose jobs they think are stable, usually in government roles. This cautious mindset stops innovation and hurts a society's ability to compete globally. Without taking risks, trying new ideas, and challenging the usual way of doing things, progress slows down and chances for innovation fade. To grow and move forward, societies need to value and encourage taking risks. This is important for nurturing the next generation of creative thinkers. When people feel confident to follow their passions and take smart risks, they are more likely to come up with new ideas and make meaningful changes. By promoting risk-taking and a culture of innovation from a young age, societies can reach their full potential and stay competitive in a constantly changing world.

To truly flourish in today's world, societies must confront these fears head-on and create environments that nurture creative thinking and an entrepreneurial spirit. This means empowering parents to guide their children toward paths that may seem riskier but align with their natural talents and passions. When individuals are encouraged to pursue their strengths rather than conform to traditional ideas of success, they are more likely to excel and contribute to creating high-value products and solutions.

Furthermore, it's important to recognise the harmful impact of environments characterised by oppression and fear. Societies where individuals face abuse and coercion, whether at home, in schools, or by state authorities, are unlikely to foster the self-confidence and creativity necessary for innovation and progress. Therefore, investing in supportive environments that prioritize individual well-being and personal growth is essential.

In many underdeveloped countries, societal pressure discourages children from pursuing interests in music and art, viewing them as distractions from academic studies. For instance, a child might have a natural talent for painting, but societal norms emphasising subjects like mathematics might steer them towards a career path that doesn't align with their true abilities. This highlights a larger issue where individuals are often judged and directed based on perceived weaknesses rather than recognised strengths.

Moreover, this phenomenon extends beyond childhood into education and career choices. Teachers may be assigned to subjects based on their perceived weaknesses rather than their strengths. For example, a child with a talent for painting should ideally receive professional training to nurture their skills. However, in many cases, the focus is placed on their weaker areas – such as mathematics – by providing extra support in that subject instead. As a result, their artistic potential may go underdeveloped while efforts are concentrated on improving their weaknesses rather than fostering their strengths.

The societal emphasis on traditional, stable career paths further exacerbates the issue. A poignant illustration of this is depicted in a cartoon where a father, representing the conservative mindset prevalent in many societies, disapproves of his son's invention of a time machine. The father's concern stems from his belief that his son should focus on securing a stable job rather than pursuing unconventional ideas like time travel. This highlights the narrow mindset that often permeates societies, stifling creativity and innovation in favour of conformity to established norms.

In essence, the societal pressure to conform to traditional expectations hampers the exploration of individual talents and passions, ultimately limiting the potential for personal fulfilment and societal progress. Encouraging a more inclusive and supportive environment that values diverse talents and interests could unlock untapped potential and foster greater innovation and creativity within underdeveloped countries.

Media Attributions

- Rule of Law Index

10.

BEYOND THE NUMBERS: A DEEPER LOOK AT ECONOMIC WELL-BEING

The ways we measure a country's economic performance provide us with valuable insights, but they are just the starting point. Our real goal is to equip people with the ability to observe, question, and critically analyse what's happening around them. A strong economy is not just about producing more goods or increasing income – it is about how these economic activities translate into real improvements in people's lives. Understanding this requires individuals to develop the skills needed to make informed economic and political decisions, rather than simply accepting surface-level statistics. In this section, we will go beyond traditional indicators and introduce a few more key measures that help us paint a fuller picture of economic well-being.

Economic performance is often assessed through numbers and financial calculations, but sometimes, we need to step beyond these figures to grasp what really shapes people's experiences. For example, GDP per capita – which measures the average income per person – is undeniably an important metric. However, an increase in GDP per capita does not automatically translate to happiness or a better quality of life. A rising income may improve access to material goods, but it does not necessarily mean people feel healthier, more secure, or more fulfilled in their daily lives.

Happiness, well-being, and overall life satisfaction depend on many other factors. This is where the **Happiness and Well-Being Indicators** come into play, helping us understand how economic conditions affect people's day-to-day lives. They remind us that a thriving economy is not just about earning more money but also about health, social connections, and overall life quality. Countries with high income levels but low life satisfaction scores often highlight the limitations of traditional economic measurements, proving that financial prosperity alone is not enough.

Similarly, the **Genuine Progress Indicator (GPI)** steps in to address the shortcomings of GDP. While GDP simply measures economic activity, GPI takes a more realistic approach by incorporating social and environmental costs and benefits. It considers whether economic growth is actually improving people's lives or merely contributing to rising inequality, environmental destruction, and social instability. A nation may experience rapid economic expansion, but if this growth leads to increased pollution, longer working hours, and rising mental health problems, is it truly progress? GPI challenges us to rethink how we define success, ensuring that economic performance is measured in a way that reflects real human well-being.

Another key measure is the **Human Development Index (HDI)**, which shifts our focus away from pure income statistics. Rather than looking solely at wealth, HDI evaluates a country's progress based on three fundamental dimensions of human well-being: life expectancy, reflecting the overall health and longevity of

a population; education, which includes access to schooling and the average years of education received; and income, adjusted for purchasing power, ensuring a more accurate comparison between countries. This index challenges the idea that economic success is simply about money – it is also about what people can actually do with their resources and opportunities. A society where people live long, receive quality education, and have meaningful job opportunities is one that fosters true development, regardless of how high or low its GDP may be.

Top 20 Countries by HDI (2022 Data)

Top 20 Countries by Human Development Index, 2022		
Rank	Country	HDI Score
1	Switzerland	0.967
2	Norway	0.966
3	Iceland	0.959
4	Hong Kong	0.956
5	Australia	0.952
6	Denmark	0.950
7	Sweden	0.949
8	Ireland	0.946
9	Germany	0.942
10	Netherlands	0.940
11	Singapore	0.939
12	Finland	0.937
13	Canada	0.935
14	New Zealand	0.929
15	United States	0.927
16	United Kingdom	0.926
17	Belgium	0.920
18	Liechtenstein	0.915
19	Japan	0.911
20	Austria	0.910

Note: HDI scores range from 0 to 1, with higher values indicating greater human development.

Bottom 10 Countries by HDI (2022 Data)

Bottom 10 Countries by Human Development Index, 2022		
Rank	Country	HDI Score
174	Guinea-Bissau	0.461
175	Mozambique	0.458
176	Sierra Leone	0.438
177	Burkina Faso	0.426
178	Eritrea	0.425
179	Mali	0.410
180	Burundi	0.394
181	South Sudan	0.394
182	Chad	0.387
183	Niger	0.381

Note: HDI scores range from 0 to 1, with higher values indicating greater human development.

The HDI rankings reveal significant disparities in human development across the globe. Countries like Switzerland, Norway, and Iceland consistently occupy the top positions, reflecting their strong performance in health, education, and income. These nations typically exhibit high life expectancy, advanced educational systems, and robust economies, contributing to their elevated HDI scores.

Conversely, countries at the lower end of the HDI spectrum, such as Niger, Chad, and South Sudan, face challenges including limited access to healthcare, lower educational attainment, and reduced income levels. These factors collectively result in lower HDI scores, highlighting areas requiring targeted development efforts. While Gross Domestic Product (GDP) per capita is a common indicator of economic performance, it does not encompass the broader aspects of human development captured by the HDI. For instance, a country may have a high GDP per capita, indicating substantial economic output, but still rank not that high on the HDI if disparities exist in health and education sectors.

The United States, with a GDP per capita of approximately \$63,000, ranks 15th on the HDI list. Yes, the United States still ranks quite well in HDI at 15th place, despite its economic and social challenges. While the U.S. has high income inequality and healthcare accessibility issues, it remains a global leader in education, innovation, and economic opportunity, which keeps its HDI score relatively high. However, a far more striking example of why high GDP per capita doesn't always translate to a high HDI ranking is Qatar.

Qatar is one of the richest countries in the world by GDP per capita. In 2023, its GDP per capita was approximately \$83,000, ranking among the top 10 globally. However, when it comes to Human Development

Index (HDI), Qatar ranks around 44th, significantly lower than many other high-income nations.

Why Does Qatar Rank Lower in Human Development Despite Its Wealth?

At first glance, Qatar's immense wealth, largely derived from its oil and gas exports, might suggest it should rank among the highest in the Human Development Index (HDI). However, a closer look reveals that economic prosperity doesn't always translate into broad-based human development. Several factors help explain why Qatar, despite having one of the highest GDP per capita figures in the world, lags behind countries like Norway, Switzerland, and Australia in HDI rankings.

1. Unequal Distribution of Wealth

While Qatar's energy sector generates extraordinary revenues, this wealth is not shared evenly across the population. A small segment of the Qatari elite enjoys the lion's share of national income, while the vast majority of the workforce, composed mostly of migrant workers – receives far less. Over 85 percent of the working population in Qatar consists of foreign labourers, many of whom earn minimal wages and lack basic labour rights. This extreme income inequality plays a significant role in suppressing the country's HDI score.

2. Modest Social Development Relative to Economic Size

Unlike countries that consistently score high on HDI, such as Norway and Australia, Qatar has not yet achieved comparable development in key social sectors like healthcare and education. Although public services exist, their quality and accessibility vary, especially for non-citizens who make up the majority of the population. In many cases, these services do not meet the same standards available to nationals, resulting in uneven outcomes across different segments of society.

3. Migrant Labour Conditions and Human Rights

Qatar has faced widespread international criticism over its treatment of migrant workers, particularly in the construction and domestic service sectors. Many workers live in overcrowded accommodations, earn low wages, and lack effective legal protection. These conditions can negatively affect both physical and mental well-being, leading to reduced life expectancy and quality of life, two key components of the HDI.

4. Challenges in Education and Skills Development

Despite its economic power, Qatar's performance in education remains modest when compared to other high-income nations. Participation in higher education is relatively limited, and investment in human capital

development has not kept pace with economic growth. In contrast, top-ranking HDI countries have long prioritised education as a critical tool for enhancing overall human development and ensuring long-term prosperity.

In summary, while Qatar is undeniably wealthy, the benefits of that wealth are not equally felt across its population. The country’s HDI ranking reflects deeper issues related to social inclusion, labour rights, and public investment in human development, reminding us that prosperity alone is not enough to guarantee a high quality of life for all.

Comparison: Qatar vs. Norway (Similar GDP per Capita, Different HDI)

Qatar vs Norway — GDP per capita, HDI rank, and development strengths			
Country	GDP Per Capita (2023)	HDI Rank (2023)	Key Development Strengths
Qatar	~\$83,000	44th	High income, but inequality and migrant labor issues
Norway	~\$92,000	2nd	Strong social policies, universal education & healthcare

This stark contrast between Qatar and Norway shows that wealth alone does not guarantee human development. Norway reinvests its wealth into social infrastructure, ensuring that all citizens have access to high-quality education, healthcare, and social security. In contrast, Qatar, despite its enormous wealth, still ranks far lower in HDI because its development model prioritises economic growth over social inclusivity.

Regional Insights:

Sub-Saharan Africa

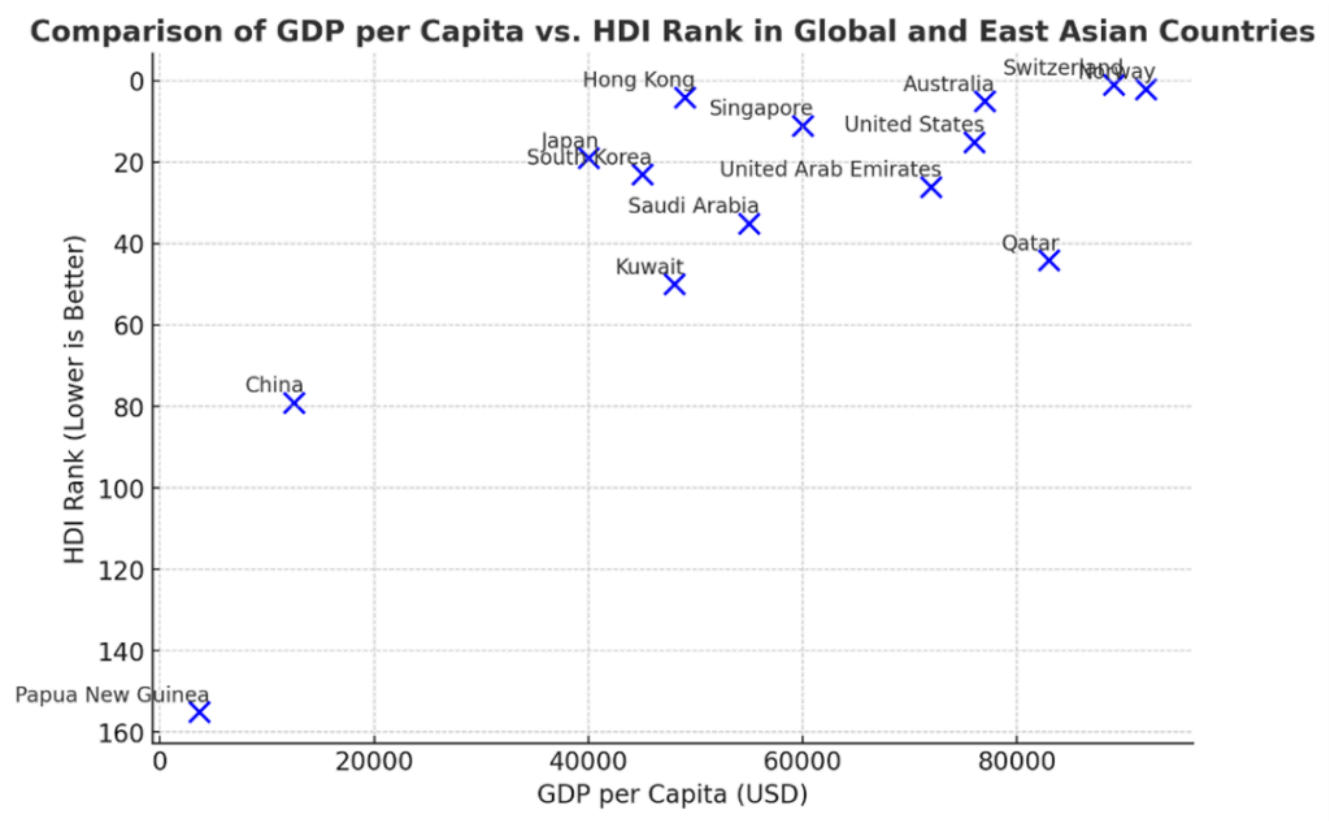
Many countries in Sub-Saharan Africa occupy the lower ranks of the HDI. Challenges such as political instability, limited infrastructure, and health crises like HIV/AIDS have impeded progress in human development. However, there are positive trends, with nations like Rwanda and Ethiopia making significant strides in improving education and healthcare systems, leading to gradual improvements in their HDI scores.

East Asia and the Pacific

This region showcases a diverse range of HDI scores and economic standings. Countries like Hong Kong, Singapore, Japan, and South Korea rank highly, reflecting their advanced economies, strong education systems, and comprehensive social services. These nations have successfully leveraged technological innovation, global trade, and investment in human capital to achieve high human development levels.

China, while having one of the world’s largest economies, has a lower HDI ranking compared to its economic

peers, highlighting the challenges of income inequality, rural-urban development gaps, and access to high-quality social services. Despite this, China has made significant strides in education and healthcare, contributing to its steady improvement in HDI over time.



In contrast, nations like Papua New Guinea face substantial developmental challenges, ranking significantly lower in HDI. Limited access to basic healthcare, education, and infrastructure hinders progress, despite gradual economic improvements. Similarly, countries like Kuwait and Saudi Arabia, which have high GDP per capita due to oil wealth, do not necessarily rank among the top HDI countries, as economic prosperity has not translated equally into broad-based social development and human capital investment.

The disparity within the region highlights the varying stages of development and the impact of effective policy implementation. Nations that prioritise inclusive economic growth, social welfare, and education tend to score higher in HDI, while those focused solely on economic expansion without parallel human development initiatives see a disconnect between their wealth and quality of life indicators.

Traditional poverty measures often focus solely on income levels, assuming that financial earnings are the primary determinant of well-being. However, poverty is far more complex and extends beyond monetary constraints. A household might earn above the official poverty line yet still lack access to essential services such as clean water, healthcare, and education. The Multidimensional Poverty Index (MPI) offers a more comprehensive framework for assessing poverty by capturing multiple dimensions of deprivation. Unlike

conventional income-based poverty indicators, the MPI takes into account factors such as health, education, and living standards, painting a clearer picture of how well people's basic needs are being met.

The MPI evaluates poverty across three fundamental dimensions, each encompassing several indicators. Health plays a critical role, as a lack of proper medical care directly affects life expectancy and overall well-being. High child mortality rates indicate systemic healthcare deficiencies, while malnutrition highlights food insecurity, even in middle-income countries. Education, another crucial component, is measured through years of schooling and school attendance rates. The absence of access to quality education hinders social mobility and economic opportunity, trapping individuals in cycles of poverty. Living standards complete the framework by assessing access to electricity, sanitation, drinking water, adequate housing, and basic household assets. Deprivations in these areas often mean that even individuals with a stable income struggle to achieve a decent quality of life.

The MPI reveals stark contrasts across different regions and within individual countries. Sub-Saharan Africa remains one of the most affected regions, with countries such as Niger, Chad, and South Sudan exhibiting some of the highest multidimensional poverty rates in the world. In Niger, for example, over 80% of the population experiences multiple deprivations, particularly in education and healthcare. Limited school infrastructure and teacher shortages have left millions of children without proper schooling, contributing to one of the lowest literacy rates globally. Similarly, inadequate healthcare facilities and food shortages result in high levels of malnutrition and preventable diseases.

South Asia, another region with high MPI values, presents a different set of challenges. Countries like India, Bangladesh, and Pakistan have made progress in reducing income poverty, but multidimensional poverty remains a pressing issue. India, for instance, has seen rapid economic growth in recent decades, yet millions still lack access to basic sanitation, clean drinking water, and quality education. The persistence of child malnutrition and high rates of school dropout in rural areas underscores the limitations of measuring poverty solely through income statistics. In Bangladesh, despite improvements in education, maternal health and access to safe water remain areas of concern, disproportionately affecting rural communities.

In contrast, Latin America and the Caribbean show a more mixed picture. While countries like Chile, Argentina, and Costa Rica have relatively low MPI values due to strong social policies, nations such as Haiti and Venezuela continue to struggle with severe multidimensional poverty. Haiti, in particular, suffers from systemic issues related to poor healthcare infrastructure, lack of clean water, and inadequate housing, leaving a significant portion of the population vulnerable to disease and natural disasters. Venezuela's economic crisis has exacerbated its MPI indicators, with deteriorating healthcare services and food shortages worsening conditions for many citizens.

Even within Middle Eastern and Gulf nations, where GDP per capita is relatively high, MPI disparities persist. Countries like Qatar, Saudi Arabia, and the United Arab Emirates have some of the world's highest income levels, yet pockets of poverty remain, particularly among low-income migrant workers. These populations often live in overcrowded housing, lack access to essential healthcare, and experience restricted labor rights, leading to forms of deprivation that are not captured in traditional income measures.

East Asia and the Pacific provide another intriguing case. Countries such as China, Japan, and South Korea exhibit vastly different MPI results despite being in the same geographic region. China has dramatically reduced income poverty over the past four decades, but multidimensional poverty still exists, particularly in rural provinces where access to education and healthcare lags behind urban centers. Japan and South Korea, by contrast, have some of the lowest MPI values in the world, reflecting their strong investments in social welfare, universal healthcare, and high educational attainment. Yet even in these countries, certain marginalised groups, such as the elderly in Japan or low-income households in South Korea, face specific deprivations that require policy attention.

Understanding the MPI's implications is essential for policymakers, as it provides a roadmap for addressing the root causes of poverty. Governments that focus solely on raising income levels without considering access to healthcare, education, and infrastructure may fail to achieve meaningful progress in human development. The MPI allows for targeted interventions by identifying specific areas of deprivation within a country or region. In India, for instance, regional disparities mean that while urban centres like Delhi and Mumbai have relatively low MPI values, states such as Bihar and Uttar Pradesh experience much higher levels of multidimensional poverty. Similarly, in Brazil, coastal cities like Rio de Janeiro and São Paulo boast high human development levels, whereas the country's interior and Amazonian regions struggle with poverty, malnutrition, and limited healthcare access.

The real power of the MPI lies in its ability to guide governments in crafting tailored, data-driven policies rather than relying on one-size-fits-all economic strategies. Countries that have successfully reduced multidimensional poverty have done so through comprehensive social programmes, investing in free or low-cost healthcare, improving school infrastructure, and expanding access to clean water and sanitation. Nations like Vietnam and Rwanda have demonstrated how focused government initiatives can lift millions out of poverty, not just by increasing incomes but by improving the overall quality of life.

Unlike traditional poverty measures that rely on income thresholds, the Multidimensional Poverty Index reveals hidden inequalities that persist even in middle- and high-income countries. Many people may earn enough to escape monetary poverty yet still lack the essential services necessary for a dignified life. The MPI provides a more accurate and nuanced picture of poverty, ensuring that no one is left behind in the pursuit of sustainable development.

With these expanded indicators, **Happiness and Well-Being Indicators, GPI, HDI, and MPI**, we can build a much deeper and more accurate understanding of the world around us. Whether we are analysing our own country or examining the global economy, these tools help us see beyond the surface, allowing us to ask more meaningful questions about **who truly benefits from economic growth and how we can ensure prosperity is shared more fairly and sustainably**. Instead of assuming that a rising GDP equates to success, we must consider whether economic progress is truly enhancing the **quality of life, opportunities, and long-term sustainability** of our societies. By embracing these broader perspectives, we move closer to a world where economic decisions are not just about numbers but about people, communities, and the future we want to create.

11.

FURTHER READING AND EXPLORATION

- Keynes, J. M. (1936), *The General Theory of Employment, Interest and Money*
- Blanchard, O. (2017), *Macroeconomics*
- Skidelsky, R. (2009), *Keynes: The Return of the Master*
- Stiglitz, J. E. (2018), *Where Modern Macroeconomics Went Wrong*
- Sen, A. (2009), *The Idea of Justice*
- Stiglitz, J., Sen, A. and Fitoussi, J-P. (2009), *Mismeasuring Our Lives*
- Raworth, K. (2017), *Doughnut Economics*
- Wilkinson, R. and Pickett, K. (2009), *The Spirit Level*
- UNDP, *Human Development Reports* (various years)

PART III

LABOR FORCE, EMPLOYMENT, UNEMPLOYMENT

12.

WORK, VOICE, AND THE SHAPE OF EVERYDAY LIFE

Most people experience the economy through work. Through their wages, their working hours, their job security, and the quiet sense of dignity that comes from being needed. Whether work feels stable or precarious shapes how people plan their lives, raise children, take risks, and imagine the future. That is why labour markets are never just a technical topic. They sit at the human core of macroeconomics. For most people, they matter far more than interest rates or exchange rates ever will.

This chapter looks at how societies decide, often without openly admitting it, what kinds of jobs they want to create and what kinds of lives they want to make possible. Labour markets are not simply the outcome of supply and demand meeting in an abstract space. They are shaped by education systems, training opportunities, welfare institutions, labour laws, workplace norms, bargaining power, and social attitudes. They also reflect political choices, choices about who is protected, who is exposed to risk, and who is expected to absorb shocks when the economy slows down.

This is where the *Better Together* lens becomes unavoidable. A labour market can be described as “flexible” and still feel deeply insecure to those living inside it. It can generate employment while producing constant anxiety. It can raise productivity while wages stagnate. It can deliver growth while eroding family life, community ties, and mental health. So the key question is not only how many jobs exist, but what kind of jobs they are, and what kind of society they support.

Democracy and free speech matter here in very practical ways. Workers need voice, not only at election time, but in workplaces and public debate. When people cannot speak freely, they cannot organise, they cannot challenge unfair conditions, and they cannot push back against policies that concentrate gains at the top while spreading insecurity below. Rule of law matters because labour protection means little if laws are not enforced consistently. Human rights matter because excluding groups from decent work, or concentrating insecurity in particular communities, is not only unjust, it also weakens the productive capacity of the entire economy.

This chapter also links labour markets to innovation and long-term development. High living standards do not come from working longer hours forever. They come from working smarter. From skills, knowledge, technology, and organisations that allow people to be productive without being exhausted. That is why societies that invest in early childhood, education quality, lifelong learning, and inclusive training tend to perform better over time. Not because their people are inherently more capable, but because their institutions are designed to recognise and develop talent widely, rather than wasting it.

These questions become even more urgent when we think about automation and artificial intelligence.

Some argue that AI will destroy jobs and leave many people behind. Others believe it will create new tasks and free humans to do more meaningful work. Both outcomes are possible. The difference does not lie in the technology itself, but in the rules that govern it. If the gains from automation are captured by a small group, AI can deepen inequality and social fragmentation. If those gains are shared through wages, training, public investment, and social protection, AI can support shorter working hours, better jobs, and more time for life beyond work.

So this chapter is about much more than unemployment rates or participation statistics. It is about the kind of society we are building through work. Do we treat labour as a cost to be squeezed wherever possible, or as people whose skills, dignity, and stability hold the entire system together?

In *Better Together*, that distinction matters deeply. A society cannot remain democratic, peaceful, and resilient if too many people feel economically disposable. Labour markets are not just mechanisms for allocating jobs. They are one of the main ways societies express what, and who, they truly value.

13.

WHY DO WE WORK SO MUCH?

So far in this book, we've looked at how economies grow and what drives their development. We've explored the paths countries take as they rise, and we've asked: how can we measure this progress? What lies behind it?

At the heart of every economy, one input remains constant and essential: labour. No matter how advanced or underdeveloped an economy might be, it cannot function without people who work, produce, manage, serve, and create. But the role of labour is not fixed. It changes across time and space, shaped by policies, technology, and social expectations.

In many developing and lower-income countries, production is often built around cheap labour. Factories and farms rely on large workforces, offering low wages in return for long hours. This pattern has helped several economies grow in the past, but it also raises questions about fairness, sustainability, and long-term human development.

In contrast, wealthier economies have begun to question something deeper. With higher productivity and better access to technology, a new conversation has emerged: why are we still working so much? In a world richer than ever, why are so many people unable to rest, to take holidays, or to spend quality time with their families, even when working full-time?

This gap between working hours and resting time is one of the defining challenges of our time. Many people simply can't afford a break, despite working hard. In response, some developed countries have started debating whether the standard work week should be reduced to four days. This isn't just about convenience; it's about rethinking what it means to live well in a modern society.

At the same time, millions of people spend hours commuting each day. This routine takes a toll on both individuals and the environment. Vehicles create pollution, stress levels rise, and time is lost. Yet, as recent experience has shown, many jobs can be done remotely. Working from home allows people to save time, reduce stress, and use their energy for more meaningful parts of life. It also helps reduce carbon emissions and traffic congestion.

Many organisations have already taken steps in this direction. Remote work, flexible hours, and hybrid models are no longer just temporary solutions; they are becoming part of a broader shift in how we understand work itself.

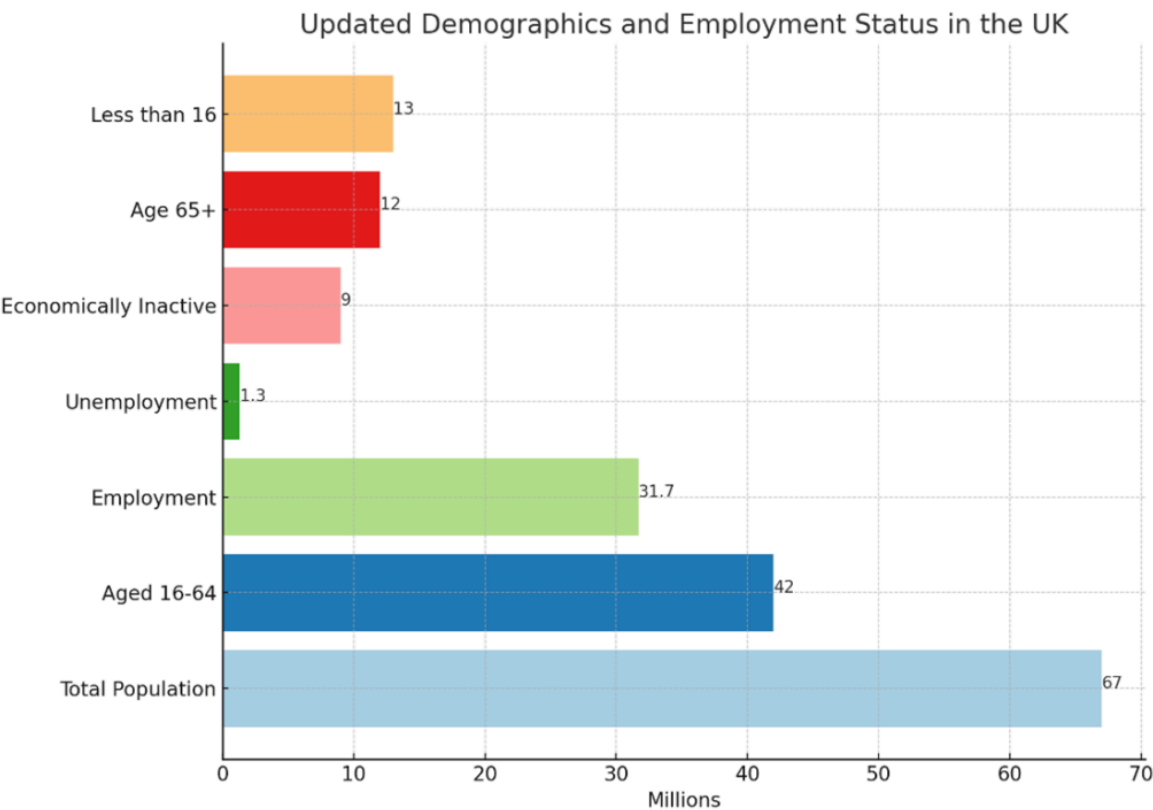
So now, let's turn our attention to the labour market. How is it evolving? What are the major forces reshaping it? And most importantly, what do these changes mean for people, society, and the future of our economies?

Let's begin.

14.

A VIBRANT JOURNEY THROUGH THE UK'S EMPLOYMENT LANDSCAPE

Before discussing the specifics of unemployment rates and labour market details, it's crucial to gain a holistic view of the population in question. This entails understanding who is working, who isn't, and the underlying demographics. As we navigate through these layers, the United Kingdom will serve as our focal point for a detailed case study. However, this approach is not exclusive to the UK; readers from other nations can employ a similar methodology using data from sources like the World Bank to analyze their own country's labor market dynamics.



Source: Office for National Statistics. Licensed under the [Open Government Licence v3.0](#).

Economic productivity is anchored in the effective harnessing of labor, capital, land, and technology. Labor, or the workforce, is a pivotal element in this equation, embodying the human contribution to economic

activity through the creation of goods and services. This analysis will zoom in on the labor segment, dissecting the UK's population to discern who is participating in economic activities and who remains on the sidelines.

Data from the UK's Office for National Statistics (ONS) offers a revealing snapshot: out of a total population of 67 million, there are segments, such as the 13 million individuals under 16 and the 12 million seniors over 65, who are typically outside the workforce. The under-16 group is mostly in school, and the over-65s are largely retired. Yet, within these demographics, there are nuances – some seniors might still be working, and individuals approaching the legal working age might soon join the labor force.

Exploring these demographics further, we find a varied tapestry of employment statuses. There are those actively engaged in the workforce, contributing to the economy, while others, for various reasons – health issues, early retirement, or personal choice – are not employed. Within the working-age population (15 to 65), a significant number are not part of the labor force due to reasons ranging from education pursuits to health-related challenges.

A notable point of concern is the fraction of the population that, despite being capable, opts out of the workforce, leaning on welfare systems instead. This dynamic places a financial strain on the working populace, which supports the non-working through taxes. The UK's labor market is further characterized by a segment actively seeking employment but yet to find work, illuminating the nuanced nature of unemployment.

To contextualize unemployment, it's defined not merely by the absence of work but by active job-seeking within the 16 to 65 age range. The UK's current unemployment rate, at 3.7%, reflects the percentage of the economically active population that is jobless yet striving to find employment.

By dissecting these layers, we gain a nuanced understanding of the labor market, providing a foundation for more informed discussions on unemployment and employment policies. This exploration not only sheds light on the UK's labor dynamics but also offers a framework that readers from other countries can apply, utilizing global data to analyze their own labor markets comprehensively.

15.

UNDERSTANDING UNEMPLOYMENT: A CLOSER LOOK AT THE GLOBAL JOB MARKET

Understanding why unemployment presents a significant challenge and exploring whether the goal should be to reduce unemployment rates to zero offers a window into the multifaceted nature of labor markets. Furthermore, examining how various countries navigate unemployment provides valuable insights into the complexity and diversity of economic health across the globe.

Unemployment rates are influenced by a myriad of factors, creating a dynamic and often volatile landscape within the job market. Economic fluctuations, commonly referred to as business cycles, play a pivotal role in shaping employment trends, giving rise to cyclical unemployment. In times of economic downturns, the contraction of job opportunities is an inevitable outcome, propelling unemployment rates upward. Additionally, the labor market is perpetually evolving, often driven by relentless technological progress, which can leave some workers struggling to adapt to new demands, a scenario termed structural unemployment.

Frictional unemployment adds another layer to this complex picture. It occurs when individuals are transitioning between jobs or when fresh entrants are navigating their way into the job market. Seasonal employment patterns also contribute to unemployment dynamics, with workers in certain sectors experiencing off-season periods of joblessness, only to re-engage when their industry's peak season resumes.

The ramifications of high unemployment extend far beyond the individual, affecting the broader economy and society. High unemployment means a significant portion of the population lacks a steady income source, curtailing their economic participation and, by extension, impacting the economic vitality of their communities and the broader economy. This can trigger a vicious cycle, where reduced spending power leads to decreased demand, further stifling economic growth and job creation.

Unemployment's impact on individual skill sets is another critical concern. Prolonged periods of unemployment can lead to skill atrophy or force individuals into roles that do not align with their expertise, gradually eroding their professional competencies. This erosion not only diminishes their immediate employability but also poses long-term challenges as they attempt to re-enter their original fields.

Different countries exhibit varying performance in managing unemployment, reflecting diverse economic structures, policy approaches, and labour market dynamics. For example, while European nations have often been criticised for higher unemployment rates compared to the UK and the US, the strategies and effectiveness in addressing unemployment vary significantly across the continent.

Post-2008 financial crisis, many countries, including the UK, witnessed a surge in unemployment rates but have since implemented strategies that have effectively curtailed these numbers. Yet, it's crucial to acknowledge that a 0% unemployment rate is not synonymous with economic utopia. Indeed, during the Clinton era in the United States, spanning the 1990s to the early 2000s, robust economic growth drove unemployment rates to exceptionally low levels. This period saw a significant surge in labour demand, leading to increased wages as employers vied for workers. Consequently, individuals gravitated towards professions offering more lucrative remuneration, resulting in a notable scarcity in certain job sectors, particularly in positions typically deemed less desirable, like housekeeping roles in the hospitality industry. To address these labour shortages, some organisations began to explore innovative recruitment strategies, including conducting job interviews with individuals nearing the completion of their prison sentences. This scenario underscores the necessity of a balanced approach to unemployment, where the aim is to maintain what economists term the “natural rate of unemployment,” typically between 3 and 4 percent. This rate accommodates the inevitable job transitions and new market entrants without indicating underlying economic distress.

When we examine the international arena of unemployment management, it's evident that the United Kingdom and the United States are paragons in this field, showcasing effective strategies that significantly mitigate unemployment rates. Their approaches have set a high standard, one that nations like Germany and the Netherlands have aspired to, achieving considerable success in reducing their own unemployment figures. These countries serve as models of how proactive and effective labour market policies can lead to positive outcomes in combating unemployment.

Contrastingly, the scenario in Spain underscores a different narrative where the battle against unemployment presents a more formidable challenge, with the country not witnessing the same levels of success as its peers such as the UK, the USA, Germany, and the Netherlands. This divergence invites a deeper inquiry into why some nations, despite their best efforts, remain entangled in higher unemployment rates, often hovering around 7-8 per cent.

A critical facet of this discussion centres on the structural aspects of unemployment benefits and their implications. Governments, through taxation, fund social policies aimed at providing financial support to individuals navigating the uncertain waters between jobs. This safety net is designed to alleviate the economic strain during periods of unemployment, offering a crucial buffer for individuals and families. However, the integrity of this system is occasionally compromised by those who exploit its provisions, raising questions about its efficiency and the balance between support and incentive.

Historically, the United States faced challenges with individuals exploiting the unemployment benefits system, with some claiming benefits in multiple states simultaneously. This was facilitated by the vast geographical expanse of the country and the limitations in communication and data sharing of the time. Such abuses not only strain the financial sustainability of the welfare system but also detract from the funds available to genuinely support those in need.

In Europe, the generosity of unemployment benefits has sometimes led to unintended consequences. There are instances where individuals, while receiving unemployment allowances, engage in undeclared work,

effectively double-dipping into both formal and informal income streams. This can create a perverse incentive, where the combined income from benefits and undeclared work equals, or even surpasses, what one might earn in a regular full-time job. Such scenarios are not just financial concerns; they also reflect on the social and ethical dimensions of welfare systems.

These practices give rise to a segment within the workforce that, though technically unemployed, is not actively contributing to the economy or seeking formal employment. This underscores the necessity of a nuanced approach to unemployment benefits – a system that provides essential support while incorporating mechanisms to deter and detect misuse.

Ultimately, while the goal is to ensure a robust safety net for those facing unemployment, there must be a concerted effort to maintain the system's integrity and effectiveness. Protecting the welfare system from abuse is not just about fiscal responsibility; it's about upholding a contract of mutual responsibility and trust within society, ensuring that the contributions of the working population are respected and used to genuinely support those in need. Balancing compassion with accountability is key to fostering a sustainable and fair approach to managing unemployment and supporting economic stability across nations.

As we delve deeper into the nuances of unemployment across different nations, we uncover a tapestry of economic strategies, labour market conditions, and societal impacts. This exploration not only enhances our understanding of unemployment but also highlights the intricate dance between economic policy, labour market dynamics, and the overarching goal of fostering a vibrant, inclusive economy.

Unemployment rate for selected countries, 2005–2024 (percent)

Unemployment rate (%)											
Year	USA	UK	Spain	South Africa	Netherlands	Germany	China	Brazil	Turkey	Mexico	South Korea
2005	5.1	4.8	9.2	23.8	4.7	11.2	4.2	9.8	10.6	3.6	3.7
2006	4.9	5.2	9.1	24.2	4.3	10.8	4.1	9.5	10.2	3.5	3.6
2007	4.6	5.3	8.8	22.5	3.9	10.2	4.0	9.0	9.9	3.4	3.5
2008	5.8	5.6	11.3	24.3	3.1	9.0	4.2	7.9	9.7	4.9	3.2
2009	9.6	7.9	17.1	25.6	4.2	7.5	4.4	8.5	11.0	5.3	3.4
2010	8.9	8.2	20.2	26.7	5.3	6.8	4.5	9.2	11.5	5.5	3.5
2011	8.1	7.8	22.3	27.3	6.1	5.7	4.3	9.9	11.2	5.2	3.8
2012	7.3	7.2	24.8	27.8	7.4	5.2	4.2	10.3	10.9	5.0	4.0
2013	6.2	6.5	26.1	28.0	6.9	4.3	4.1	10.6	11.5	4.8	3.9
2014	5.3	5.8	25.0	27.5	5.8	3.7	4.0	11.2	12.0	4.4	3.8
2015	4.9	5.1	23.3	27.1	4.5	3.2	3.9	12.1	13.7	3.9	3.7
2016	4.7	4.8	20.1	27.3	4.2	3.0	3.7	12.8	14.1	3.7	3.6
2017	3.7	3.8	17.1	28.7	3.4	3.2	3.6	11.9	13.1	3.5	3.8
2018	3.6	3.7	14.1	29.0	3.3	3.1	3.7	11.5	12.9	3.4	3.7
2019	8.1	4.5	15.5	29.2	3.8	4.0	4.2	13.5	13.1	4.7	4.0
2020	6.2	4.1	14.7	29.6	3.6	3.8	4.5	12.7	12.0	4.2	3.9
2021	5.3	3.9	13.8	30.2	3.4	3.5	4.4	11.8	11.4	3.9	3.6
2022	4.9	3.7	12.5	31.0	3.5	3.2	4.6	9.5	10.2	3.5	3.2
2023	4.6	4.0	12.2	32.1	3.7	3.0	4.7	6.6	8.6	2.6	2.6
2024	4.1	4.0	12.2	32.1	3.7	3.0	4.7	6.6	8.6	2.6	2.6

Source: National statistics compiled by the author from multiple releases. Licensed under the Open Government Licence v3.0.

16.

HOW TOP-TIER TALENT BOOSTS NATIONAL WEALTH AND ELEVATES LIVING STANDARDS

Understanding the multifaceted nature of unemployment and devising effective policy responses, such as targeted training programmes, economic incentives, or enhanced job search support, is critical in addressing the evolving dynamics of unemployment. As society progresses, individuals from various demographic segments transition into the workforce, a movement primarily originating from all demographics except those over the age of 65, depicted in the red zone.

Focusing on the demographic segment of 12 million individuals under the age of 16, it's clear that societal contributions and potential start from infancy. The infant mortality rate, a crucial indicator of a country's developmental status, varies significantly worldwide. For instance, World Bank data reveals a stark contrast between Finland, with the lowest global infant mortality rate of 1.7 deaths per thousand live births, and Somalia, where the rate stands at 120 per thousand. This disparity not only reflects economic conditions but also offers insights into the broader health and vitality of populations. In wealthier nations, where infant mortality rates are lower, there tends to be a correlation with healthier, more robust societies.

These advanced societies lay the groundwork for future success across various domains by nurturing their youth both physically and mentally. This is evident in policies of several developed countries, where initiatives like providing free milk to families with children ensure consistent medical monitoring and care for every newborn. Such measures are not just about familial well-being; they represent a societal investment. After all, how can we expect children, if malnourished and deprived of essential nutrients, to excel in global competitions like the Olympics? The foundation for a nation's future achievements is laid from the earliest stages of life, beginning with newborn care.

Expanding on the concept of societal investment in early childhood development, it becomes evident that the benefits extend far beyond individual families. A robust early childhood support system contributes to the overall well-being of society by fostering a generation of healthy, educated, and skilled individuals capable of driving economic growth and innovation. Studies have consistently shown that children who receive adequate nutrition, healthcare, and stimulation during their formative years are more likely to perform better academically, earn higher incomes as adults, and contribute positively to their communities.

Moreover, investing in early childhood development can help break the cycle of poverty and reduce long-term unemployment rates. By providing disadvantaged children with the resources and support they need to

thrive, governments can mitigate the social and economic barriers that often prevent individuals from accessing employment opportunities later in life. Early interventions, such as high-quality preschool programmes and parental support services, have been shown to have a lasting impact on children's cognitive abilities, social skills, and emotional resilience, setting them on a trajectory towards stable and fulfilling careers.

Furthermore, addressing the root causes of unemployment requires a holistic approach that acknowledges the complex interplay of factors influencing individuals' ability to secure and maintain employment. While targeted training programmes and job search support services are important components of any comprehensive strategy, policymakers must also consider broader economic and social policies that affect labour market dynamics. This includes addressing structural inequalities, investing in education and skills development, and promoting inclusive growth strategies that create opportunities for all segments of society.

A significant challenge for the under-15 demographic is their educational journey. Addressing how to educate and prepare 12 million young individuals for life's complexities is paramount. Finland, for example, is renowned for its top-tier primary education system, with other countries like Switzerland and Belgium also excelling. Educators worldwide visit these countries to learn from their success, which is not solely due to the educators' mastery of subjects like mathematics, literature, or music. Instead, it's their innovative teaching methodologies that stand out. For instance, Finnish schools adapt to adolescents' unique circadian rhythms by starting their day later than younger children, aligning education with natural biological patterns.

The OECD's PISA test provides a global perspective on educational performance, allowing readers to compare their nation's scores and gain insights into their educational systems. Such comparative analysis can shed light on the importance of education in economic and societal development. Moving beyond education, we explore how a nation's economic progression is closely tied to the quality and accessibility of education. The journey of countries like South Korea, which has achieved remarkable economic growth through educational advancements, underscores this connection. Historically, literacy rates served as a fundamental measure of educational attainment, crucial for fostering development and driving societal change.

A historical analysis reveals stark disparities: European nations approached a 100% literacy rate in the early 20th century, while corresponding figures for today's developing countries were as low as 20%. Countries like the Netherlands achieved over an 80% literacy rate centuries ago, illustrating the long developmental journey that some nations have only recently completed.

As we delve deeper into the economic implications of education, we consider the 42 million individuals aged 16 to 65 eligible for employment. This segment's education and transition into the workforce are crucial for economic vitality. According to the United Nations development report, out of 100 children born in 2000 in developed nations, a significant number pursue higher education, contrasting with lower rates in developing countries. UNESCO highlights that individuals over 25 in developed nations typically have 13 years of education, compared to 8 years in leading developing nations.

Analysing the workforce, we distinguish between labour-intensive sectors, where cost-effective labour is vital, and industries requiring high-value-added production, which depends on skilled labor and substantial

capital. The economic trajectory of nations with abundant, inexpensive labour contrasts with those known for high-tech industries and service sectors.

One aspect that merits further exploration is the role of technological advancement in shaping these trajectories. While labour-intensive sectors might seem to benefit from abundant, inexpensive labour, technological innovations can significantly alter this dynamic. Automation, for instance, can replace manual labour in various industries, making them less reliant on cheap labour and more focused on skilled technicians and engineers. Thus, investing in technological infrastructure and fostering innovation becomes crucial not only for high-value-added production but also for transforming labour-intensive sectors into more efficient and competitive entities.

Addressing the democratic and social foundations of national progress is essential. Without a commitment to democracy, the rule of law, human rights, and free expression, countries struggle to advance beyond labour-intensive industries and achieve high-value-added production.

Expanding on this point, it's worth noting that democratic principles provide an environment conducive to innovation and entrepreneurship. A robust legal framework protects intellectual property rights, encourages fair competition, and ensures a level playing field for businesses of all sizes. Moreover, a society that respects human rights and fosters free expression tends to attract top talent from around the world, further enhancing its capacity for high-value-added production.

Investment in research and development, economic freedom, and educational quality are pivotal for elevating living standards and per capita income. High-value-added industries, driven by a well-educated workforce, are key to a nation's economic success.

However, achieving excellence in these areas requires a multifaceted approach. Investing in research and development not only involves allocating financial resources but also fostering collaboration between academia, government, and the private sector. Additionally, ensuring economic freedom entails reducing bureaucratic hurdles, streamlining regulations, and promoting transparency in governance. Moreover, educational quality cannot be overlooked, as it lays the foundation for producing the skilled workforce necessary for high-value-added production.

This raises the question of whether it's more beneficial to produce high-tech products or focus on agriculture. Developed countries demonstrate that a thriving service sector, supported by high-value production, is crucial for a broad range of professions and the overall economy.

While agriculture remains important for food security and rural livelihoods, its contribution to GDP tends to diminish as economies develop. Instead, focusing on high-tech industries and services can generate higher returns on investment, create more employment opportunities, and foster technological spillovers that benefit other sectors of the economy. Nonetheless, it's essential to strike a balance between industrialisation and agricultural development to ensure inclusive growth and equitable distribution of resources.

Minimum wage policies, which vary significantly across countries, play a vital role in defining living standards. The challenges of increasing minimum wages in developing nations are profound, requiring comprehensive advancements in various sectors.

Expanding on this topic, it's essential to consider the potential trade-offs associated with minimum wage hikes. While raising minimum wages can lift workers out of poverty and stimulate consumer spending, it may also lead to job losses, particularly in labour-intensive industries with thin profit margins. Therefore, policymakers must adopt a holistic approach that addresses not only wage levels but also productivity enhancements, skills development, and social safety nets to mitigate the adverse effects of wage increases. Ensuring that minimum wage adjustments lead to real income growth, rather than being offset by inflation, is crucial for improving living conditions.

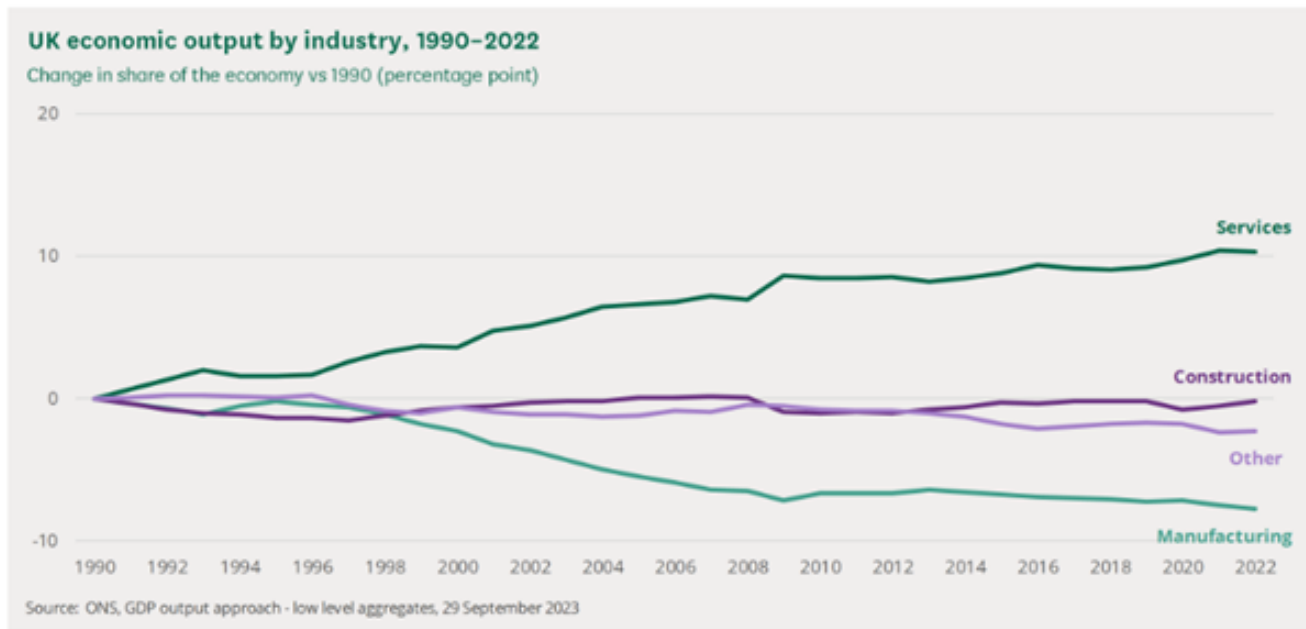
To achieve this goal, policymakers must implement measures to boost productivity and promote sustainable economic growth. Investing in infrastructure, enhancing access to education and healthcare, and fostering innovation can all contribute to increasing real wages and improving living standards over the long term. Additionally, strengthening social protection systems can provide a safety net for vulnerable workers and ensure that the benefits of economic growth are shared more equitably across society.

17.

CHOOSING OUR FUTURE: HIGH-VALUE PRODUCTION OR REMAINING A SOURCE OF CHEAP LABOUR?

A service-orientated economy is one of the characteristics of developed countries. In the UK, this sector accounts for 81 per cent of the entire labour market. So what's in this service sector? Computer, banking, education, tourism, distribution, and transportation services are some of them. IT'S MOVING FAST. In many European countries, the service sector is well above 70 per cent. 80 per cent in countries such as England and America. In Gibraltar, the British territory on the coast of Europe facing the Mediterranean, the service sector is 100 per cent. Gibraltar is not a measure, of course. Each country has its own characteristics. In Germany, for example, the agricultural sector is almost non-existent, less than one per cent. But the industrial sector is about thirty per cent, and the service sector is 69 per cent. Germany and Turkey have roughly the same population of 80-odd million, but Germany produces 5 times more economic value than Turkey. In other words, China's population is 80 times larger than the Dutch population. The Dutch people produce \$1 trillion in the economy. China, on the other hand, produces an economy of 18 trillion. If we consider the population of China, it will produce an economic value of 80 trillion dollars so that it will reach the level of economic prosperity that the Netherlands has reached.

<https://commonslibrary.parliament.uk/research-briefings/cbp-8353/>



Source: Office for National Statistics (ONS), GDP output approach – low level aggregates, 29 September 2023. Licensed under the [Open Government Licence v3.0](#).

A country needs to plan and invest in both micro and macro terms in which of these sectors it will create an employment area. You will both prepare people for business life and create job opportunities. A country's ability to create employment is very important. Both in quantity and in duration, speed. How many jobs can you create and how long can you create? It is worth drawing attention to the Economic Freedom Index, which we mentioned in the previous section, which the Heritage Foundation shares with the public every year. The system you have built in the country is extraordinarily effective in this regard. As in the examples of countries with poor performance in the freedom index, starting a small business, that is, creating jobs, can take hundreds of days due to unnecessary bureaucratic obstacles, while in countries with good performance in the index, the same business can be established in seconds.

We need to ensure that the system works very well, to accelerate economic initiatives, and to determine in advance in which areas we need to create employment. What you produce or can produce depends on how well you follow the world and how quickly you adapt yourself to developments. Some countries cannot even adapt to the developing and changing world. Of course, for some countries, it is a great skill to be able to adapt to developments. On the other hand, some countries are leading the way in change and development. The first industrial revolution gained a completely different dimension in the 18th century with the mechanisation of production in light of UK-centred developments. In particular, the textile and steel industries have been greatly affected by these developments. In the second period, that is, in the 19th century. In the 19th century, the revolution took on a different dimension with the invention of aeroplanes and automobiles. After the

1960s, with the introduction of computers into our lives, we experienced the third period of the industrial revolution, the digital revolution, to our bones. Today, the fourth industrial revolution is taking place. With Industry 4.0, the cyber world created with artificial intelligence introduced us to robot technologies and super-cheap vehicles.

In the world where we live in the fourth generation of the industry, it has been a long time since the popular sectors of the first generation left their homeland, that is, today's developed countries. Textile factories in Bradford, England, have moved to developing countries such as China. The journey towards the factorial riches required by the sectors in their production can be observed very clearly in the last century.

What is produced in an environment where the mind and the liberated, well-educated people, scientists, and minds that direct technology come to life are not the same as the share of production based on cheap labour. On the back of the iPhones, the author says, 'It was designed in California and assembled in China.' China's Foxconn company has a share of 3 to 6 per cent in this production. The lion's share goes to Apple, the patent holder of the technology that does the research and development. The other part is shared by the Japanese company Toshiba, which produces the memory card, and the South Korean company Samsung, which produces the display. Countries that host production based on the power of the mind get their share of production at that rate. It always depends on having that top culture in directing technology with research and development activities and creating a worldwide brand. Lacoste puts his coat of arms on the shirt he had made for 1 dollar in Indonesia, India and China and sells it for 100 dollars. It takes a few seconds to increase the value of a \$1 shirt 100 times and sew the coat of arms on the shirt with the machine.

Detailed Breakdown of Major Industries in the U.S. Economy (percent of total, selected years)

Industry shares of the U.S. economy (%)									
Year	Agriculture (%)	Manufacturing (%)	Construction (%)	Mining & Utilities (%)	Financial Services (%)	Healthcare (%)	Tech & IT Services (%)	Retail & Wholesale (%)	Other Services (%)
1975	2.3	22.0	5.2	4.1	12.5	5.0	3.0	15.2	30.7
1985	1.9	20.0	5.0	3.8	14.0	6.2	4.5	15.5	29.1
1995	1.4	17.5	4.8	3.5	16.5	7.5	6.2	15.8	26.8
2005	1.2	15.0	4.5	3.3	18.0	9.2	8.5	16.0	24.3
2015	1.0	12.5	4.0	3.0	19.2	10.5	10.2	16.8	22.8
2024	0.9	11.0	3.8	2.8	20.5	12.0	11.5	17.0	20.5

Key Trends:

- Manufacturing: Once the backbone of the U.S. economy, its share of GDP declined from 22% in 1975

to about 11% in 2024, as production moved offshore and automation increased.

- Construction: Remained relatively stable, contributing around 4-5% of GDP.
- Mining & Utilities: Shrunk slightly as coal and traditional fossil fuel extraction declined while renewables expanded.
- Financial Services: Expanded significantly, growing from 12.5% in 1975 to over 20% in 2024, reflecting the rise of banking, insurance, and investment markets.
- Healthcare: Has more than doubled, from 5% in 1975 to 12% in 2024, due to rising medical costs and an aging population.
- Tech & IT Services: Rapidly growing, moving from 3% in 1975 to 11.5% in 2024, with Silicon Valley leading innovations in AI, cloud computing, and digital services.
- Retail & Wholesale: Stayed fairly consistent at around 15-17%, driven by e-commerce growth and consumer spending.
- Other Services (includes tourism, entertainment, personal services, etc.): Saw a slow decline as other sectors expanded.

18.

IS IT TRUE THAT ROBOTS AND AI WILL TAKE AWAY PEOPLE'S JOBS?

The argument that robots and artificial intelligence (AI) will take away people's jobs has been a recurring concern lately, similar to the fears experienced during previous technological revolutions. To explore and expand on this argument, it's important to understand both the historical context and the current implications of technological advancements.

When the printing press was invented in the 15th century, it revolutionized the way information was disseminated, leading to increased literacy and education levels. However, scribes who manually copied books feared for their livelihoods. Some countries resisted the adoption of this technology, risking significant economic and cultural lag. This resistance highlights a common pattern: fear of job loss often accompanies technological innovation.

Today, similar fears arise with the advent of software development, AI, and robotics. Critics argue that these technologies will lead to widespread unemployment as machines replace human labor. However, this perspective overlooks several key points.

Firstly, technology enhances productivity by automating repetitive tasks, allowing human workers to focus on more complex and creative endeavors. For example, robots in manufacturing can handle dangerous and monotonous tasks, reducing workplace injuries and freeing up human workers for roles that require problem-solving and innovation.

Secondly, just as the printing press created new roles in publishing, distribution, and education, modern technologies generate new job opportunities in tech development, maintenance, and support. The rise of AI has led to demand for data scientists, machine learning engineers, and AI ethicists, roles that did not exist a few decades ago.

Thirdly, increased efficiency leads to economic growth, which can raise living standards. By utilizing technology to boost productivity, countries can enhance their competitiveness, leading to higher wages and better working conditions. For instance, advancements in agricultural technology have enabled farmers to produce more food with less labor, contributing to food security and reducing poverty.

To maximize the benefits of technological advancements, it is crucial to invest in education and training. By equipping the workforce with the skills needed to thrive in a technology-driven economy, countries can ensure that workers are not left behind. This involves reskilling and upskilling programs to provide opportunities for workers to learn new skills relevant to emerging industries, emphasizing science, technology, engineering,

and mathematics education to prepare future generations for tech-centric roles, and encouraging continuous learning to adapt to rapidly changing job markets.

While the fear that robots and AI will take away jobs is not unfounded, history shows that technological advancements can lead to economic growth, job creation, and improved living standards when managed properly. By investing in education and training, and by embracing technological change, societies can transform potential job displacement into opportunities for innovation and progress. Rather than resisting change, we should focus on adapting to it and leveraging technology to enhance human potential and well-being.

As can be seen in the table below, which consists of OECD data, Russia, Mexico, and Greece are at the top of the list of countries where people are employed the most. Keeping people in a workplace does not mean that we will get enough efficiency from those people. On the contrary, productivity is low in countries with high working hours. It is ideal to reduce people's working hours, increase productivity and production, and achieve better living conditions with higher incomes. For example, Norway is one of the countries where people work the fewest hours, and on the other hand, it is one of the countries where people are the most productive. In general, the table supports that this is true, considering the example of many countries.

Working Hours per Year (average hours per worker)

Average annual working hours per country

Country	Hours per year
Mexico	2,147.9
Russia	1,929.0
Greece	1,956.0
Chile	1,941.0
Israel	1,892.9
Turkey	1,832.0
Poland	1,786.7
Czech Republic	1,784.0
Ireland	1,754.6
New Zealand	1,748.0
Estonia	1,746.1
United States	1,728.5
OECD – Total	1,726.0
Portugal	1,720.9
Australia	1,720.5
Canada	1,707.3
Slovak Republic	1,696.9
Latvia	1,692.5
Spain	1,686.0
European Union	1,632.0
Lithuania	1,586.7
Slovenia	1,563.2
Switzerland	1,552.0
Finland	1,550.7
United Kingdom	1,530.0
Austria	1,507.2
Luxembourg	1,505.0
France	1,495.5
Sweden	1,474.0

Country	Hours per year
Iceland	1,447.4
Netherlands	1,431.9
Germany	1,382.5
Norway	1,381.9
Denmark	1,381.9

Productivity by Country (Index, selected countries)

Productivity index by country

Country	Productivity Index
Mexico	22.360078
Chile	28.497914
Russia	29.314955
Hungary	33.262384
Latvia	38.919661
Greece	39.402976
Poland	41.293575
Portugal	41.730592
Slovak Republic	43.385458
Turkey	44.018911
Czech Republic	44.350615
Israel	45.364475
Japan	45.936075
New Zealand	45.924306
Lithuania	50.631504
Slovenia	53.860542
Spain	57.807543
OECD – Total	58.801014
Canada	60.309032
European Union	62.542877
Australia	65.204287
United Kingdom	67.025622
Finland	69.251408
Iceland	72.884673
Germany	73.386527
Sweden	73.913521
Netherlands	74.123271
France	74.635794
Austria	74.833318

Country	Productivity Index
United States	74.839378
Switzerland	78.083176
Denmark	80.950783
Norway	93.826293
Ireland	104.09129
Luxembourg	105.071322

This data suggests that there is a strong correlation between reduced working hours and increased productivity. On the other hand, countries with longer working hours, such as Russia, Mexico, and Greece, often see lower productivity levels. This indicates that simply keeping people employed for longer hours does not equate to higher efficiency or better outcomes.

In contrast, the integration of technology, particularly robotics, has shown to be beneficial in enhancing productivity. South Korea, leading the world in the number of robots per worker, serves as a prime example of how embracing automation can significantly boost productivity. This approach not only increases production efficiency but also contributes to improved living standards by allowing workers to focus on more complex and rewarding tasks.

Moreover, investing in technology and reducing working hours can lead to a more balanced and fulfilling work-life environment. By prioritizing the well-being of workers and leveraging technological advancements, countries can achieve sustainable economic growth and enhanced quality of life for their citizens.

In conclusion, the data from the OECD and the World Economic Forum underscores the importance of modernizing work practices. By reducing working hours and embracing technological advancements like robotics, countries can enhance productivity, improve living conditions, and ensure higher incomes for their populations. This balanced approach to work and technology is essential for creating a prosperous and sustainable future.

Some say that AI will kill us. But honestly, we don't need AI to destroy us, we've been doing that to each other for centuries. Just look at the history of conflict, the millions of lives lost in wars, genocides, forced migrations, and brutal political struggles. Even today, in the 21st century, people are still killing people. Children are growing up in refugee camps. Families are forced to leave their homes. Entire regions are torn apart by human decisions, ideologies, and power struggles. The tragedy lies not in the machines we've created, but in our inability to live peacefully with one another.

If anything, perhaps AI will hold up a mirror to our own flaws. Maybe it won't be perfect, no system is, but perhaps it will end up being more democratic than we are. Maybe it will treat people with greater consistency and fairness. Maybe it will be programmed to respect ethical principles that we, as humans, so often fail to

uphold. Perhaps AI will not be driven by greed, nationalism, revenge, or fear. And if we guide it well, perhaps it will help us become better, too.

What if AI could help us move beyond our worst instincts? What if it could become a tool not just of productivity, but of peace, of understanding, of inclusion?

This is not to idealise artificial intelligence, nor to overlook its risks. But in a world where human beings continue to fail one another, the real danger is not the technology we develop, but the values we fail to defend.

This argument was true for the advent of printing tools hundreds of years ago, has been pertinent for robots in the last few decades, and is now especially relevant with the rise of AI. AI can improve the labor market rather than worsen it. As the labor market changes rapidly, many job titles will disappear in a short time. However, if people prepare themselves by acquiring the knowledge and training AI can provide, they can adapt to these changes.

With AI's help, people can train themselves and create their own qualifications, rather than depending on institutions that often involve bureaucracy and paperwork. This shift will put the labor market more under the control of the workers themselves. They will be able to get and identify the qualifications they need, determine wage rates, set working hours, and define time frames, among other aspects. This newfound control can lead to a more efficient, responsive, and equitable labor market, tailored to the needs and capabilities of the workforce.

The increasing use of robots in the workforce remains a widely discussed topic worldwide. According to the latest data from the International Federation of Robotics (IFR) 2024 report, South Korea leads the world with 1,012 robots per 10,000 manufacturing employees, reflecting its highly automated industrial sector. In contrast, China has 470 robots per 10,000 workers, highlighting a significant gap between the two automation leaders. Meanwhile, other countries show varying levels of robot density, with the global average standing at approximately 74 robots per 10,000 workers, providing a useful benchmark for comparison.

Top 15 Countries by Industrial Robot Density (Robots per 10,000 Manufacturing Employees) in 2024

Industrial robot density in 2024

Rank	Country	Robot Density (per 10,000 employees)
1	South Korea	1,012
2	Singapore	770
3	China	470
4	Germany	429
5	Japan	419
6	Sweden	343
7	Hong Kong	333
8	Taiwan	292
9	United States	295
10	Denmark	246
11	Italy	224
12	Switzerland	296
13	France	194
14	Austria	205
15	Spain	160

Source: IFR (International Federation of Robotics), Visual Capitalist, Statista (2024) licensed under a CC-BY NC license.

19.

JOB MARKET EVOLUTION: CHALLENGES AND OPPORTUNITIES

When it comes to the job market, several key points need to be discussed: job creation, job finding, hiring and firing, and the length of unemployment. The labor market is dynamic, with the characteristics of jobs and industries constantly evolving. A common illustration of this change is the comparison often shared on social media, showing how many different devices a simple smartphone has replaced. Smartphones now function as photo cameras, landline phones, fax machines, scanners, voice recorders, radios, TVs, and more.

Consider the well-known brand Kodak, which used to dominate the film production industry. With the advent of digital photography, the demand for film plummeted. Kodak had to either move to another industry or adapt to the technological advancements within its own. Kodak's failure to fully transition to the digital age serves as a cautionary tale. Despite initially pioneering digital photography technology, Kodak was slow to embrace it, leading to a significant decline in its market share and eventually bankruptcy.

On the other hand, firms like IBM and Amazon showcase successful adaptation during market transformations. IBM, initially known for hardware production, shifted its focus to software, cloud computing, and artificial intelligence services, maintaining its relevance in the tech industry. Amazon, originally an online bookstore, expanded into various sectors including cloud computing (AWS), entertainment (Prime Video), and artificial intelligence (Alexa), demonstrating how diversification and embracing technological changes can lead to success.

The rapid changes in the labor market also mean that some industries and their associated jobs disappear. For example, the rise of renewable energy is phasing out jobs in the coal industry. Companies in the renewable energy sector are growing, creating new job opportunities in fields such as solar and wind energy production. There are structural changes that affect the job market, and it is also influenced by the business cycle. Some businesses may decide to downsize, while others may go bankrupt due to these cycles. Consequently, a country's economic performance is crucial for job creation. In many instances, state-owned institutions' arrangements can be beneficial. Some markets in certain countries are highly dynamic, quickly adjusting to both cyclical and structural changes.

For example, the labor market in the United States is often seen as very aggressive and dynamic. The U.S. market has a high capacity for job creation and rapid adjustment to changes. According to the Bureau of Labor Statistics, the U.S. added 6.7 million jobs in 2021 as the economy rebounded from the COVID-19 pandemic. This rapid job creation highlights the market's ability to adapt and recover from economic downturns. In contrast, many European countries experience slower job market adjustments. The European Union's

unemployment rate was 6.9% in 2021, compared to the U.S. unemployment rate of 5.3% the same year. This difference can be attributed to various factors, including labor market regulations and the pace of economic recovery.

Germany, for instance, has a well-regulated labor market with strong protections for workers. While this provides stability, it can also slow down the creation of new jobs. In 2021, Germany's unemployment rate was 3.6%, which is relatively low, but the job market's flexibility is less compared to the U.S.

Spain presents another interesting case. Spain faced significant challenges during the economic crisis of 2008-2013, with unemployment rates soaring to over 26%. While there has been a recovery, with the unemployment rate dropping to 14.1% in 2021, the job market still struggles with high youth unemployment and a reliance on temporary contracts.

On the other hand, countries like the Netherlands have shown resilience and adaptability in their labor markets. The Netherlands had an unemployment rate of 3.8% in 2021. The Dutch labor market is characterized by a high degree of part-time work and flexible working arrangements, which allow it to adjust more swiftly to economic changes.

There are some structural changes which effect the job market, however, on the other hand job market is effected by business cycle. Some business may decide get smaller business wise, some business may go bankrupt as a result of those business cycle.

Countries differ greatly in how effectively they create new jobs, and much of that difference comes down to the strength of their institutions and the degree of economic freedom they allow. As we discussed, the *Index of Economic Freedom* captures some of these contrasts clearly. In Singapore, for example, it takes less than a day to register a new business, while in Venezuela the same process can take almost a year. Such gaps show how institutional efficiency, rule of law, and good governance can directly influence job creation.

In dynamic economies like the United States or the United Kingdom, markets adjust themselves quickly to both cyclical and structural changes. Because there are fewer administrative barriers and more flexible labour market rules, firms can hire, expand, or innovate without facing excessive delays or costs. In contrast, countries with overly rigid labour protection laws often experience slower job creation, as businesses become cautious about hiring when firing or restructuring is legally difficult or expensive.

Ultimately, job creation depends not only on economic conditions but also on how a country's legal and institutional framework encourages or discourages entrepreneurship. Nations that combine the rule of law, efficient public institutions, and economic freedom tend to foster innovation, attract investment, and generate employment far more effectively than those constrained by bureaucracy and weak governance.

20.

FURTHER READING AND EXPLORATION

- Beveridge, W. (1944), *Full Employment in a Free Society*
- Blanchard, O. and Katz, L. (1997), *What We Know and Do Not Know About the Natural Rate of Unemployment*
- Standing, G. (2011), *The Precariat*
- Atkinson, A. (2015), *Inequality: What Can Be Done?*
- OECD, *Employment Outlook* (various years)

PART IV

MONEY, CAPITAL MARKET, EXCHANGE RATE, FINANCIALIZATION, CENTRAL BANKING, INFLATION, MONETARY POLICIES

21.

MONEY, TRUST, AND WHO BEARS THE RISK

This chapter is about the bloodstream of modern economies: money and finance. And it begins with a truth that is often hidden behind technical language. Money is not simply a thing. It is a social agreement. It works because people believe it works. That belief is built on institutions, trust, and political credibility. The moment that trust weakens, money stops being boring and starts becoming frightening.

The subtopics in this chapter may look like separate technical boxes, money, inflation, central banking, exchange rates, capital markets, financialisation, but in reality they are one connected story. Money is created and circulated through institutions. Finance decides where investment flows. Central banks attempt to stabilise the system. Inflation tests the legitimacy of policy. Exchange rates connect domestic life to global power. And financialisation changes the balance between production and speculation.

In *Better Together*, this chapter is not written as a manual for specialists. It is written as a guide for citizens. Because the way money is created, managed, and protected shapes fairness across society. If inflation rises, wages do not adjust equally. Those on fixed incomes suffer more. Those with assets may be protected or even benefit. If interest rates rise, mortgage holders face pain immediately while others feel little. If a currency collapses, imported essentials become expensive overnight. These are not abstract outcomes. They change lives.

This is where democracy, rule of law, and free speech become central economic variables. Take central bank independence. In many mainstream frameworks, independence is presented as a technical design, a way to keep inflation expectations anchored and reduce political manipulation of money. That is one view. Other traditions emphasise that central banks are never fully neutral, because their choices affect employment, inequality, and asset prices. They argue for stronger democratic debate and broader policy goals, such as financial stability and climate transition. A pluralist book does not hide this disagreement. It makes it visible, because citizens deserve to know that monetary policy always involves trade-offs.

But one point remains clear across perspectives. A society cannot have a credible, independent central bank if its political system does not protect independent institutions. If courts are captured, if media is silenced, if dissent is punished, then central bank independence becomes a slogan, not a reality. Leaders will pressure monetary authorities to finance deficits, keep interest rates artificially low, or create short-term booms that look good on election posters. Over time, credibility erodes, inflation risk rises, and people lose trust not only in policy but in the entire social contract.

This chapter also explores exchange rates and the international dimension of money. Exchange rates matter because they shape domestic living standards through import prices, export competitiveness, and capital flows. They also reveal hierarchy in the global system. Some currencies function like global money, while others are

treated as risky and fragile. This is why the US dollar plays such a dominant role. Dollar dominance is not simply an economic fact. It is also geopolitical power, institutional credibility, and historical positioning. It allows the US to borrow more easily, impose financial sanctions more effectively, and shape global liquidity conditions. For many countries, this creates vulnerability. Their economies can be shaken by decisions made elsewhere.

That vulnerability becomes visible during speculative attacks and exchange rate crises. These events are not just market accidents. They are moments when fear, herd behaviour, institutional weakness, and global finance collide. They show why rule of law, credible policy, and clear communication matter, and why societies with fragile institutions pay higher costs when the global system turns unstable.

Monetary unions add another layer. A shared currency can reduce transaction costs and deepen integration, but it also reduces national policy flexibility. It requires strong institutional coordination, fiscal rules, political legitimacy, and a shared sense of responsibility. Without those, a monetary union becomes a stress test of solidarity. This is not only a technical matter. It is a question about whether countries are willing to carry burdens together, and whether economic integration is matched by political trust.

Finally, this chapter cannot avoid modern financial innovation, including cryptocurrencies and digital assets. Some see them as liberation from state money and dollar dominance. Others see them as speculative instruments that can amplify instability and shift risk onto households. Again, pluralism matters. The key Better Together question is not whether these technologies exist, but what kind of institutional environment they create. Do they strengthen transparency and inclusion, or do they create new forms of manipulation, concentration, and environmental cost through energy-intensive systems?

So this chapter holds together because it is one story: trust, power, stability, and the distribution of risk. Money and finance can support innovation, investment, and shared prosperity, but they can also become engines of inequality and fragility when they serve speculation more than production. The goal here is to help readers understand how these systems work, so they can better interpret political debates, policy claims, and financial headlines, and so they can ask the most important question of all: does this monetary system help us live better together, or does it quietly divide us?

22.

THE FUNCTIONS OF MONEY: FROM CIGARETTES TO COMMUNITY CURRENCY

Let's start by discussing what money is and how we define it. In simple terms, anything can be considered money as long as it fulfills the functions of money. For instance, if you write a number on a piece of paper and that piece of paper performs the essential functions of money, then it can be considered money. Even if it doesn't fulfill all the functions perfectly, it might still serve as money in certain situations.

So, what are these key functions of money? Money typically has three main functions: it serves as a medium of exchange, a store of value, and a unit of account. The most important function of money is its role as a medium of exchange. If a piece of paper is accepted by others in exchange for goods and services, it can be considered money. In other words, if people in your community recognize and agree to use that piece of paper to trade, it functions as money.

For example, imagine you live in a small village where you are a farmer. One day, a plumber comes to your house to fix something, and instead of paying him in official currency, you hand him a piece of paper with "100 FM" (FM standing for "Farmer's Money") written on it. The plumber accepts it, trusting that other villagers will also accept this note because you have a reputation for being reliable. He believes that when he uses the note, others will accept it in exchange for goods or services.

This creates an obligation on your part. By signing that piece of paper, you are essentially promising that if anyone (including the plumber) in the village presents it to you, you will provide them with goods or services worth 100FM, produced by you on your farm. In this scenario, the piece of paper has become money, as it is recognized and used by others for trading, and you are committed to honoring its value.

It seems that people in the village have accepted your piece of paper as a medium of exchange, but there's a small issue we need to address. What does the "100 FM" written on that paper actually represent? This brings us to the second key function of money: the unit of account.

For money to be useful, it must provide a standard measure of value. This means that everyone in the village should be able to use the same unit – FM, in this case – to set prices for goods and services. For example, imagine you visit a small grocery store, and you see that the price of a box of six eggs is listed as 2 FM. The barber, too, starts pricing his services, stating that a haircut costs 10 FM.

Now, your FM currency is functioning not just as a medium of exchange, but also as a unit of account. It allows people to price their goods and services consistently, making trade more straightforward. Without this function, it would be much harder to price anything, leading to confusion and inefficiency when people

try to exchange goods and services. In other words, the unit of account function of money brings clarity and consistency to economic transactions.

This situation unfolded during World War II in prisoner-of-war (POW) camps. Inmates in these camps regularly received help parcels from the Red Cross, which contained essential items such as food (like powdered milk, tea, or coffee), tobacco, personal hygiene products (such as soap, shaving items, and toothpaste), and sometimes clothing, like socks.

However, not everyone valued these items equally. For example, some prisoners might not have liked tea and would have preferred to trade it with others who didn't want their canned fish. As a result, an informal market emerged in the camp, where prisoners began trading the items they didn't want for things they did.

The problem was that it became difficult to determine the relative value of these items. How many bags of tea would equal a pair of socks? How many cans of fish would you need to trade for some powdered milk, biscuits, or toothpaste? Pricing every item against every other item was complicated and confusing.

To solve this, they decided to use cigarettes as a common currency. This made transactions much simpler. For example, a pair of socks might be priced at 20 cigarettes, a tea bag at 1 cigarette, and a tube of toothpaste at 15 cigarettes. With everything priced in cigarettes, trade became much easier and more efficient within the camp. This system worked because cigarettes provided a standard value everyone could understand, making the exchange of goods far more straightforward.

23.

WHO CREATES MONEY?

In our discussion so far, we've established that money is fundamentally defined by its function – anything that serves as a medium of exchange, a store of value, and a unit of account can be considered money. The example of farmer money illustrates this idea in a simple and relatable way, showing that money doesn't have to take a specific form as long as it fulfills these roles. However, in the modern economy, the nature of money is far more complex, shaped by financial systems, institutions, and policies.

Now, we take our understanding of money a step further by exploring how it actually comes into existence in today's world. This leads us to an essential question: **Where does money originate?** The simple answer is that money comes into being as a result of economic activity or a production process.

Imagine you're a brilliant entrepreneur with an innovative idea that could revolutionise the tech world. Your invention is a ring that functions as a smartphone. From the diamond on the ring, a screen can project, allowing you to watch videos, make calls by reading your thoughts, send texts as you dictate them, organise your daily tasks, and even monitor your health by checking your blood pressure and other vital signs.

To turn this idea into reality, you need to negotiate with various key players in the production process, such as engineers and designers. After those negotiations, you calculate the costs and determine how much money you'll need to bring this project to life. To fund this venture, you approach a bank to request a loan.

In this way, money is created to fuel economic activity. It begins as an idea, turns into a plan, and eventually requires capital to bring that idea into the market. Money is introduced into the economy through such productive ventures, financing new technologies, businesses, and industries that drive growth and progress.

Let's say you need £1 billion for a project, and you walk into a bank. In the traditional view of banking, the bank would need to have that same amount of money available to lend to you. This could come from deposits made by other customers or from newly printed money supplied by the government to the banking system. In this scenario, the bank can only lend money if it physically has the funds.

However, according to the modern concept of endogenous money theory, banks don't need to have the money on hand to grant you a loan. Instead, they evaluate your project, your business plan, and your creditworthiness. If everything checks out, they approve the loan and create the money digitally. This process happens instantly – within a nanosecond. The money, often referred to as “credit money” in economic literature, is simply added to your account electronically. You can open your banking app and see that the £1 billion has been deposited and is ready for you to use. It's that quick and seamless. This is known as “loans create deposits”, which differs from traditional orthodox theories that suggest deposits must exist before loans can be made. In reality, it's the act of lending that creates deposits, not the other way around.

What if you ask the bank to provide you with your money in physical cash, specifically in banknotes? First, the bank will likely offer to help by suggesting alternatives, such as transferring the funds electronically, especially if you need to make payments, for example, to the employees working on your project, rather than giving you large sums of cash.

Take the UK as an example: even if you have billions of pounds in your account, a typical bank branch will only provide you with up to £1,000 in cash per day. If you visit a main branch in town, they might increase this limit to £2,000 in banknotes. For anything beyond that, you would need to schedule an appointment in advance.

While it's highly unlikely, let's imagine you request £1 billion in cash. The physical money, or banknotes, is referred to as central bank money, and in the UK, the Bank of England is responsible for printing it. If this were the case, your bank wouldn't have such a large amount on hand. They would need to contact the Bank of England, which, as the lender of last resort, is responsible for providing liquidity to banks when necessary.

The Bank of England would then supply the £1 billion to your bank to prevent a financial crisis. If they didn't, and you couldn't access your money in cash, you might take to social media, warning others that your bank doesn't have the funds. This could spark a panic among other customers who would rush to withdraw their money, fearing their savings are at risk. As more people try to withdraw cash, the bank could face a liquidity crisis, potentially leading to its collapse if the Bank of England doesn't step in. Events like this have occurred in financial history, leading to significant consequences.

In reality, no one typically asks for £1 billion in cash. Most of us only keep a small amount of physical money on hand. Think about your own bank account – how much of it do you actually hold in cash? Thanks to modern payment methods, we rely less and less on physical money. For instance, just 10 years ago in the UK, you'd need cash to pay for a bus ride, but now you can simply tap your bank card. Banknotes and central bank money are slowly disappearing from our daily lives.

There are only a few situations where we still need physical money, and it's becoming rarer for places to ask for cash payments. Personally, I keep a small amount of cash for specific situations, like when volunteering at a local event where payment options are limited, and we contribute a small sum in cash. But these instances are becoming less common as digital payments continue to dominate our lives.

When a bank provides a loan of £1 billion, that loan creates a deposit, which appears in your account. If you then request the same amount in cash, the central bank will provide it in the form of banknotes, and an equivalent amount of reserves will be created by the central bank.

Whenever a bank requests liquidity or cash from the central bank, the central bank sets a price for that request, known as the interest rate. This rate is determined and announced in advance, so any financial institution needing central bank money knows the cost they will have to pay. Essentially, the interest rate is the price of borrowing money from the central bank. Banks and other financial institutions operate by taking the central bank's interest rate and adding a markup. For example, if the Bank of England sets its interest rate at 3%, a bank might add a 1% markup. This means they would offer loans or mortgages at an interest rate of 4%, which covers both the central bank's rate and the bank's own margin.

When the bank creates a loan for you, £1 billion appears in your account. You then use this money to pay your employees and cover other production expenses, transferring the funds into their accounts. Once the production process is complete, some of those employees may want to buy one of the rings they helped produce, and the money returns to your account through their purchases.

Eventually, when you've received enough money, you pay back the loan to the bank, and the money essentially disappears. In this way, money is created when the bank issues the loan and disappears once the loan is repaid.

24.

INFLATION

Inflation is a topic that often catches our attention, whether through news headlines or personal experiences. You might notice it when the price of everyday essentials like eggs or bread increases, yet your income remains the same. If your hourly wage or earnings no longer allow you to buy as many goods and services as you could a year ago, it's natural to feel dissatisfied. This erosion of purchasing power is the effect of inflation.

Inflation became a major concern globally following the COVID-19 pandemic. Many households felt its impact directly, as prices rose while incomes often lagged behind. This brings us to an important question: should we aim for zero inflation? Surprisingly, the answer is no. Instead, most central banks target an inflation rate of around 2%. This moderate level is considered healthy for the economy, providing stability while allowing prices to adjust.

However, inflation becomes a concern if it falls below 1% or rises above 3%, as both extremes can cause economic challenges. Striking the right balance is crucial for maintaining economic growth and protecting the purchasing power of individuals.

We don't aim for zero inflation because moderate inflation, such as the 2% target set by many central banks, serves several important economic purposes. Zero inflation increases the risk of deflation, where falling prices can harm the economy by encouraging consumers and businesses to delay spending and investment. This leads to reduced economic activity, lower wages, and higher unemployment. An example of this occurred during the Great Depression of the 1930s. In that period, prices fell sharply, leading to deflation. As prices dropped, consumers and businesses delayed purchases and investments, expecting prices to fall even further. This behaviour created a vicious cycle: reduced spending led to lower revenues for businesses, which in turn caused layoffs and wage cuts. As unemployment rose, demand dropped further, deepening the economic downturn.

A more recent example is Japan's "Lost Decade" in the 1990s and 2000s. During this time, Japan experienced near-zero or negative inflation, leading to persistent deflation. Consumers delayed spending, businesses hesitated to invest, and the economy stagnated for years. This shows how zero inflation can create conditions ripe for deflation, with significant negative consequences for economic activity and employment.

Inflation also helps reduce the real burden of debt over time. Without inflation, the real value of debt remains unchanged, discouraging borrowing and investment, which can slow down economic growth. A good example of how inflation reduces the real burden of debt can be seen in the post-World War II period in many advanced economies. During the 1950s and 1960s, countries like the United States and the United Kingdom had relatively high levels of government debt due to wartime spending. However, moderate inflation during

this period helped erode the real value of that debt. As nominal GDP grew (partly due to inflation), the debt-to-GDP ratios declined significantly, even without drastic spending cuts or tax increases.

For individual borrowers, consider a homeowner with a fixed-rate mortgage. If inflation rises moderately, their nominal wages tend to increase over time, but the monthly mortgage payment stays the same in nominal terms. As a result, the real burden of the mortgage payment (how much it costs in terms of purchasing power) decreases. Without inflation, this erosion of the debt burden doesn't occur, making loans more expensive in real terms and discouraging borrowing and investment.

Additionally, workers tend to resist nominal wage cuts, even during economic downturns. Moderate inflation allows real wages to adjust downward without requiring nominal wage reductions, helping to maintain employment levels. A clear example of how inflation helps adjust real wages without nominal wage cuts can be seen during the aftermath of the 2008 Global Financial Crisis. In many advanced economies, such as the United States and the UK, unemployment rose sharply, and businesses faced pressure to cut costs. However, rather than reducing nominal wages, which often leads to strong resistance from workers, many firms chose to freeze wages while inflation eroded their real value over time.

For instance, if inflation is 2% and a worker's salary remains unchanged, the real purchasing power of that salary effectively decreases by 2% over a year. This adjustment helps employers reduce labour costs without sparking morale issues or employee unrest that might occur with outright wage cuts. Without moderate inflation, companies would have had to pursue nominal wage cuts more frequently, which could lead to greater conflicts, reduced productivity, or even layoffs, ultimately exacerbating unemployment during the downturn.

Targeting 2% inflation specifically provides a cushion against deflation, reducing the risk of slipping into harmful deflationary periods during economic downturns. It also gives central banks room for monetary policy actions, as positive inflation allows interest rates to be lowered when necessary. At zero inflation, nominal interest rates approach zero, limiting central banks' ability to stimulate the economy – a problem known as the zero lower bound.

Moderate inflation also encourages spending and investment, as people and businesses are incentivised to act sooner rather than later, knowing that money will gradually lose its purchasing power. Furthermore, a consistent 2% target promotes economic stability by offering predictability, which fosters confidence in long-term planning and contracts. Over time, economists have found that 2% inflation strikes a good balance, minimising the risks of deflation while supporting stable economic growth, employment, and manageable debt dynamics. This makes it the widely accepted standard for central banks worldwide.

25.

INFLATION DECODED: THEORIES, CAUSES, AND REAL-WORLD LESSONS

The causes of inflation have long been debated in economic literature, and no single explanation has achieved universal consensus. One of the oldest and most mainstream arguments ties inflation to the money supply, encapsulated in the phrase, *“too much money chasing too few goods.”* According to this perspective, often associated with monetarist theories (such as those of Milton Friedman), increasing the supply of money in the economy leads to higher prices. The logic is straightforward: if more money is available while the quantity of goods and services remains the same, demand outpaces supply, driving prices up.

This view is often illustrated by historical examples such as hyperinflation in 1920s Germany. In an attempt to pay off war reparations and stimulate the economy, the German government printed excessive amounts of money. As a result, prices skyrocketed, and the currency lost its value, creating chaos in the economy.

However, alternative schools of thought, particularly Keynesian and Post-Keynesian theories, offer different explanations for inflation. Keynesian economics emphasizes demand-pull inflation, which occurs when aggregate demand in the economy outstrips supply. For example, during periods of rapid economic growth, increased consumer spending, business investment, and government expenditure can create excessive demand, pushing prices higher. A classic example is the post-World War II boom in the United States, where pent-up consumer demand and government spending led to inflationary pressures.

Post-Keynesian economics also highlights cost-push inflation, which arises when the costs of production increase, leading businesses to raise prices to maintain profitability. This could be driven by factors like rising wages, higher energy costs, or supply chain disruptions. A recent example is the inflationary surge following the COVID-19 pandemic, where global supply chain bottlenecks and rising energy prices (exacerbated by the war in Ukraine) significantly increased production costs, fueling inflation worldwide.

These competing perspectives highlight the complexity of inflation. While monetarist arguments focus on money supply, Keynesian and Post-Keynesian views recognize the roles of aggregate demand and production costs. In practice, inflation is often the result of a combination of these factors, making it a multifaceted phenomenon that defies simple explanations. Understanding its causes is crucial for policymakers aiming to manage inflation without stifling economic growth.

26.

BALANCING THE SCALES: THE MULTIFACETED ROLE OF CENTRAL BANKS IN ECONOMIC STABILITY

In most countries, central banks are responsible for controlling inflation. These institutions, such as the Bank of England in the UK or the Federal Reserve in the USA, are tasked with managing monetary policy to ensure economic stability. Central banks are typically designed to operate independently of political authorities, a feature that aims to prevent short-term political pressures from interfering with long-term economic goals.

The independence of central banks is a cornerstone of modern economic governance, ensuring that monetary policy is guided by economic expertise and long-term stability rather than short-term political pressures. When central banks operate under political influence, governments may be tempted to use monetary policy to achieve immediate political or electoral goals, such as artificially stimulating the economy before an election. This can lead to inconsistent or unsustainable policies that ultimately weaken economic stability. By contrast, an independent central bank can make decisions based on economic conditions and empirical evidence rather than political expediency.

Independence also enables central banks to respond swiftly and decisively to economic crises. During periods of financial instability, recessions, or external shocks, policymakers must act without delays caused by political negotiations or bureaucratic constraints. An independent central bank has the autonomy to implement necessary measures – whether through interest rate adjustments, liquidity provisions, or financial market interventions – without interference from shifting political agendas. This ability to act decisively enhances confidence in the financial system, stabilising markets and preventing economic disruptions from escalating.

However, when central banks lack independence, economic policy is often dictated by short-term political interests rather than long-term economic stability. This is particularly evident in authoritarian regimes, dictatorships, and weak democratic governance, where governments frequently manipulate monetary policy to serve their political objectives rather than the broader economy.

In such environments, central banks are often pressured to finance government deficits, leading to excessive money creation and, consequently, high inflation or even hyperinflation. Historical examples, such as Zimbabwe in the early 2000s or Venezuela in recent years, demonstrate how politically controlled central banks can lead to economic disaster when they are forced to print money to support unsustainable government

spending. In these cases, central banks become instruments of state control rather than independent regulators of monetary policy, resulting in currency collapses, severe inflationary crises, and economic instability.

Even in weak democratic settings, where political institutions are fragile and governance lacks transparency, central banks often face interference. Governments may exert pressure to keep interest rates artificially low to boost short-term growth, regardless of the long-term consequences. This was seen in Turkey, where political influence over the central bank led to monetary policies that undermined investor confidence and contributed to a severe currency depreciation. When policymakers override the expertise of central banks and dictate monetary policy based on political needs, economic credibility is eroded, leading to capital flight, financial instability, and unpredictable inflation.

Furthermore, in countries where democratic institutions are weak, central banks may become tools of patronage, serving the interests of ruling elites rather than the broader population. Without institutional safeguards, the lack of transparency in decision-making can lead to corruption, financial mismanagement, and policies that benefit a select few at the expense of overall economic health.

While independence is crucial, it does not mean central banks should operate without oversight. Transparency and accountability mechanisms are essential to ensure that monetary authorities act in the best interests of the economy rather than becoming unaccountable entities. In well-functioning democracies, central banks are expected to communicate their policies clearly, justify their decisions, and remain subject to parliamentary or institutional scrutiny without direct political interference.

The appointment of central bank presidents in democratic countries is a structured and highly scrutinised process designed to ensure that these institutions remain independent from short-term political pressures. While the process varies by country, the underlying principle remains the same: central bank leaders must be selected based on expertise, experience, and their ability to make independent economic decisions, rather than political loyalty.

In the United States, the Chair of the Federal Reserve is nominated by the President and must be confirmed by the Senate. This ensures that the appointee undergoes a rigorous vetting process, balancing both executive and legislative oversight. Once appointed, the Chair serves a four-year term, which is renewable. However, even though the U.S. President nominates the Fed Chair, they cannot directly remove them from office – a crucial safeguard that ensures central bank independence.

A prime example of this long-term independence is Alan Greenspan, who served as Fed Chair from 1987 to 2006, working under four different U.S. Presidents – Ronald Reagan, George H.W. Bush, Bill Clinton, and George W. Bush. His 19-year tenure highlights how a central banker can outlast multiple political administrations, reinforcing the idea that monetary policy must be separate from electoral cycles. Currently, Jerome Powell serves as the Chair of the Federal Reserve in the United States, having been initially appointed in 2018 and reappointed for a second term set to conclude in 2026.

In the United Kingdom, the Governor of the Bank of England is appointed by the government, specifically by the Chancellor of the Exchequer, but they serve a fixed term of eight years (previously five years before reforms). Similar to the U.S., the Governor cannot be arbitrarily removed by the government, preserving

central bank autonomy. In the United Kingdom, Andrew Bailey has been the Governor of the Bank of England since 2020, with his term running until 2028.

A unique example in British central banking history is Mark Carney, who served as Governor from 2013 to 2020. Unlike his predecessors, Carney was not British – he was Canadian, previously the Governor of the Bank of Canada. His appointment demonstrated that the UK prioritised experience and expertise over nationality, reinforcing the apolitical nature of central banking leadership. Interestingly, after his tenure at the Bank of England, Carney has now positioned himself in Canadian politics and is seen as a potential future Prime Minister of Canada.

The European Central Bank (ECB), which governs monetary policy for the eurozone, follows a different process. The ECB President is appointed by European Union leaders (Heads of State or Government of the Eurozone countries) for a non-renewable eight-year term. This structure ensures that the ECB remains independent of any single national government and functions as a truly supranational institution.

Notable ECB Presidents include:

- Jean-Claude Trichet (2003-2011) – Navigated the ECB through the early stages of the Eurozone crisis.
- Mario Draghi (2011-2019) – Famously declared “whatever it takes” to save the euro during the European debt crisis.
- Christine Lagarde (2019-present) – The first woman to lead the ECB, she previously served as Managing Director of the International Monetary Fund (IMF).

Because the ECB President’s term is non-renewable, this further reduces political influence, ensuring that monetary policy decisions are not made with the aim of securing reappointment.

One of the most important aspects of central bank leadership is the long tenure of their leaders, which contrasts sharply with the often short-lived terms of political leaders. While a President or Prime Minister may serve four or five years, central bank governors often remain in office for eight to ten years or longer, allowing them to implement long-term policies without political interference.

This stability is a key reason why financial markets and businesses trust central banks. If monetary policy were subject to frequent political shifts, it would introduce uncertainty, making long-term investments riskier. Instead, the carefully structured appointment processes in democratic countries ensure that central bank leaders can make difficult economic decisions – such as raising interest rates to combat inflation – without fear of political retaliation.

The Functioning of Central Banks: A Scientific and Data-Driven Process

Central banks can differ in ownership structures. Most, like the European Central Bank (ECB) and the Bank of Japan, are entirely state-owned. However, there are exceptions. For instance, the Swiss National Bank is

partially owned by private shareholders, with some shares traded on the stock market, while the Federal Reserve System in the USA is uniquely structured with regional Federal Reserve Banks that are partially owned by private member banks. The Bank of England, in contrast, is wholly owned by the UK government, a status it has held since it was nationalized in 1946. Despite being state-owned, it operates independently in setting monetary policy.

Central banks are not just financial institutions setting interest rates – they are among the most sophisticated and research-driven organisations in the world. Institutions like the Federal Reserve (Fed) in the United States, the Bank of England (BoE), and the European Central Bank (ECB) employ thousands of highly skilled professionals, including a significant number of economists with PhDs from top universities. These experts dedicate their careers to analysing vast amounts of economic data, conducting high-level research, and shaping monetary policy based on scientific methodologies.

To appreciate the complexity of central banking, consider the scale of these institutions:

- The Federal Reserve employs approximately 23,000 people across its central office in Washington, D.C., and its 12 regional banks. It is home to hundreds of PhD economists, many of whom are graduates of Harvard, MIT, Princeton, and other leading universities.
- The Bank of England has around 4,000 employees, with a dedicated team of economists and analysts working on monetary policy and financial stability.
- The European Central Bank, which oversees monetary policy for the entire eurozone, has around 3,500 employees, including a large research department.

These institutions do not just rely on economic models or broad indicators – they analyse millions of data points daily. Every price movement, employment statistic, manufacturing output, and financial transaction is scrutinised to assess the economy's health. They use advanced modelling techniques, artificial intelligence, and historical analysis to forecast trends and inform policy decisions.

Beyond raw data analysis, central banks are deeply involved in academic research. They publish working papers, organise high-level conferences, and collaborate with leading economists worldwide. Many central bank economists contribute to top-tier academic journals, ensuring that policy decisions are informed by the latest theoretical and empirical findings.

For example:

- The Federal Reserve's research division frequently collaborates with institutions like the National Bureau of Economic Research (NBER) and top universities.
- The Bank of England holds regular seminars with economists from Oxford, Cambridge, and the London School of Economics (LSE).
- The ECB organises the Sintra Forum, a high-profile annual conference where central bankers and academics discuss cutting-edge issues in monetary policy.

This scientific approach ensures that monetary policy is not based on intuition or political considerations but on rigorous economic analysis and research.

Despite all the data analysis and economic modelling, central banking is not just about numbers – it requires real-world insights. This is where the personal investigations of central bank presidents come into play.

While central banks rely on statistics, they also need real-time, ground-level information that traditional data sources might not capture. Central bank governors often make direct calls to businesses, supply chain managers, and industry leaders to gauge economic conditions firsthand.

For example:

- The Chair of the Federal Reserve, during economic uncertainty, might personally call the Port of Los Angeles and Long Beach, one of the largest shipping hubs in the U.S., to ask about freight traffic, supply chain bottlenecks, and consumer demand. If containers are piling up or ships are delayed, it might indicate slowing global trade.
- In the UK, the Governor of the Bank of England could reach out to executives at the Port of Felixstowe or major UK manufacturers like Rolls-Royce or Unilever to ask about order volumes, supply chain pressures, and future investment plans.
- The President of the ECB might call the Port of Rotterdam, Antwerp, or Barcelona – some of Europe’s largest trade hubs – to check the volume of incoming and outgoing shipments, an essential indicator of European trade and industrial activity.

Similarly, central bankers often speak directly to CEOs of major firms – automakers, retailers, and tech companies – to understand how businesses are adapting to changes in demand, supply chain disruptions, or labour shortages. If, for instance, manufacturers report declining orders, it could signal an upcoming economic slowdown, prompting policymakers to adjust interest rates or introduce stimulus measures.

Monetary Policy Objectives and Central Bank Targets

When it comes to central banking and the arrangement of monetary policies, there is an ongoing debate in the literature, with different schools of thought offering distinct perspectives. Broadly, there are two main schools of thought on this issue.

The first is the Classical/Monetarist school, which argues that there is a direct relationship between money supply and inflation – commonly expressed as “too much money chasing too few goods.” According to this view, the central bank has ultimate control over the money supply, and, therefore, inflation can be effectively managed through money supply targeting. Monetarists, following the ideas of Milton Friedman, advocate for a fixed growth rate in money supply to maintain price stability.

The second approach is inflation targeting, which is primarily associated with the New Keynesian school of thought. A key framework within this approach is Taylor’s Rule, which suggests that central banks should

adjust interest rates systematically in response to deviations in inflation and output from their targets. This perspective argues that rather than targeting the money supply directly, monetary policy should focus on influencing inflation expectations and aggregate demand through interest rate adjustments.

Lastly, the Post-Keynesian school presents a broader critique of both approaches. While acknowledging that inflation targeting can be an objective, Post-Keynesians argue that it should not be the sole focus of monetary policy. Instead, they emphasise the priority of exchange rate stability and financial stability policies in economic policy arrangements. According to this view, targeting inflation without considering financial and exchange rate stability could lead to systemic risks and economic fragility.

These contrasting perspectives highlight the ongoing debate over the role of central banks in shaping monetary policy and the broader economy.

The theory of money supply targeting, championed by monetarists like Milton Friedman, argues that inflation is directly tied to the money supply. According to this perspective, increasing the money supply faster than the economy's productive capacity will lead to inflation. This approach emphasizes the control of monetary aggregates to stabilise prices. For example, during the 1980s, the Federal Reserve under Paul Volcker implemented policies aimed at restricting money supply growth to combat high inflation in the United States. While effective in some contexts, this approach has its challenges. The relationship between money supply and inflation can be unpredictable due to changes in money velocity and financial innovation.

Inflation targeting has become the preferred framework for many central banks since the 1990s. Under this approach, central banks set an explicit inflation target, typically around 2%, and adjust monetary policy tools, such as interest rates, to keep inflation close to this level. For example, if inflation rises above the target, the central bank may raise interest rates to reduce spending and borrowing. Conversely, if inflation falls below the target, interest rates may be lowered to stimulate economic activity. The Bank of England has followed this approach since adopting its inflation-targeting framework in 1992.

Interest rate adjustments are one of the primary tools used by central banks to control inflation. The question of how central banks determine the appropriate rate is addressed by theories like Taylor's Rule. According to this rule, central banks should set interest rates based on deviations from their inflation target and the economy's output gap. For example, if inflation exceeds the target, the central bank would increase rates to reduce demand. Conversely, if inflation falls below target or the economy operates below potential, rates would be reduced to encourage spending and investment.

Post-Keynesians offer a distinctive perspective on inflation and the role of central banks, diverging significantly from mainstream monetarist and Keynesian frameworks. According to post-Keynesian economics, central banks play a critical role as the ultimate supplier of liquidity in an economy. By setting the price of liquidity – essentially the interest rate – central banks influence the cost of borrowing and production across the economy. This mechanism links monetary policy directly to inflationary pressures, albeit through a different lens than the traditional monetarist view.

Post-Keynesians argue that central banks primarily affect inflation by determining the cost of credit. When central banks raise interest rates, the cost of borrowing for businesses increases. Since borrowing is often used to

finance production and investment, higher interest rates can lead to higher production costs. These costs may then be passed on to consumers in the form of higher prices, contributing to cost-push inflation. In contrast to the monetarist view, which asserts that central banks control the money supply directly, Post-Keynesians emphasise the endogenous nature of money. In their view, money is created within the banking system as a response to credit demand.

Post-Keynesians are critical of inflation targeting as the sole or primary focus of central bank policy. While inflation targeting – setting a specific inflation rate, often around 2%, and using interest rates to achieve it – has become a popular framework in mainstream economics, Post-Keynesians argue that it is overly narrow and can have negative side effects. For example, an aggressive focus on controlling inflation might stifle economic growth, increase unemployment, or exacerbate inequality. Instead, Post-Keynesians propose that central banks should adopt broader objectives.

One of these priorities is maintaining financial stability. Post-Keynesians emphasise that a stable financial system underpins sustainable economic growth. The global financial crisis of 2008 highlighted the dangers of neglecting financial stability in favour of other objectives like inflation targeting. Central banks that focus too narrowly on inflation may overlook systemic risks in the financial sector, leading to devastating economic consequences.

This is the highest priority. While there are other objectives that may need to be considered, this one takes precedence. It is also closely related to financial stability. One such objective is exchange rate management in open economies. In an open economy, where goods, services, and capital flow freely across borders, exchange rate volatility can significantly impact inflation, trade balances, and economic stability. Post-Keynesians argue that central banks in open economies should prioritise managing exchange rates to avoid large currency fluctuations. For instance, a rapidly depreciating currency can lead to imported inflation, as the cost of foreign goods and services rises. Countries like India or Brazil, where exchange rate volatility often influences domestic prices, could benefit from policies that stabilise their currencies. Central banks can use a variety of tools to manage exchange rates, such as foreign exchange interventions, interest rate adjustments, or capital controls. During the Asian Financial Crisis of the late 1990s, countries with pegged exchange rates faced significant challenges, highlighting the need for careful exchange rate management. Post-Keynesians suggest that a central bank targeting exchange rate stability could enhance overall economic resilience, particularly in emerging markets.

The Post-Keynesian critique extends beyond these specific priorities to a broader call for a more nuanced, flexible approach to monetary policy. Central banks, they argue, must recognize the interconnectedness of inflation, financial stability, and exchange rates, particularly in a globalised world. By focusing on a narrow inflation target, central banks risk neglecting these other crucial aspects, potentially destabilising the economy in the long term. For example, the European Central Bank's strict inflation target has sometimes conflicted with its role in maintaining financial stability during crises in the Eurozone. Post-Keynesians advocate for a more balanced approach that addresses these competing priorities holistically, ensuring that central banks contribute to sustainable economic development rather than focusing narrowly on price stability.

27.

THE POWER AND LIMITS OF MONETARY POLICY

Central bank policies, especially those concerning interest rates, are not distant or purely technical matters. They affect people's everyday lives in profound ways. Monetary policy is not just about managing the broader economy, it is something individuals need to understand as well.

Take mortgages, for instance. Almost every household pays one to some extent, and the amount they pay each month depends directly on the interest rate set by the central bank. Similarly, if your pension fund is heavily invested in the stock market, the future value of your retirement savings is closely tied to central bank decisions.

Understanding these policies helps people make better financial choices. Should you fix your mortgage rate for two years or five? Would a variable rate linked to the central bank's interest rate be wiser than a fixed one? When is the right time to withdraw from your pension fund? The answers to such questions depend largely on how well you grasp the direction of monetary policy.

In short, central bank decisions influence far more than inflation or exchange rates. They shape house prices, job opportunities, economic growth, and even political and financial stability.

The first theoretical question to ask here is this: what exactly is the central bank trying to achieve when it designs these policies? The central bank has several tools at its disposal to influence markets. In the early stages of economic thought, it was widely believed that the central bank's main role was to control the money supply and use it as a direct policy target.

However, this approach lost popularity during the 1990s. Increasingly, economists and policymakers began to argue that the central bank's key objective should be to control inflation by setting interest rates. The reasoning behind this is straightforward: when interest rates rise, borrowing becomes more expensive, which discourages households and firms from taking loans and spending. As a result, demand for goods, services, and investment slows down, helping to ease inflationary pressures. When the economy weakens, lower interest rates have the opposite effect, encouraging borrowing and spending and stimulating growth.

Through these adjustments, the central bank can influence a wide range of economic activities, from consumer spending and housing demand to business investment and overall economic stability.

Take, for example, the early 1980s. The United States was facing runaway inflation, prices were spiralling upwards at double-digit rates, making life miserable for ordinary people. Enter Paul Volcker, the newly appointed chairman of the Federal Reserve. His solution? Raise interest rates to unprecedented levels, crossing the 20% mark. It was brutal, borrowing became impossibly expensive, businesses closed, unemployment

soared, and homeowners who had variable-rate mortgages found their payments doubling. The economy plunged into a deep recession. But it worked. Inflation came down, and the U.S. entered a new era of economic stability.

This is often cited as a perfect example of contractionary monetary policy, the idea that when inflation gets out of control, you must hit the brakes hard, no matter the pain. And for years, this idea shaped economic thinking. Central banks were seen as the ultimate guardians of price stability, adjusting interest rates like a thermostat to maintain the perfect economic temperature.

But then came the 2008 financial crisis, and suddenly, the world realised that things weren't so simple.

Before the crash, interest rates were already relatively low, and yet households had taken on massive amounts of debt. When the housing bubble burst, central banks did what they were supposed to: they slashed interest rates to almost zero, hoping to revive lending and spending. And yet, economic growth remained weak. Businesses weren't investing, consumers were reluctant to spend, and the banks, instead of lending, were hoarding cash.

It was a moment of reckoning. If cutting interest rates was supposed to boost the economy, why wasn't it working?

One of the reasons, as the Post-Keynesians argue, is that traditional monetary policy assumes that businesses and consumers always respond to lower rates by borrowing and spending more. But what if they don't? What if businesses are too uncertain about the future to invest, no matter how cheap money becomes? What if households, instead of spending, decide to save because they fear another crisis?

The Japanese experience serves as a cautionary tale. Since the 1990s, Japan has faced what is known as a liquidity trap, a situation where interest rates are at or near zero, but economic growth remains sluggish. The Japanese central bank has tried everything, zero interest rates, negative interest rates, quantitative easing, but none of it has managed to bring back the kind of strong, stable growth that Japan saw in the 1960s and 70s.

Why does this matter for ordinary people? Because it challenges the idea that central banks can always fix the economy by simply adjusting interest rates. If Japan's experience teaches us anything, it's that monetary policy has limits. And when it fails, we need to look beyond interest rates and towards other solutions.

This brings us to another critical question: if monetary policy is not always effective, what happens next?

28.

WHEN MONETARY POLICY FAILS – THE REALITY OF ENDOGENOUS MONEY AND THE LIQUIDITY TRAP

When people imagine money, they often picture it as something the central bank controls directly, printing it, distributing it, managing how much is in circulation. This is a comforting thought because it suggests that someone, somewhere, is in charge. But what if that's not really how money works? What if, instead of being created by the central bank, money is actually created by the banking system itself?

This is the foundation of endogenous money theory, a concept central to post-Keynesian economics. Unlike mainstream economics, which sees money supply as something the central bank controls from the top down, the Post-Keynesian view argues that money is created from the bottom up by commercial banks making loans. In other words, money is not just injected into the economy at the whim of central banks but instead expands or contracts based on demand for credit.

Take, for example, the housing market. When banks issue mortgages, they are not simply handing out money that already exists in some vault. They are creating money by lending it into existence. Each time a bank approves a mortgage, new money is injected into the economy. When housing booms occur, it is not necessarily because central banks are printing too much money, it is because banks, responding to demand, are issuing more and more loans. This is how modern economies function: money is created when people borrow and disappears when people repay their debts.

Now, this raises a crucial question: if money creation depends on the willingness of banks to lend and people to borrow, what happens when neither side is willing to play their part?

This is exactly what happened in Japan in the 1990s and again globally after the 2008 financial crisis. Both were classic cases of what economists call a balance sheet recession, a situation where households and businesses, instead of taking on new debt, focus on paying off their existing loans. This means that even when interest rates are cut to zero, borrowing does not increase because no one wants to take on more debt. As a result, the normal mechanisms of monetary policy break down.

Japan offers a striking example of this. After the bursting of its real estate and stock market bubbles in the early

1990s, Japanese households and companies were left drowning in debt. The Bank of Japan (BoJ) responded by cutting interest rates to near zero, expecting businesses and consumers to start borrowing and spending again. But they didn't. Instead, they focused on paying down their existing debt. This created a vicious cycle: spending remained weak, businesses saw no reason to invest, wages stagnated, and economic growth ground to a halt.

The situation in Europe after 2008 was eerily similar. Countries like Spain and Ireland had experienced massive property booms fuelled by easy bank lending. When the financial crisis hit, these economies collapsed under the weight of private debt. The European Central Bank (ECB) slashed interest rates, but just like in Japan, borrowing did not pick up. Households were too burdened by debt to take out new loans, and banks, facing their own financial troubles, were reluctant to lend.

This is where quantitative easing (QE) came into play. When interest rate cuts proved ineffective, central banks decided to go further by buying financial assets, mostly government bonds, to flood the banking system with money. The idea was that by increasing liquidity, banks would lend more, businesses would invest, and economic activity would recover.

But something unexpected happened. Instead of stimulating broad-based economic recovery, most of this newly created money stayed in financial markets.

To understand why, consider what QE actually does. When central banks buy government bonds, they inject money into the financial system, but that money often ends up in the hands of investors, hedge funds, and large corporations, rather than in the pockets of ordinary people. As a result, QE has been far more successful at inflating stock prices than at boosting real economic activity.

Take the United States after 2008 as an example. The Federal Reserve pumped over \$4 trillion into financial markets through QE, and the result was a historic stock market rally. Corporate profits soared, asset prices skyrocketed, and the wealthy, who own most stocks, saw their wealth increase dramatically. But for the average worker, wages remained stagnant, job security was weak, and economic inequality worsened.

The same pattern repeated itself in the UK, where the Bank of England (BoE) launched its own QE programme. Property prices in London surged, stocks rose, and banks recovered. But ask the average Briton whether they felt the impact of QE in their daily lives, and most would say no. The money, instead of trickling down, had pooled at the top.

This has led many Post-Keynesian economists to argue that QE is fundamentally flawed, not because it fails to inject money into the system, but because it injects money into the wrong parts of the system. If the goal is to stimulate demand, why not bypass the financial sector and put money directly into the hands of those who will spend it?

This question has led to discussions about more radical alternatives, such as “People’s QE”, the idea that instead of using QE to buy financial assets, central banks could directly fund public infrastructure projects, distribute money to households, or even cancel existing debts.

And then there's negative interest rates, another extreme policy that central banks have experimented with

in recent years. In a desperate attempt to push banks to lend, central banks in Japan, Denmark, Sweden, and the Eurozone have cut interest rates below zero, effectively charging banks for holding excess reserves. The logic is simple: if keeping money in the bank costs them, banks will be forced to lend more.

But has it worked? The evidence so far is mixed. While negative interest rates have lowered borrowing costs, they have also hurt savers and retirees, whose pension funds and savings accounts now yield next to nothing. In countries like Germany, where people traditionally rely on bank savings rather than stock investments, this has led to growing resentment. In Japan, where negative rates were introduced in 2016, businesses and households still remain reluctant to borrow, and economic growth remains sluggish.

What all of these cases reveal is that monetary policy has limits. Interest rate cuts, QE, and even negative rates cannot force people or businesses to spend if they don't want to. This is the central flaw in conventional economic thinking, the belief that if you make money cheap enough, the economy will naturally recover.

This brings us to a critical conclusion: if monetary policy alone is not enough, what else should be done? If cutting interest rates and injecting money into financial markets has not worked for the average household, what alternatives exist?

Who Really Pays for Economic Mistakes?

When central banks and governments step in during a crisis, their actions are not always as fair or effective as they might appear. Take quantitative easing, for instance. It is often introduced when interest rates are already near zero and traditional monetary policy no longer works. The idea is to inject money into the financial system to encourage lending and investment. In theory, this should support growth and jobs. But in practice, much of this newly created liquidity ends up flowing into financial markets and asset prices rather than into people's wages or small businesses.

The result is a widening gap between those who own assets and those who do not. House prices, shares, and corporate values rise, while ordinary workers see little improvement in their pay or living standards. Inequality grows quietly, not because people stop working hard, but because the system itself channels new money toward wealth rather than work.

And when inflation finally picks up, as it often does after these policies, the same institutions that fuelled the boom respond by raising interest rates. They say inflation is "out of control", as if it were an unexpected storm rather than a consequence of earlier decisions. The burden then falls on ordinary households. A typical family in the United Kingdom, for example, might find themselves paying hundreds of pounds more each month on their mortgage, not because of something they did wrong, but because of a cycle of policy mistakes made elsewhere.

When stability eventually returns, those at the top tend to recover first. Asset prices rise again, and the wealthy become wealthier. Meanwhile, the public is left to cover the cost, both financially and emotionally. This pattern raises a deeper question about accountability. When policies go wrong, no one steps forward to say, "We failed to govern wisely." Instead, responsibility is quietly shifted onto citizens.

If we are serious about building fairer and more resilient economies, then our systems of economic governance need to change. Stability cannot come at the expense of equality. Policy should not reward speculation more than production or treat households as shock absorbers for decisions made far above them. We need institutions that are transparent, accountable, and designed to serve people, not just markets.

29.

RETHINKING MONETARY POLICY – CAN WE DO BETTER?

For decades, we've been told that the economy is like a finely tuned machine, with central banks at the controls, adjusting interest rates to keep everything running smoothly. When the economy slows down, they lower rates to encourage borrowing and spending. When inflation picks up, they raise rates to cool things down. This idea, monetary policy as the ultimate stabilizer, has been the foundation of modern economic management.

But as we've seen, this theory doesn't always hold up in reality. The global economy has been through crisis after crisis – Japan's stagnation since the 1990s, the financial meltdown of 2008, the Eurozone debt crisis, and most recently, the COVID-19 pandemic. And in each case, central banks did what they were expected to do: cut interest rates, launch quantitative easing, and even experiment with negative rates. Yet economic growth remained weak, inequality widened, and many people found themselves worse off despite all the financial engineering.

This raises an uncomfortable question: if monetary policy alone is not enough, what else should we be doing?

For Post-Keynesian economists, the answer is clear: rather than relying solely on central banks and interest rates, governments need to take a more active role in shaping the economy. This means using fiscal policy (government spending and taxation) to directly influence economic activity.

To understand why fiscal policy matters, let's go back to the Great Depression of the 1930s. When the stock market crashed in 1929, the global economy collapsed. Banks failed, businesses shut down, and unemployment soared. The response at the time? Governments tried to balance their budgets, cutting spending at the worst possible moment. The result was economic disaster.

It wasn't until the New Deal in the United States, where the government began actively investing in public works, that things started to turn around. Bridges, roads, and dams were built, creating jobs and putting money directly into people's hands. In Europe, the economic recovery was even more dramatic, although, unfortunately, it came through wartime spending.

The lesson was clear: when private sector demand collapses, the government must step in and spend. This is precisely what many countries did after the COVID-19 pandemic, massive stimulus programs, wage subsidies, and direct payments to households. And it worked. Countries that spent aggressively saw faster recoveries than those that relied solely on monetary policy.

The key difference is direct impact. When a government spends money, whether on infrastructure, social programs, or direct transfers, it puts money immediately into the real economy. In contrast, when a central

bank lowers interest rates, it only influences the conditions for borrowing, hoping that businesses and consumers will take the bait.

Take the United States' response to the 2008 financial crisis. The Federal Reserve lowered interest rates and pumped money into financial markets through QE. But it was not until the government launched major spending programs – the American Recovery and Reinvestment Act, the auto industry bailout, and later stimulus checks – that the economy started to heal.

Compare this with Europe's response, where austerity policies were imposed on struggling economies like Greece, Spain, and Portugal. The results? High unemployment, slow recovery, and widespread economic pain. Instead of boosting demand, governments cut spending, making the crisis worse.

This is why pluralist economists argue that fiscal policy should not just be a last resort, it should be central to economic management.

One of the more radical ideas to emerge from recent debates is People's QE. There's an uncomfortable truth we need to confront. In many countries, political power has fallen into the hands of people who are skilled at talking, wealthy enough to fund flashy election campaigns, but completely incapable of governing. These are individuals with limited knowledge, minimal education, and no real understanding of how to run a country. And yet, they lead entire nations as if they have all the answers. They speak with confidence on every topic, as if expertise were something they simply inherit with the office. But that's not how leadership works.

What happens when people with no capacity for statecraft take control? They hand over public resources, like the easy money from quantitative easing (QE), to their wealthy backers in the financial sector. These funds, meant to stimulate the economy, are instead funnelled into the hands of greedy financial institutions. And when the inevitable consequence arrives, rising inflation, what do they say? Certainly not, "We got it wrong." They don't admit they've mismanaged things or acknowledge their failure.

Instead, they send the bill to ordinary people. In recent years, the average household across Europe has had to pay at least £300 more every month on their mortgage. That's the price of leadership failure. It's always easier, isn't it, to make others pay for your mistakes? They raise interest rates, digging deeper into people's pockets, all while pretending this is a necessary solution.

When the economy grows, the benefits are handed out to the elite. When the economy needs fixing, the burden is dumped on the shoulders of everyday families. That's the pattern. It's unjust, and worse, it's deliberately repeated.

The idea is simple: instead of using QE to buy financial assets and inflate stock markets, central banks could inject money directly into the real economy.

Imagine if, instead of spending trillions buying government bonds, central banks used that money to:

- Fund public infrastructure projects – building schools, hospitals, and green energy.
- Give direct cash transfers to households, boosting spending and demand.
- Cancel or restructure household debt, freeing up money for consumption and investment.

This approach would ensure that new money actually reaches the people who need it the most, rather than sitting in the balance sheets of banks and corporations.

Another idea gaining traction is Universal Basic Income (UBI) – a policy where every citizen receives a fixed amount of money regularly, regardless of employment status. The idea is controversial, but experiments have shown promising results.

For years, economic debates have been dominated by technical jargon and abstract models that seem distant from real life. But in reality, these policies shape our daily lives.

- High interest rates? Expect more expensive mortgages, slower job growth, and lower wage increases.
- Low interest rates? Good for borrowers, but risky if it leads to asset bubbles that make housing unaffordable.
- QE that inflates stock markets? Great for the wealthy, but it doesn't put food on the table for the average person.
- Fiscal policy that prioritises public investment? That could mean better healthcare, infrastructure, and job security for millions.

The stakes are real. And as the world faces climate change, automation, and rising inequality, the debate over monetary vs. fiscal policy is not just academic, it is deeply political.

Monetary policy has played a crucial role in economic management, but it is not a magic bullet. Interest rate cuts and QE cannot create demand where it doesn't exist, nor can they solve deep structural issues like inequality, climate change, and unstable financial markets.

If the lessons of Japan, 2008, and COVID-19 have taught us anything, it is that relying solely on central banks is not enough. A more balanced approach, one that combines monetary and strong fiscal policies, is needed to create a more resilient, inclusive, and fair economy.

This means moving beyond old ideas and embracing new possibilities:

- Fiscal policies that prioritise people over markets.
- Investment in real economic activity instead of financial speculation.
- Monetary systems that serve the public interest, not just financial elites.

The economy is not a machine that can be fine-tuned by central bankers alone. It is a system shaped by policies, power, and choices.

30.

HYMAN MINSKY AND THE PARADOX OF STABILITY: WHY BOOM TIMES CAN LEAD TO CRASHES

Until the 2009 subprime mortgage market crisis, the name Hyman Minsky was largely unknown outside of academic circles. He was an economist whose theories had been overlooked for decades – until the global financial meltdown made people realise he had predicted such crises long before they happened. But what exactly happened in 2009? What kind of financial disaster did we experience that brought Minsky's theories into the spotlight?

Before 2009, the global economy was booming. The financial sector was in a period of rapid expansion, and key players in the industry saw this as a golden opportunity. Investment banks, mortgage lenders, and financial institutions wanted to capitalise on the booming market as much as possible. Their thinking was simple: the more mortgages they approved, the more money they could make from interest payments and the resale of mortgage-backed securities (MBS) in secondary markets.

Traditionally, the mortgage market worked on relatively conservative principles. If someone wanted to buy a house, lenders would assess their financial standing. They would evaluate factors like:

- How much down payment the borrower could afford
- Whether the borrower had a permanent job
- Their credit history
- Their overall financial stability

Only those who fell within an acceptable risk threshold were granted mortgages. Those with lower credit ratings were categorised into different tiers – AA, A, BBB+, and so on. These mortgage-backed securities were then packaged and sold in the secondary market, where investors could buy them based on the level of risk they were willing to take.

However, the financial sector's key players came up with a seemingly brilliant idea: why not expand the risk threshold? If they could lend to even riskier borrowers, they could generate even more business. After all, they reasoned, even if these high-risk borrowers defaulted on their loans, the banks could always seize their homes and sell them. The housing market was booming, so selling repossessed houses should have been an easy way to recover losses.

This logic led to the explosion of subprime mortgages – home loans given to borrowers with low creditworthiness. Mortgage lenders aggressively pushed these risky loans, often without verifying the borrowers' ability to repay them. Some mortgage brokers even falsified income data to approve more loans, all in the pursuit of higher commissions. Between 2000 and 2007, subprime mortgage issuance skyrocketed, reaching over \$1.3 trillion in outstanding loans by the peak of the housing bubble.

Then came the moment of reckoning. As expected, many of these subprime borrowers couldn't keep up with their mortgage payments. Banks and mortgage providers started foreclosing on homes, seizing properties, and putting them up for sale. This is where the financial sector's supposedly "safe" plan fell apart.

As a massive number of foreclosed homes flooded the market, housing prices plummeted. The average U.S. home price, which had reached its peak in 2006, dropped by nearly 30% by 2009. This had a cascading effect: suddenly, even those who were financially stable before the crisis found themselves in a difficult position.

Imagine you bought a house for £300,000, and you had been diligently paying your mortgage every month. But now, due to the price crash, your home's market value had dropped to £250,000 or even lower. You were paying off a mortgage that was far higher than what your house was actually worth. Many homeowners began to ask themselves: why should I keep paying such a high mortgage on a house that has lost so much value?

In the United States, personal bankruptcy laws allowed homeowners to walk away from their mortgage debts relatively easily. Filing for bankruptcy would impact their credit score for about seven years, but for many, this seemed like a better option than continuing to pay for an overvalued property. As a result, even borrowers who had initially been considered "safe" started defaulting on their loans en masse. This was the tipping point – a crisis that was once contained within the subprime market now spread to the broader economy.

The financial sector had been heavily invested in these mortgage-backed securities, and banks around the world had exposure to them. When the value of these assets collapsed, so did confidence in the financial system. The crisis rippled through the economy, causing major financial institutions to fail. Lehman Brothers, a 158-year-old investment bank, collapsed in September 2008, triggering the worst financial panic since the Great Depression. Stock markets plunged; the Dow Jones Industrial Average lost 50% of its value between 2007 and 2009. Global GDP shrank by more than \$2 trillion, and unemployment surged across the world, reaching 10% in the U.S. and similar levels in other economies.

Enter Hyman Minsky: The Prophet of Financial Instability

Just as the financial world was scrambling to make sense of what had happened, some economists pointed out that Hyman Minsky had predicted this kind of crisis decades ago. His theories, which had largely been ignored before, were suddenly being taken seriously. The term **"Minsky Moment"** became widely used to describe what had just happened.

Minsky's core idea was that stability breeds instability. He argued that during economic booms, financial institutions and investors take on increasingly risky behaviour, believing that the good times will last forever. They gradually shift from safe, conservative investments to speculative and even Ponzi-like financial structures.

Eventually, the system reaches a tipping point where excessive risk-taking leads to a sudden and catastrophic collapse – exactly what happened in the 2009 crisis.

Minsky identified three stages of financial risk:

Hedge Finance (The Safe Zone)

In this phase, borrowers play it safe. They take out loans but can comfortably pay back both the principal and interest without borrowing more.

Speculative Finance (The Risky Zone)

As confidence grows, borrowers start taking more risks. They can afford to pay interest on their loans, but they don't have enough cash to pay back the principal immediately. Instead, they refinance their debt – kicking the can down the road.

Ponzi Finance (The Danger Zone)

In the final stage, debt spirals out of control. Borrowers can't even pay interest on their loans without taking on new debt. They rely on asset prices continuing to rise to stay afloat. When the market turns, these highly leveraged borrowers collapse, taking the economy down with them.

This cycle explains why financial crises aren't random, they are baked into the system during good times. A Minsky Moment is the tipping point when financial stability turns into chaos. Investors, businesses, and banks suddenly realize that debts can't be repaid. Panic sets in, asset prices crash, and a credit crunch follows.

Some classic Minsky Moments in history:

- The Great Depression (1929): The roaring '20s were fuelled by excessive stock market speculation and easy credit. When the bubble burst, the economy crashed.
- The Dot-Com Bubble (2000): In the late '90s, tech stocks skyrocketed, driven by speculation rather than real profitability. When reality hit, the market collapsed.
- The 2008 Financial Crisis: Risky mortgage lending and financial speculation created a housing market bubble that led to the worst financial crisis in decades.

Minsky Moments remind us that financial markets are not naturally stable – they are vulnerable to collapse when risk-taking spirals out of control.

Even though Minsky passed away in 1996, his insights remain incredibly relevant. Governments and central banks still struggle with how to manage financial booms and busts.

If economies naturally move toward instability, can policymakers prevent Minsky Moments?

Central banks like the Federal Reserve, the European Central Bank, and the Bank of England attempt to slow down excessive borrowing by:

- Raising interest rates when they see too much risky lending.
- Regulating banks to prevent reckless financial speculation.
- Acting as lenders of last resort to stop financial collapses from spreading.

However, Minsky's theory raises an uncomfortable question: do central banks really control the economy as much as we think? If commercial banks create most of the money through lending, and lending decisions are driven by financial market confidence, then central banks may have less control than traditionally assumed. Instead of steering the economy like a captain at the helm, they might be more like lifeguards – watching from the sidelines and jumping in when things go wrong.

Minsky's greatest lesson is that financial stability is an illusion. The longer an economy avoids a crisis, the more confident investors and borrowers become – until, eventually, the system collapses under its own weight. Understanding this pattern can help us recognise financial bubbles before they burst. More importantly, it can guide policymakers in designing safeguards to prevent excessive risk-taking. Minsky Moments will continue to happen, but by learning from the past, we can try to make financial crashes less severe – and maybe even avoid the worst of them.

31.

WHY EXCHANGE RATES MATTER

Exchange rates may sound like a complex economic term, but they play a crucial role in our daily lives. Whether you're booking a holiday, purchasing an imported gadget, or even filling up your car with fuel, the fluctuations in currency values can significantly impact what you pay.

Imagine you're planning a trip abroad. The price of your flight ticket, hotel stay, and meals will all be influenced by the value of your local currency against the currency of your destination. If your currency weakens, your holiday suddenly becomes more expensive; if it strengthens, you might get more value for your money.

But it's not just travel – no country in the world is entirely self-sufficient. Every country relies on imports and exports, whether it's food, technology, or energy. Some nations are more dependent on foreign goods than others, but no matter where you live, exchange rate fluctuations affect the cost of the products you consume.

Countries that heavily rely on imported technology and energy, for example, feel the effects of exchange rate changes even more. If their currency weakens, they have to pay more for fuel, electronics, and other essentials, which can lead to higher prices for consumers.

Simply put, an exchange rate tells you how much one country's currency is worth compared to another. For instance, if 1 British pound equals 1.25 US dollars, it means you can exchange one pound for \$1.25.

Some countries let their currency's value float freely, meaning it changes based on supply and demand in global markets. Others try to fix their currency's value to another, like the US dollar. But can a country simply decide its currency is worth more?

Let's say the Bank of England suddenly declares, "From now on, 1 British pound will be worth 2 US dollars instead of 1.25." It sounds great on paper. But in reality, this would create chaos.

If this new exchange rate were enforced, people would rush to exchange their pounds for dollars at this artificially high rate. Everyone holding British pounds would head straight to the central bank, demanding two dollars for each pound. Since the value of a currency is determined by market confidence and economic fundamentals, not just by government declarations, the central bank would quickly run out of dollars to hand out. The system would collapse, leading to a financial crisis.

This is not just a hypothetical scenario, many countries throughout history have attempted to artificially control exchange rates, only to face economic turmoil. Whether in Latin America, Asia, Europe, or Africa, the result is always the same: the market eventually corrects itself, often in painful ways.

Exchange rates are not just numbers on a financial chart, they shape the cost of living, travel, and trade for everyone. While governments and central banks can influence exchange rates to some extent, ultimately, market

forces dictate their true value. So, the next time you book a holiday or buy an imported product, remember that the invisible force of exchange rates is at play behind the scenes!

Let's say instead of setting an unrealistic exchange rate, the central bank decides to fix the value of 1 British pound at 1.25 US dollars, at its current market value. This is actually possible, and some countries do maintain fixed exchange rates.

For a country to successfully keep its exchange rate fixed, it needs a balanced international trade position. If a country earns as much foreign currency from exports as it spends on imports, or if it even runs a trade surplus – meaning it earns more from selling goods and services abroad than it spends on buying from other countries – then maintaining a fixed exchange rate is more manageable.

However, if a country consistently spends more foreign currency than it earns, this becomes a challenge. If imports exceed exports, there will be a shortage of foreign currency, making it difficult to maintain the fixed rate. In such cases, the central bank has to step in by supplying foreign currency to keep the exchange rate stable.

To do this, central banks hold reserves of foreign currencies, particularly US dollars. These reserves act as a buffer, allowing the central bank to intervene when needed by releasing foreign currency into the market or absorbing excess supply. But while this strategy can work temporarily, it's not a sustainable solution for countries that continuously face trade deficits.

The most crucial factor here is that approximately 60% of global transactions are conducted in US dollars. This makes the dollar the most influential currency in international trade. The euro plays a significant role too, accounting for about 20% of transactions, while other currencies like the British pound contribute a much smaller share.

There are several types of exchange rate policies that countries may adopt, depending on their economic goals and external circumstances. These include fixed exchange rates, flexible (or floating) exchange rates, and managed float systems. In a fixed exchange rate system, the value of a country's currency is officially set and maintained at a specific level relative to another currency, such as the US dollar or the euro. In contrast, under a flexible exchange rate system, the value of the currency is determined entirely by market forces – supply and demand in the foreign exchange market. A managed float (or dirty float) lies somewhere in between: the currency generally floats, but the central bank may intervene occasionally to stabilise or influence the exchange rate.

When a country chooses a fixed exchange rate regime, it is committing to maintaining a stable exchange rate against another currency. To achieve this, the country's central bank must be prepared to buy or sell its own currency on the foreign exchange market as needed. However, this commitment comes at a cost: the country loses its independent monetary policy. The reason is straightforward. In order to maintain the fixed rate, the central bank must adjust its interest rates to match those of the country to which it has pegged its currency. It cannot use interest rate policy to respond freely to domestic conditions such as inflation, unemployment, or recession.

To illustrate this, consider a country that fixes its currency to the US dollar. If the United States raises interest

rates to tackle inflation in its own economy, the pegged country must also raise its interest rates – even if its own economy is slowing down and would benefit from lower interest rates. Failing to do so could lead to capital outflows, downward pressure on the currency, and ultimately the collapse of the fixed exchange rate. As a result, countries with fixed exchange rates are highly dependent on the monetary policy of the anchor currency’s central bank – such as the US Federal Reserve or the European Central Bank. In effect, they become monetary policy followers, not leaders.

A real-world example of this is Hong Kong, which has maintained a fixed exchange rate against the US dollar since 1983. While the peg has helped maintain stability and investor confidence, it also means that the Hong Kong Monetary Authority must align its interest rate policy with that of the United States. In recent years, when the US raised interest rates aggressively to fight inflation, Hong Kong had to follow suit – despite facing very different economic conditions, such as lower inflation and slower growth.

Another historical example is the United Kingdom in the early 1990s, when it attempted to maintain a fixed exchange rate as part of the European Exchange Rate Mechanism (ERM). The UK had to keep interest rates high to defend the fixed exchange rate, even though its economy was already in a recession. Eventually, the pressure became too great, and the UK was forced to abandon the fixed rate in what became known as “Black Wednesday” in 1992.

For any country that fixes its currency’s value, what truly matters is how much it earns and spends in US dollars. If a nation has set its exchange rate and finds itself earning fewer dollars from exports than it needs to cover its imports, it faces a problem. Where will it get the missing dollars to maintain the fixed rate?

This shortage of dollars creates a major risk for countries that attempt to control their exchange rates. Without enough reserves, they may struggle to defend their fixed exchange rate, leading to economic instability or even a crisis. In a fixed exchange rate system, central banks play a crucial role in maintaining the target exchange rate, and to do so, they must hold substantial foreign currency reserves. These reserves typically consist of internationally accepted and widely traded currencies, such as the US dollar, the euro, the British pound, or the Japanese yen. The most common reserve currency in the world is the US dollar, largely because of its dominance in global trade, finance, and its perceived stability.

When a country fixes its exchange rate, it commits to exchanging its own currency for a specific amount of the anchor currency. Suppose the domestic currency comes under downward pressure – meaning that people are selling it in large volumes, perhaps due to lack of confidence or capital flight. To defend the fixed rate, the central bank must intervene in the foreign exchange market by selling its foreign reserves and buying back its own currency. This demand supports the domestic currency and keeps its value from falling below the target rate.

The effectiveness of this defence depends heavily on the size and strength of the country’s foreign reserves. If reserves are too low, the central bank may not be able to intervene successfully for long. In such cases, the fixed exchange rate can collapse, leading to a sudden and potentially damaging devaluation. This is why countries with fixed exchange rate systems often prioritise building up large reserves as a precautionary measure.

However, accumulating reserves can come with costs – it may require the country to run persistent trade surpluses, borrow in foreign currency, or limit domestic spending in order to preserve reserve levels.

On the other hand, if the domestic currency is under upward pressure – meaning that foreign investors are buying it, perhaps because of high interest rates or economic confidence – the central bank will need to do the opposite: it buys foreign currency and issues domestic currency to prevent the exchange rate from rising. This expands the domestic money supply, which can lead to inflationary pressure unless it is sterilised (neutralised) through other monetary operations.

An example of a country with significant foreign reserves is China. For many years, China maintained a tightly managed exchange rate, keeping the renminbi (RMB) at a stable level against the US dollar. To achieve this, the People's Bank of China accumulated trillions of dollars in foreign reserves, largely by buying US dollars and selling RMB. This gave China both the means to stabilise its currency and a significant presence in international financial markets. However, managing such a system also constrained China's ability to run an independent monetary policy and led to international criticism over currency manipulation and trade imbalances.

Many countries allow their exchange rates to fluctuate freely, meaning the value of their currency is determined by supply and demand in the market. On the other hand, while some countries claim to operate under a freely floating exchange rate system, in practice many of them follow what is known as a managed float or dirty float. In this system, the exchange rate is *in theory* determined by market forces – supply and demand in the foreign exchange market – but *in reality*, the central bank frequently intervenes to influence the value of the currency in line with its own economic objectives.

This intervention may not be publicly announced or systematically explained, but it can take various forms: buying or selling foreign currencies, adjusting interest rates to influence capital flows, or using policy statements to shape market expectations. Central banks do this to prevent excessive volatility, protect export competitiveness, reduce inflationary pressures from imported goods, or maintain financial stability. While the system appears flexible, it is effectively a discretionary policy tool, allowing authorities to adjust the exchange rate as needed without committing to a fixed target.

A well-known example of this practice is India, where the Reserve Bank of India (RBI) officially maintains a floating exchange rate system. However, the RBI frequently intervenes in the currency markets to stabilise the rupee, especially during periods of high volatility or when sharp depreciation threatens inflation or investor confidence. Similarly, Singapore uses a managed float regime where the Monetary Authority of Singapore (MAS) does not target interest rates but instead actively manages the exchange rate within a policy band, which is not publicly disclosed.

This kind of exchange rate management offers more flexibility than a fixed system and allows countries to respond to changing economic conditions while avoiding the full volatility of a purely floating currency. However, it also requires careful monitoring, sufficient foreign exchange reserves, and credible policy communication to maintain market confidence.

Exchange rates are primarily influenced by the balance between how much a country needs foreign currency

(especially US dollars) for imports and how much it earns in foreign currency from exports. If a country buys more goods and services from abroad than it sells, it runs a trade deficit, meaning it spends more foreign currency than it earns.

For every country that runs a trade deficit, another country must be running a surplus. The country with a deficit needs to figure out how to cover the shortfall, while the country with a surplus needs to decide what to do with its extra foreign currency. In an open market, capital naturally flows to places where it can earn the highest return. Countries that need foreign currency often attract investment by offering higher interest rates, making their financial markets more appealing to those holding surplus funds.

Interest rates play a key role in these movements. Countries at similar levels of economic development tend to compete with each other to attract foreign capital. For example, Indonesia, Mexico, and South Africa are often grouped together in the same economic category. If Mexico is running a trade deficit and its currency is losing value, it can raise interest rates to attract foreign investment. When investors bring their money into Mexico to take advantage of the higher returns, they need to exchange their dollars for Mexican pesos. This increased demand for the peso strengthens its value, helping to stabilise the exchange rate.

However, Mexico is not competing with Canada in this way. Developed economies like Canada already have lower interest rates because they are considered more stable – both economically and politically. Emerging economies, on the other hand, face greater risks, which is why they must offer higher interest rates to attract investors.

If a developing country wants to move up and become a more stable, high-income economy that no longer relies on high interest rates to attract capital, it must undergo deeper structural changes. As discussed throughout this book, achieving long-term economic stability requires building strong financial institutions, ensuring social justice, and establishing a reliable legal system. Only then can a country shift from relying on short-term financial fixes to becoming a truly self-sufficient and developed economy.

Countries that consistently run trade deficits and experience political instability often have highly volatile exchange rates. For businesses, this means uncertainty. The biggest driver of these currency fluctuations is short-term capital flows – money that moves in and out of the country based on interest rate differences. These flows are not stable investments; they are highly reactive and can change direction rapidly, increasing exchange rate volatility. While no country prefers this kind of instability, it is unavoidable for those that rely heavily on foreign capital due to ongoing trade deficits. The only real solution is to move to a stronger economic position where the country no longer depends on these short-term inflows.

Another factor influencing exchange rates is Foreign Direct Investment (FDI). Unlike short-term speculative investments, FDI involves long-term commitments, such as building factories or infrastructure. Because these investments are planned and take time to develop, they do not cause the same level of volatility in currency markets. Countries that attract more FDI create a more stable financial environment. However, becoming a preferred destination for long-term investment requires deeper economic and institutional reforms. As discussed throughout this book, economic success is not just about financial policies – it is also

about building democratic institutions, legal stability, and social trust, which have taken centuries to develop in advanced economies.

There are two key players in managing exchange rate stability. The first is an independent central bank that can set interest rates without political interference. If a central bank makes the right decisions, holds sufficient foreign currency reserves, and adjusts interest rates at the right time, it can help stabilise exchange rates. However, a central bank alone cannot solve deeper, structural problems like chronic trade deficits.

The responsibility for long-term solutions falls on policymakers, on governments and parliaments. It is their job to implement the structural changes needed to shift a country's economic standing. If a country wants to break free from exchange rate instability, it must adopt the values and systems that underpin developed economies, such as legal security, strong institutions, and transparent governance. These reforms lead to more sustainable economic success rather than relying on short-term financial fixes.

32.

MONETARY UNION

A monetary union refers to a group of countries that share a common currency and a joint central bank responsible for setting monetary policy across the union. One of the most well-known examples of a monetary union is the Eurozone, where 20 out of the 27 European Union (EU) member states have adopted the euro (€) as their official currency. The euro is managed by the European Central Bank (ECB), which sets a unified monetary policy for all euro area countries.

The main objective behind forming such a union is to enhance economic integration, reduce exchange rate uncertainty, facilitate trade and investment, and foster a sense of unity among member states. By eliminating currency conversion costs and exchange rate volatility, a common currency can help deepen the internal market and improve economic efficiency across borders.

However, while a monetary union provides certain economic benefits, it also introduces major challenges – especially when it is not backed by a political union. This is a key concern that has been raised by many economists, including Professor Malcolm Sawyer, a well-known critic of the structural weaknesses within the Eurozone. His argument centres on the idea that, without political unification, a monetary union becomes inherently fragile.

The United States is often cited as an example of a monetary union that works well because it is supported by a strong federal government, a common fiscal policy, and mechanisms to transfer resources between states when needed. When one part of the US experiences economic hardship – say, due to a local recession or natural disaster – federal funds can be redistributed to support that region through unemployment benefits, public investment, or other fiscal tools. This helps stabilise the overall economy.

In contrast, the Eurozone lacks such a centralised political and fiscal authority. Although all member countries share the euro, each country retains its own national government, budget, and tax system. This means that when a country in the Eurozone faces an economic crisis, there is no equivalent of a European-level fiscal transfer system to support it. Instead, individual governments are often left to struggle with economic downturns without the ability to adjust monetary policy – since that is controlled centrally by the ECB – and with limited ability to conduct expansionary fiscal policy, due to strict budget rules under the Stability and Growth Pact.

This issue became highly visible during the Eurozone debt crisis following the global financial crisis of 2008. Countries like Greece, Spain, and Portugal faced deep recessions and high levels of public debt, but they could not devalue their currencies or print money to support their economies, as these powers rested with the ECB. Nor could they rely on large-scale fiscal support from stronger economies like Germany or France. As

Professor Sawyer argues, this lack of political integration and solidarity leaves the monetary union structurally incomplete and vulnerable to asymmetric shocks.

The United Kingdom, even during its time as a member of the European Union, never joined the Eurozone. It retained its own currency, the British pound, and full control over its monetary policy through the Bank of England. The UK government was always sceptical of giving up monetary sovereignty without being part of a deeper political and fiscal union. British policymakers recognised that adopting the euro would mean relying on the ECB's decisions – decisions that might not align with the needs of the UK economy. This concern, which reflects the broader debate about the risks of monetary union without political union, played a significant role in the UK's decision to remain outside the Eurozone.

33.

SPECULATIVE ATTACKS AND EXCHANGE RATE CRISES

We've covered most of the key ideas about exchange rates so far – how they fluctuate, what drives them, and why they matter for trade, investment, and everyday life. Now, let's take a moment to introduce some important terminology before diving into a fascinating (and sometimes dramatic) topic: speculative attacks and exchange rate crises.

The balance of payments (BoP) is a fundamental concept in understanding exchange rates and currency stability. It represents the financial transactions between a country and the rest of the world, covering trade, investment, and capital flows. The BoP is divided into two main components: the current account and the capital and financial account.

The current account includes trade in goods and services. If a country exports more than it imports, it runs a current account surplus, meaning it is earning more foreign currency than it spends. Conversely, a current account deficit means the country is spending more foreign currency than it earns, often relying on foreign borrowing or investment to cover the gap.

The capital and financial account tracks financial transactions, including foreign direct investment (FDI), portfolio investments, and changes in central bank reserves. Countries running persistent trade deficits need to attract enough foreign capital to balance their payments. If they fail to do so, their currency can come under pressure, leading to depreciation or even a crisis.

Countries with stable BoP conditions – where trade flows and capital inflows are balanced – tend to have more stable exchange rates. However, when imbalances grow too large, they create vulnerabilities that can attract speculative attacks. If investors believe a country cannot maintain its currency's value due to a widening trade deficit or dwindling foreign reserves, they may start selling off the currency, triggering a sharp depreciation.

Speculative attacks on exchange rates occur when investors believe that a country's currency is overvalued or that the government does not have enough reserves to defend its value. These attacks often target currencies with fixed or semi-fixed exchange rates, where speculators see an opportunity to force a devaluation and profit from it. The driving force behind these attacks is market expectations – when traders anticipate that a currency will lose value, their actions can accelerate the fall, sometimes turning it into a self-fulfilling prophecy.

A famous example is the 1992 Black Wednesday crisis in the United Kingdom. At the time, the British pound was part of the European Exchange Rate Mechanism (ERM), meaning the UK government committed to keeping the pound's value within a set range against other European currencies. However, traders, led by

billionaire investor George Soros, doubted that the UK could maintain this peg due to economic weaknesses, including high inflation and low competitiveness. Speculators began selling massive amounts of pounds, betting that the government would be forced to devalue. The UK's central bank, the Bank of England, spent billions of dollars trying to buy back pounds and raise interest rates to attract investors. However, the pressure was too great, and the UK was ultimately forced to withdraw from the ERM, letting the pound devalue. Soros made over \$1 billion from this bet, and the event remains one of the most famous speculative attacks in history.

Another striking example occurred during the Asian Financial Crisis of 1997. Thailand, Indonesia, and South Korea all had fixed exchange rates and relied heavily on foreign capital. When investors began to doubt these countries' ability to support their currencies, speculators started selling off local currencies in exchange for US dollars. As central banks tried to defend their currencies by using foreign reserves and raising interest rates, panic spread, leading to massive capital flight. Eventually, these countries were forced to let their currencies float, causing sharp devaluations. The Thai baht, for instance, lost more than 50% of its value in a matter of months, triggering a deep economic crisis across Asia.

These examples highlight how market expectations and investor sentiment can play a decisive role in determining exchange rates. Even if a central bank has reserves to defend a currency, if the market believes the defence is unsustainable, a speculative attack can spiral out of control. This is why economic stability, strong financial institutions, and prudent policymaking are crucial in maintaining currency confidence. If investors trust that a government has the tools and willingness to back its currency, they are less likely to bet against it.

34.

WHY DOES THE US DOLLAR DOMINATE THE WORLD? WHAT POWER MADE IT THE RESERVE CURRENCY?

A lot of people ask the same question: Why is the US dollar the world's reserve currency? Why is it that the entire global economy is so dependent on one country's monetary policies and liquidity strategies? Is this a normal situation?

Let's start with the basics. Earlier, we discussed that for something to function as money, it needs to fulfill certain roles. It's not enough to just take a piece of paper, write numbers on it, sign your name, and call it money. For it to work, other people must recognise it as a medium of exchange, a store of value, and a unit of account. If people accept it for transactions and believe in its value, then congratulations – you have created money!

This is exactly what happened with the US dollar on a global scale. Over time, trust in the dollar grew to the point that it became the dominant currency for trade, finance, and global transactions. But why the US dollar specifically? That's where history, economic power, and financial stability come into play.

Many national currencies lose their functionality once they cross borders. While they may work perfectly within their home country, outside of it, they often become useless or extremely inconvenient. To understand why, let's revisit one of the core functions of money: being a unit of account, meaning it is used for pricing goods and services.

Earlier in this book, we discussed how, in a chaotic setting like a prisoner-of-war camp, cigarettes became the standard for pricing goods because everyone understood and accepted their value. This happened because money, at its core, needs to be widely recognised to function effectively.

Now, apply this idea to the global economy. If every country priced goods in its own currency, it would create confusion. Businesses would need to constantly update price lists in dozens of currencies, and buyers would always have to calculate exchange rates before making a purchase. Imagine walking into a shop in a foreign country where every price tag is in an unfamiliar currency – you'd have to stop and ask, *'How much is this in a currency I actually understand?'*

This challenge is even greater in countries where a single US dollar is worth hundreds of thousands or even millions of units of local currency. For example, in Iran, as of recent years, 1 US dollar has been worth hundreds of thousands of Iranian rials. In Venezuela, during periods of hyperinflation, the exchange rate reached absurd levels, with 1 US dollar being worth millions or even billions of bolívars at certain points. Imagine if a major

international company, like Apple or Toyota, decided to price its products in Venezuelan bolívares or Iranian rials.

A car that costs \$30,000 in the US would be priced in the trillions of bolívares in Venezuela, with a price tag so long it might not even fit on a receipt! Everyday transactions would become impractical, requiring businesses to continuously adjust prices to keep up with inflation and currency depreciation. Employees would struggle to calculate exchange rates accurately, and financial records would become cluttered with enormous, ever-changing numbers.

This is exactly why international trade operates in stable and widely accepted currencies like the US dollar. It simplifies transactions, ensures price stability, and allows businesses to plan ahead without worrying about exchange rate chaos. Without a common currency for pricing, global trade would be a logistical nightmare.

Now, let's consider another key function of money: being a medium of exchange, meaning it is used for transactions and trade.

Imagine doing business with a company in a politically unstable country – one where anything could happen overnight. A place where the government might suddenly collapse, the military could take control in a midnight coup, or democracy could be suspended indefinitely. This is a country with poor human rights records, weak institutions, and unpredictable leadership. Now, suppose you sell products to a company in this country, and they agree to pay you in instalments over time.

They ask you, *Would you like to be paid in our local currency or in US dollars?* What would you say?

Of course, you would never accept their local currency. With so much uncertainty, their currency could lose half its value overnight due to political turmoil or economic mismanagement. By the time they make their next payment, the money you receive could be worth far less than when you signed the contract.

Now, what if you ask them to pay in your own country's currency? That's another problem. How would a company on the other side of the world even get hold of your currency? Unless your country's currency is widely used internationally, they would have to go through a complicated and costly process to exchange it first.

And so, in global trade, transactions naturally gravitate toward widely accepted, stable currencies. This is why payments between companies in different countries overwhelmingly use the US dollar or, in some cases, the euro. The US dollar alone accounts for 60-70% of global trade transactions, with even higher percentages in some regions. While other currencies are used in certain parts of the world, the dominance of the dollar in cross-border payments remains unmatched.

Even the European Union, with its common currency, the euro, has not been able to break the dominance of the US dollar in global trade and finance. Despite being one of the world's largest economic blocs, the euro accounts for only about 20% of international transactions, far behind the US dollar.

Now, think about this – the European Union's total economic size is roughly equal to that of the United States. It consists of 27 countries, many of which are highly developed economies. So why hasn't the euro emerged as a true alternative to the dollar? The answer lies in market confidence and the fear of uncertainty.

Even a small element of unpredictability can make investors and businesses hesitate to fully rely on a

currency. The eurozone has seen its share of instability. Imagine if you had structured all your financial dealings in euros, and then – suddenly – the UK voted to leave the European Union. Brexit instantly created a wave of uncertainty, shaking confidence in the long-term stability of the European project.

The United States, by contrast, offers a different kind of stability. In many ways, it is similar to the EU -a large, integrated economy with different regions (or states). But think about it this way: imagine if California suddenly announced it was leaving the US. That would be equivalent to a major EU country leaving the bloc. Sounds almost unthinkable, right? Unlike the European Union, the US is a political and monetary union that feels far more permanent.

This is why markets continue to prefer the US dollar over the euro for global transactions. The euro is strong, but even a small amount of uncertainty is enough for businesses and investors to stick with what they trust the most – and for now, that remains the US dollar.

The United States continues to dominate as the world's reserve currency because it remains unrivaled in key areas: technology, science, and military power. As long as the US maintains its global influence in these domains, the dollar's status as the dominant international currency remains unchallenged.

Recognising this advantage, the US took a bold step in the 20th century that forever changed the global financial system. Before this shift, international currencies were backed by gold reserves, meaning that every unit of currency issued had to be backed by an equivalent amount of gold stored in central banks. If you looked at an old banknote (these banknotes no longer exist), it would say something like, "This note is redeemable for gold at the central bank." In theory, this meant that anyone holding paper money could walk into a bank and exchange it for a fixed amount of gold.

However, in 1971, under President Richard Nixon, the US decided to abandon this system altogether, an event now known as the Nixon Shock. Before this, under the Bretton Woods Agreement (1944), most of the world's currencies were pegged to the US dollar, which itself was tied to gold at a fixed rate of \$35 per ounce. This system provided stability but also restricted how much money governments could issue since they needed enough gold to back it up.

The US, seeing its economic power and the global trust in the dollar, decided it no longer needed to be constrained by gold reserves. By severing this link, it effectively declared: *Our currency is valuable not because of gold but because of the strength of our economy.* This move meant that the US could now print as much money as it wanted without being limited by gold reserves, allowing it greater flexibility in managing economic growth, inflation, and financial crises.

While this decision was controversial, it ultimately worked in America's favour. The world continued to trust the US economy and military dominance, so the dollar remained the most widely used and accepted currency in global trade, finance, and central bank reserves. The fact that other countries did not abandon the dollar after the gold standard ended proved how deeply embedded it had become in the global financial system.

Today, no one walks into a central bank demanding to exchange paper money for gold. That system is long gone. But the legacy of the US dollar as the global reserve currency continues, not because of physical gold, but

because of the confidence that the world places in the economic, political, and military strength of the United States.

After the US ended the gold standard, it fully embraced the power of the dollar as the world's reserve currency. It recognised that rather than tying the global financial system to gold, it could tie it to the US dollar and the policies of the Federal Reserve (the American central bank). This decision fundamentally reshaped the global economy.

From that moment on, financial markets worldwide became dependent on the US dollar and the decisions made by the Federal Reserve. Unlike before, when countries had to manage their economies based on gold reserves, now they had to react to the monetary policies of the US. The global financial system no longer revolved around a scarce commodity like gold – it revolved around the actions and decisions of the US central bank.

This is why the Federal Reserve's interest rate decisions affect the entire world. If the Fed lowers interest rates, it stimulates economic growth globally – borrowing becomes cheaper, investment increases, and capital flows more easily to emerging markets. On the other hand, if the Fed raises interest rates, it strengthens the dollar, making it more attractive for investors. This immediately impacts other currencies, causing capital to flow out of emerging economies and back into the US. Countries around the world, even those that have nothing to do with the US directly, feel the impact through inflation, investment flows, and exchange rate fluctuations.

In simple terms, the world's financial system today is not just based on the US dollar – it is governed by the Federal Reserve's decisions. This means that even if you live in a country far from the US, the Fed's policies still shape your economy, the cost of borrowing, inflation levels, and even job markets. Whether the Fed raises or lowers interest rates is not just an American issue – it is a global event that immediately ripples through economies everywhere.

Despite the dominance of the US dollar, some countries have attempted to form alliances to trade using their own currencies, aiming to reduce their dependence on the dollar. The idea is simple: instead of using the US dollar as an intermediary, they propose trading directly in their national currencies. However, in practice, these efforts have largely ended in failure.

Take the BRICS nations (Brazil, Russia, India, China, and South Africa), for example. These five countries have long discussed creating an alternative to the dollar for trade among themselves. Russia and China, in particular, have pushed for using their own currencies in bilateral trade agreements. While some trade in yuan and rubles has increased, the overall success has been limited. Most international contracts – including those between BRICS countries – still rely on the US dollar because it remains far more stable, liquid, and widely accepted. Even within BRICS, members have struggled to fully trust each other's currencies due to economic and political instability in some of the bloc's nations.

Another attempt at breaking away from dollar dependence came from countries like Iran and Venezuela, both of which have been heavily sanctioned by the US. These nations have tried to trade with allies using alternative payment systems, including barter agreements, cryptocurrencies, and non-dollar currency swaps. But these strategies have not been enough to replace the convenience and reliability of the dollar. When

businesses and governments need stability and security, they return to the currency they trust the most – and for now, that is still the US dollar.

Even the European Union, one of the world's largest economic powers, has struggled to compete with the dollar in international transactions. Despite having a common currency, the euro, the EU has faced challenges in fully replacing the dollar as the global reserve. One major reason is political fragmentation – even though the EU operates as a single market, it consists of 27 independent nations, each with different economic policies, regulations, and long-term priorities. The uncertainty created by events like Brexit, or even internal disputes within the EU, makes the euro less attractive as a global alternative.

Now, if a highly developed, politically stable, and economically powerful region like the EU struggles to reduce dollar dependence, imagine how much harder it is for a small group of politically unstable, economically volatile countries to form an alternative. The harsh reality is that countries that cannot even guarantee stability for their own currencies are unlikely to convince others to rely on them. Nations with weak institutions, authoritarian governments, or histories of financial crises lack the trust necessary to establish a credible alternative to the dollar.

Ultimately, the attempts to challenge dollar hegemony have been fragmented, inconsistent, and unsuccessful. While the desire to break free from US financial influence is understandable, trust in a currency is not something that can be declared -it must be earned through decades of economic stability, institutional reliability, and global confidence. And for now, no other currency has managed to match the level of trust that the US dollar continues to command worldwide.

35.

BITCOIN IS SAID TO END THE HEGEMONY OF THE US DOLLAR. WHAT DO YOU THINK?

There's been a lot of talk lately about Bitcoin as "digital gold" and whether it could become the next global reserve currency. Many self-proclaimed financial experts on social media push the idea that Bitcoin will eventually replace the US dollar as the dominant currency in international trade and finance. But is this really possible?

As we discussed earlier, for something to function as money, it must serve key roles: a medium of exchange, a unit of account, and a store of value. More importantly, for a currency to become a reserve currency, it must be widely accepted, stable, and capable of facilitating large-scale global transactions.

For Bitcoin to become a true reserve currency, the US dollar would have to lose its dominant role, and Bitcoin would need to take its place. Right now, that scenario is far from reality. Unlike the dollar, Bitcoin does not yet perform the functions of a reserve currency efficiently.

One of the biggest limitations of Bitcoin as a reserve asset is its fixed supply. There will only ever be 21 million bitcoins in existence, which makes it inherently scarce. While scarcity is what gives Bitcoin its appeal as a store of value, it is also what prevents it from functioning as a practical reserve currency. A global reserve currency needs liquidity – meaning there must always be enough of it circulating to support international trade and financial stability. The US dollar can be created or reduced in supply by the Federal Reserve, adjusting to economic needs. Bitcoin, by contrast, is hardcoded to be scarce, meaning that if demand rises, its price will skyrocket, making it too volatile for businesses and governments to rely on for pricing goods or settling international debts.

Another major issue is Bitcoin's price stability – or lack thereof. The US dollar fluctuates, but compared to Bitcoin, it is extremely stable. A global reserve currency must be predictable in value. If companies and governments used Bitcoin for trade, the price of a contract could fluctuate wildly within minutes, making long-term agreements impractical. Imagine a company pricing an international deal in Bitcoin and then watching its value drop 20% in a day – such volatility would make financial planning nearly impossible.

Finally, Bitcoin lacks institutional backing and enforcement mechanisms. The US dollar isn't just widely used because of economic tradition – it is supported by the Federal Reserve, the US government, and the largest financial institutions in the world. The dollar is embedded in international trade agreements, banking systems, and legal frameworks that provide a safety net in times of crisis. Bitcoin, on the other hand, operates without a central authority, meaning no institution can intervene if there's a financial crisis. While this

decentralised nature is what some Bitcoin supporters praise, it also means there is no lender of last resort – no system in place to stabilise the currency during turbulent times.

So, will Bitcoin become the next global reserve currency? As of now, that seems unlikely. While Bitcoin may continue to grow as an alternative store of value, similar to gold, it does not yet function as a stable unit of account or a reliable medium of exchange on a global scale. The world's financial system needs flexibility, stability, and liquidity – three things Bitcoin currently lacks.

For Bitcoin to challenge the dominance of the US dollar, it would not only need to prove itself as a practical currency for everyday transactions but also gain the trust of central banks, governments, and global financial institutions – something that has not yet happened. Until then, the US dollar remains the undisputed reserve currency of the world.

36.

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PART V

BRIDGING BORDERS: THE INTERPLAY OF INTERNATIONAL TRADE AND GLOBAL RELATIONS

International trade might sound like a distant and technical subject, reserved for policymakers, economists, and multinational corporations. Yet, in reality, it shapes our everyday lives in ways we often overlook. The price of your morning coffee, the availability of your favourite smartphone, and even the job opportunities in your city are all tied to the way goods and services move across borders.

Take the case of coffee. Imagine walking into your usual café and ordering a cappuccino. That coffee bean likely travelled thousands of miles before ending up in your cup, sourced from Colombia, Ethiopia, or Vietnam. The price you pay is influenced by trade policies, weather conditions in coffee-growing regions, and global demand. Now, suppose the government decides to impose a tariff – a tax on imported goods – on coffee beans to protect local producers. Overnight, the cost of coffee rises, leading to either more expensive lattes or lower profit margins for cafés. This is a simple example of how trade policies affect both businesses and consumers.

Tariffs have been at the centre of heated debates in recent years. One of the most high-profile cases was the trade war between the United States and China. In an attempt to protect domestic manufacturers, the U.S. imposed tariffs on Chinese goods, leading to retaliatory tariffs from China on American products. While the intention was to boost domestic industry, the reality was more complex. American companies that relied on Chinese components faced higher costs, which they either passed on to consumers or absorbed, reducing their profits. Meanwhile, Chinese firms sought alternative markets, shifting trade dynamics globally. The impact of these policies extended far beyond the political sphere – consumers found themselves paying more for everyday items like washing machines and electronics, while farmers in the U.S. lost access to a key market for soybeans and pork.

Beyond tariffs, the way products move across the globe has been under increasing scrutiny. The COVID-19 pandemic exposed the fragility of global supply chains. Suddenly, essential goods such as medical masks and ventilators became scarce as countries restricted exports to secure their own supplies. Supermarket shelves stood empty, and car production ground to a halt due to a shortage of microchips. The crisis led many governments to rethink their dependence on foreign production, sparking discussions about bringing manufacturing closer to home. But would that really be the best solution? Producing everything domestically is often more expensive and inefficient, which is why businesses have historically sought out lower-cost production in other parts of the world.

The tension between free trade and protectionism is not new. A compelling example is the case of Japan's automobile industry in the 1980s. At the time, American car manufacturers were struggling, and the U.S. government pressured Japan to limit car exports. Rather than simply reducing production, Japanese firms adapted by setting up manufacturing plants in the United States. Honda, Toyota, and Nissan began producing cars within American borders, creating jobs while still selling their vehicles. This strategy highlights the complexity of trade restrictions – rather than simply blocking imports, businesses find creative ways to navigate them.

Another layer to the global trade puzzle is how trade agreements shape economies. When the United Kingdom voted to leave the European Union, one of the key arguments was regaining control over trade policies. However, Brexit brought unexpected complications. British firms that had seamlessly traded with the EU now faced customs checks, added paperwork, and increased costs. Small businesses, in particular, struggled with the new bureaucracy. British fish exporters, once reliant on quick and easy access to European markets, found their products stuck in long queues at ports, leading to financial losses. The broader lesson here is that trade agreements are not just political decisions; they have real and tangible effects on the people and businesses operating within an economy.

Perhaps one of the most fascinating aspects of international trade is how it intersects with sustainability. The European Union has introduced carbon border taxes, meaning that goods imported from countries with weaker environmental regulations could face extra charges. This measure is designed to prevent businesses from simply relocating production to countries with lax rules, thereby undermining global efforts to combat climate change. However, such policies raise questions – should developing nations, which contribute far less historically to global emissions, be penalised? And how can trade policies balance economic development with environmental responsibility?

Trade is not just about economics; it is about politics, technology, and even ethics. As consumers, we participate in global trade every time we make a purchase. Whether it's the decision to buy locally-made clothing or opt for a cheaper, imported alternative, our choices influence demand and, in turn, global trade patterns. Even digital trade is changing the landscape – streaming services, online shopping, and cloud computing are blurring traditional trade boundaries, creating new challenges for regulation and taxation.

In a world where economies are deeply interconnected, no country can afford to ignore trade. Policies aimed at protecting domestic industries may provide short-term relief but often come with unintended consequences. At the same time, unregulated free trade can exacerbate inequalities and environmental harm. The challenge is finding a balance – one that ensures fair competition, sustainable growth, and resilience in an unpredictable global economy.

The concept of comparative advantage remains a foundational principle in international trade theory. It suggests that countries should specialise in producing goods and services in which they have a relative efficiency advantage – whether due to natural resources, labour supply, or technological capacity. For example, labour-intensive production often takes place in labour-abundant countries, such as Bangladesh, Vietnam, or

Ethiopia. These nations have a large, relatively low-cost workforce, making them competitive in industries like textiles, footwear, and basic manufacturing.

Based on this theory, it would make sense for countries to maintain their specialisation over time. However, real-life development paths show that countries can reshape their economic destiny. Consider South Korea or Japan. If they had followed the comparative advantage theory rigidly, they might have focused solely on agricultural products like rice, given their historical strength and land use. Yet, both countries have transformed into technological powerhouses, exporting semiconductors, cars, electronics, and high-end machinery.

What many early models missed was the role of human capital development. In South Korea, for instance, high literacy rates, a focus on education, and strong investment in infrastructure and institutions enabled the country to shift from labour-intensive to capital- and knowledge-intensive production. Similarly, Singapore transformed from a port-based economy into a global hub for finance, biomedical sciences, and technology.

This transformation is not accidental. Governments played an active role – initially supporting imitation of existing products and production processes. This helped domestic firms and workers learn, adapt, and build technical capacity. But more importantly, smart and well-organised countries eventually transition from imitation to innovation. They invest in research and development (R&D), create intellectual property protections, and encourage entrepreneurship. China is a clear example of this path: while once known primarily for cheap manufacturing, it now leads in areas like electric vehicles, mobile payment systems, and artificial intelligence.

While the theory of comparative advantage correctly identifies the short-term gains from trade, it is essential for countries to also consider the long-term implications. In the pursuit of sustainable economic growth, nations must look beyond immediate benefits and work toward structural reforms and institutional development. Through these efforts, they can shift their comparative advantage toward higher value-added sectors. This long-term approach requires core developments, which are crucial for sustained growth and innovation. These include the establishment of the rule of law, the promotion of democratic governance, the protection of freedom of speech, respect for human rights, and significant investments in education and health. Such foundations are critical as they help create inclusive institutions that foster continuous innovation and long-term economic transformation.

In discussions of trade, it is necessary to consider more than just economic efficiency. We must also address the concept of fair trade. Trade should not simply be a mechanism for economic gain, but should ensure that the benefits are distributed fairly, both within and across countries. The goal should be to create a mutually beneficial system, where no nation or group is left behind. This requires addressing several key issues. One of the most pressing is global inequality, which trade can sometimes exacerbate if poorly regulated. Additionally, environmental standards must be put in place to ensure that production processes do not harm future generations. Workers' rights also need to be safeguarded so that the gains from trade do not come at the expense of human dignity.

In this context, countries should strive to create trade policies that are inclusive, ethical, and sustainable. If the objective of trade is solely to maximise national advantage, there is a risk of falling into zero-sum thinking,

where one country's gain is viewed as another's loss. Instead, the aim should be to achieve positive-sum outcomes, where cooperation and fair trade practices contribute to the collective well-being of all. By fostering collaboration, nations can create a global economy in which the benefits of trade help lift all boats, contributing to a more equitable and prosperous world for everyone.

37.

TRADE AS COOPERATION, TRADE AS CONFLICT

International trade is often sold as a simple story: open borders raise prosperity. But real trade is not a neutral exchange between equals. It is a system of rules, bargaining power, institutions, and strategic interests. It connects everyday life, what we buy, what jobs exist, what wages can grow, to global political relationships and historical power structures.

This chapter explores trade in a way that matches the core argument of *Better Together*. Trade can be a source of cooperation and rising living standards. It can spread ideas, technology, and opportunity. But it can also become a mechanism through which stronger actors shape outcomes for weaker ones, through tariffs, standards, supply chain control, financial leverage, or even propaganda. That is why trade cannot be separated from politics.

Foreign direct investment and global supply chains show this clearly. Investment does not flow only toward low costs. It flows toward predictability. Investors want legal clarity, contract enforcement, property rights, and stable governance. These are economic foundations, but they are also democratic ones. Countries that suppress free speech or weaken rule of law may still receive investment, but often under conditions that concentrate benefits, reduce bargaining power, and increase vulnerability. Where institutions are strong, countries can negotiate better terms, regulate labour standards, protect environments, and ensure that investment transfers knowledge rather than extracting value.

Trade agreements and trade organisations also reveal the Better Together challenge. Agreements can reduce uncertainty and create shared rules. But they can also lock in power relations. Some critics argue that trade governance has historically prioritised corporate protections over labour rights and environmental standards. Others argue that trade rules have helped prevent conflict and raise incomes. A pluralist approach does not choose a single ideological position. It evaluates the institutional design. Who participates in decision-making? Are the rules transparent? Can citizens challenge harmful provisions? Is there democratic accountability? These questions determine whether trade becomes cooperation or exploitation.

This chapter also naturally brings us to the politics of tariffs and trade wars. Tariffs are not only economic tools. They are political signals. They can protect domestic industries, but they can also raise prices for households and fuel geopolitical tension. They can be used defensively or aggressively. The Better Together lens asks a simple question: are tariffs being used to support a fair transition, protect workers and rebuild resilience, or are they being used as weapons that deepen global hostility and reduce the space for collective solutions?

Brexit is included here for the same reason. It is not just a case study in trade friction. It is a case study in

political identity, democratic choice, misinformation, and institutional trust. It forces us to face uncomfortable questions. What happens when complex economic relationships are reduced to slogans? What happens when fear-based narratives override cooperative problem-solving? And how do societies rebuild trust after polarisation?

This chapter therefore treats trade as an arena of shared responsibility. In a world of climate risk, pandemics, migration pressures, and technological disruption, countries cannot act as isolated islands. At the same time, cooperation cannot mean surrendering fairness. The goal is not naive globalism, but intelligent integration, with rules that protect dignity, labour rights, environmental sustainability, and democratic voice.

Trade, in the end, is not only about goods crossing borders. It is about how we choose to live together on one planet, with unequal histories, unequal power, and shared risks. That is why understanding trade is essential for anyone who cares about building a more peaceful, fair, and sustainable future.

38.

FOREIGN DIRECT INVESTMENT AND GLOBAL SUPPLY CHAINS: DRIVERS OF ECONOMIC DEVELOPMENT IN A CONNECTED WORLD

Foreign Direct Investment (FDI) plays a central role in the global economy, particularly when considering its impact on the development of host countries. FDI, which involves a company or individual from one country investing in business interests in another, is a major driver of economic growth, technological advancement, job creation, and improvements in infrastructure. There has been extensive debate in the literature regarding how beneficial FDI truly is for a country's development. The pluralist view, which supports FDI, argues that it can be highly advantageous for developing economies, fostering growth, and promoting stability. However, critics of FDI highlight potential issues such as the dependency it can create and the challenges posed by foreign ownership and control over critical sectors.

From the pluralist perspective, FDI brings numerous benefits that can significantly contribute to the host country's development. One of the most significant advantages is the infusion of capital. Developing countries often face challenges related to limited domestic savings and investment opportunities. FDI serves as a vital source of capital that can be used to bolster industries, improve infrastructure, and enhance overall productivity. Multinational corporations (MNCs) that invest in these countries can help to stimulate economic activity, often bringing with them new technologies, management expertise, and innovative processes that may not otherwise be available locally.

Technology transfer is another critical benefit of FDI. By entering foreign markets, multinational firms often introduce new technologies, skills, and knowledge. This technology transfer can have long-term effects, enabling local businesses to enhance their competitiveness, improve productivity, and innovate. For example, when companies like Toyota and Samsung set up operations in different markets, they not only invest in the country but also contribute to upgrading the technical capabilities of local industries, from manufacturing processes to managerial practices.

Job creation is another area where FDI has a profound impact. Foreign investment often leads to the creation of both direct and indirect jobs. MNCs establish production plants, retail operations, and service outlets, which directly employ thousands of people. Additionally, the supply chains that accompany these investments – encompassing everything from raw materials to distribution – also generate significant

employment opportunities. The automotive industry in Mexico, where companies like General Motors and Nissan have invested heavily, serves as a prime example of how foreign investment can lead to job creation across multiple sectors.

In addition to these direct benefits, FDI can improve a country's balance of payments by boosting exports. Many multinational companies that set up operations in developing countries do so with the intention of using the local production capacity to serve global markets. This increases the host country's export capacity and helps to address trade imbalances. The influx of capital and expertise through FDI can also improve the country's international economic standing, particularly when the investment targets sectors with significant export potential, such as electronics or automotive manufacturing.

However, the benefits of FDI are not without their challenges. Critics argue that while FDI can spur economic growth, it can also lead to dependence on foreign capital. This dependency may pose risks, particularly if the investments are not linked to the development of local industries. Some argue that MNCs may extract profits from the host country and repatriate them, rather than reinvesting in the local economy. Additionally, foreign control over critical sectors may result in the exploitation of local resources or labour, with limited benefits flowing back to the host country's population. These concerns highlight the need for policies that ensure that FDI benefits the host country in a sustainable and inclusive way.

To effectively attract FDI, countries need to ensure they have the appropriate institutional frameworks in place. It is not enough to simply offer cheap labour or tax incentives; a country must have strong core values such as property rights, the rule of law, and political stability to create an environment that attracts and supports foreign investment. One of the most important aspects of this framework is the protection of property rights. Investors need assurance that their investments, intellectual property, and assets will be safeguarded. Countries with weak legal systems or unreliable property rights protection may find it difficult to attract significant FDI. On the other hand, countries with strong legal frameworks and protection for foreign investors are much more likely to benefit from increased capital inflows. For example, nations like the United States, Singapore, and Hong Kong, where property rights are well-defined and enforced, have historically attracted high levels of foreign investment.

Equally important are democratic values and political stability. A stable political environment, characterised by transparent government policies, independent institutions, and low levels of corruption, is a key factor in creating a favorable climate for FDI. Investors prefer countries with reliable and predictable political and legal systems, as this reduces the risks associated with investment. Countries that have embraced democratic reforms and foster political stability, such as India over the last few decades, tend to experience increasing FDI flows. Without political stability and transparency, the risks of investing in a country rise, leading investors to seek more predictable and secure markets.

In today's interconnected global economy, one of the most significant changes in the nature of production is the rise of global supply chains. The production of a single product is no longer confined to one country. Instead, goods are increasingly produced through a series of interconnected steps across multiple countries. Each country in the global supply chain specialises in a particular part of the production process, leveraging

its unique strengths, whether in terms of labour, technology, or raw materials. This global fragmentation of production is central to understanding the modern economy and international trade.

A prime example of global supply chains can be seen in the production of smartphones. Take Apple's iPhone as a case study. While designed in the United States, the iPhone's components are sourced from around the world. The semiconductors used in the phone come from Taiwan's TSMC, the displays are produced by Samsung in South Korea, and the batteries are made in China. Once the components are manufactured, they are shipped to assembly plants, primarily in China, where the phones are put together before being sold worldwide. This process exemplifies how modern production relies on a network of countries, each contributing a critical component to the final product.

The automotive industry also offers a clear example of the global supply chain in action. Consider the production of a Toyota Corolla. While the car is designed in Japan, the components are sourced from a variety of countries. The engines might be manufactured in Japan, the steel comes from Brazil, and the electronic components are sourced from South Korea. Final assembly may take place in Mexico, and the cars are then sold globally. This distribution of production activities highlights the increasing interdependence of nations in the global economy.

The apparel industry provides another illustration of the global supply chain. Major retailers like H&M source raw materials, like cotton, from countries such as India, while the fabrics are woven in China and the final garments are manufactured in Bangladesh. These products are then sold in markets around the world. The ability to spread production across various locations allows companies to take advantage of the unique strengths of each country, such as low labour costs or access to specific resources.

In conclusion, FDI is a crucial driver of global trade and economic development. Its potential to bring capital, technology, and job creation to developing countries can significantly enhance their economic growth. However, to maximise the benefits of FDI, host countries must ensure they have the appropriate institutional frameworks in place, including strong property rights and political stability. In today's interconnected world, the concept of global supply chains further highlights the importance of international cooperation and the value of FDI in fostering economic development across borders. The world is no longer a series of isolated markets; it is a complex web of interconnected economies where the flow of investment, goods, and services shapes the future of global trade.

39.

FREE TRADE AGREEMENTS AND TRADE ORGANIZATIONS: CATALYSTS FOR GLOBAL ECONOMIC COOPERATION

Free trade agreements (FTAs) and international trade organisations play a pivotal role in shaping global economic relations. These agreements and institutions are designed to facilitate the movement of goods and services across borders, remove trade barriers, and create a more predictable and stable trading environment. The primary goal is to foster economic cooperation among nations, improve market access, and promote efficiency by encouraging countries to specialise in what they do best. By lowering tariffs, reducing non-tariff barriers, and simplifying customs procedures, FTAs and trade organisations can stimulate trade and enhance economic growth.

Free trade agreements are arrangements between two or more countries aimed at reducing or eliminating trade barriers, such as tariffs and import quotas, on goods and services traded between them. These agreements can be bilateral, involving two countries, or multilateral, involving several nations. The benefits of FTAs are wide-ranging. For businesses, FTAs provide access to larger markets, lower production costs, and greater supply chain efficiency. For consumers, these agreements can result in lower prices, a wider variety of products, and improved quality. FTAs are especially beneficial for small and developing economies, as they allow them to tap into larger global markets that would otherwise be difficult to penetrate due to high trade barriers.

One of the most well-known examples of a free trade agreement is the North American Free Trade Agreement (NAFTA), which was signed by the United States, Canada, and Mexico in 1994. The agreement led to the elimination of tariffs on most goods traded between the three countries, promoting economic integration and trade growth. In recent years, NAFTA has been replaced by the United States-Mexico-Canada Agreement (USMCA), which continues to promote trade liberalisation while addressing modern issues such as intellectual property and digital trade. Another prominent example is the European Union's Single Market, which allows for the free movement of goods, services, capital, and people between EU member states, creating a vast internal market that fosters economic growth and integration.

Trade organisations, such as the World Trade Organisation (WTO), play a critical role in regulating and facilitating international trade. The WTO, established in 1995, is the most important global organisation for overseeing the implementation of trade agreements, resolving disputes, and setting the rules for international commerce. The WTO's primary function is to ensure that trade flows as smoothly, predictably, and freely as possible. It provides a platform for negotiations, where countries can discuss and agree on trade rules that

benefit all parties involved. The WTO also acts as a mediator in trade disputes, helping to resolve conflicts between nations when disagreements arise over the interpretation or application of trade agreements.

One of the major benefits of trade organisations is their ability to provide a level of certainty and stability in international trade. By establishing clear rules and dispute resolution mechanisms, trade organizations like the WTO help reduce the risks associated with international trade. They also ensure that countries adhere to the agreements they have made, preventing the imposition of arbitrary trade barriers that could disrupt global supply chains and markets. In addition, trade organisations encourage transparency and fairness in global trade, which fosters trust among trading partners and encourages further economic cooperation.

The combined effect of free trade agreements and trade organisations is the promotion of global economic integration. By reducing trade barriers and establishing clear, enforceable rules for international commerce, these agreements and organisations enable countries to access larger markets, reduce costs, and enhance competition. For businesses, this creates new opportunities for growth, innovation, and efficiency. For consumers, it means greater access to a diverse range of products at competitive prices. Additionally, FTAs and trade organisations provide developing countries with the tools and support needed to participate in the global economy, which can lead to higher levels of economic development, poverty reduction, and improved living standards.

However, while the benefits of FTAs and trade organisations are clear, they are not without their challenges. Critics argue that these agreements can sometimes disproportionately benefit wealthier nations, leaving developing countries at a disadvantage. For instance, some critics of the WTO argue that the organisation's rules tend to favour developed nations and large multinational corporations, while less-developed countries may struggle to fully take advantage of the opportunities provided by global trade. Moreover, the issue of trade imbalances, the protection of local industries, and the potential for job displacement in certain sectors remain important concerns that need to be addressed.

Despite these challenges, the overall impact of free trade agreements and trade organisations on global trade is largely positive. They have played a key role in reducing trade barriers, increasing market access, and promoting economic growth worldwide. As countries continue to negotiate new trade agreements and strengthen international institutions, these mechanisms will remain crucial in shaping the future of global commerce. In an increasingly interconnected world, the ability to engage in trade efficiently and equitably is essential for fostering prosperity, improving living standards, and addressing global challenges.

40.

BREXIT

The European Union is one of the best things that has ever happened to the world. In contrast, Brexit stands out as one of the worst events in this context. The European Union has brought peace, stability, and prosperity to a continent that, for centuries, struggled to establish a culture of living together. Europe was once a place torn apart by constant wars, where the impoverished youth of societies had no choice but to die fighting. The EU has transformed this troubled geography into a space for peace, order, and unity. It has broken down borders, allowing people to live together happily, in solidarity, without fighting.

The European Union should continue to expand its borders, extending its peaceful environment beyond the continent. The principles of living together, human rights, and the rule of law that the EU upholds should be shared with other regions. These values should be promoted in Africa, Asia, and Latin America, helping to create a global community built on solidarity, peace, and mutual respect. Rather than retreating into isolation, the EU should be a beacon of cooperation, demonstrating how diverse regions can thrive together, united by shared ideals.

On the other hand, the European Union represents a system where trade wars are absent, and commerce flows freely across member states. The removal of border controls has allowed for the seamless movement of goods and people, creating an interconnected economy that operates efficiently without the bureaucratic obstacles that often hinder international trade. In the EU, businesses can access a vast single market without the need for costly tariffs or customs procedures, which has led to increased economic opportunities and a higher standard of living for millions of citizens. The elimination of these barriers fosters competition, encourages innovation, and creates a more dynamic and resilient economy.

Moreover, the EU's regulatory framework ensures a level playing field for all member states, providing clear and uniform rules that businesses can rely on. This has reduced the uncertainty often associated with international trade, enabling long-term investments and facilitating economic growth. The EU's commitment to free trade has not only strengthened the internal market but also helped the region become a leading player in global commerce, shaping international standards and trade agreements. In essence, the European Union has created an environment where economic cooperation thrives and where countries are no longer isolated but rather integrated into a common, prosperous future.

Despite all the beauty of the European Union, there are, of course, marginal politicians who are not working in the interest of humanity. Politicians who represent the views of a small segment of society are well aware of the manipulative and deceitful arguments they can use to persuade the public. These arguments are often so compelling that they gain traction within society. No matter how much you write about the social and

economic benefits of this unity, certain powerful narratives continue to circulate. In the case of political movements that seek to undermine such unions, one argument that often gets attention is: “Look, these people from this particular country are flooding into our nation, taking your jobs.” They may even falsely claim that immigrants are exploiting the social welfare system, engaging in fraud or abuse.

For instance, in the UK, some of the arguments raised included claims such as “Polish people are invading the country” or “They’re taking your jobs.” These kinds of statements are persuasive, as they play on fear and misunderstanding. However, the reality is much more complex. These claims overlook the fact that, in many cases, it is British society that benefits from these workers, especially in sectors that are highly dependent on seasonal labour. In fact, many of the industries in the UK would struggle to function without migrant workers. There may be individual cases where some take advantage of the system, but it is wrong to generalise and scapegoat entire communities.

The rhetoric of “them vs. us” is dangerous, as it manipulates the public’s fears for political gain. The truth is, the majority of British society benefits from the contribution of foreign workers in many sectors of the economy. This kind of fear-based argument often leads to an emotional, rather than rational, response and can be exploited by those who aim to break away from the European Union. It is important to note that the solution is not to scapegoat a small, exploitative minority but rather to improve the system, making it more transparent and fair for everyone.

The focus should be on building a more just system, where the vulnerable are supported, and abuses are prevented. Instead of blaming immigrants or other groups, we should focus on creating better controls and stronger regulations that ensure social welfare programmes are not abused while protecting those who genuinely need help. There is room for improvement within the system, but demonising immigrants is not the answer. A fairer, more efficient system that prevents exploitation, while ensuring genuine need is met, should be the priority.

Let’s take a look at this situation from a commercial perspective. Imagine a small village on the western shores of the UK. Some marginal groups are arguing that this village should separate from the UK. “We could be better off on our own,” they say. “Let’s break away from the UK, set up borders, and make sure all entry and exit processes are tied to bureaucratic procedures. Let’s become independent, forge our own social and commercial relationships, and make our own decisions.” How does that sound to you?

You would probably think these villagers are crazy, wouldn’t you? As a small village, what do you think is more beneficial to you – the entire UK profiting from your existence, or you benefiting from the economic and social power of being part of such a large nation? But these villagers won’t listen and decide to hold a referendum, eventually leaving the UK. They decide to cut off the ties with the huge, prosperous nation at their doorstep and instead seek new relationships with distant lands.

Now, imagine the absurdity of the situation: They’re in the middle of the ocean, with the world’s richest continent at their doorstep. Instead of continuing their connections with the huge, powerful nation right next to them, they decide to sever those ties and reach out to faraway lands across the globe. “Good luck to you,” I’d

say. You're cutting yourself off from a large, prosperous landmass just to build connections with distant places. It sounds completely irrational, doesn't it?

This is precisely what the UK has done. The country is a small island, surrounded by the ocean. While it's fortunate that one side is connected to another continent by a narrow channel, it's still part of a vast and wealthy region – Europe. To what kind of logic would lead them to sever ties with such a region? It's a mad decision, isn't it?

That's the essence of Brexit: rejecting the undeniable advantages of being part of a geographically and economically advantageous area in favour of uncertain and distant alternatives. It's a reckless, self-destructive choice.

As a matter of democracy, a referendum was held, and, of course, the results would likely differ if it were held today. However, it's important to emphasise one critical point: fundamental rights and freedoms should never be put to a vote in a referendum. This is fundamentally contrary to both democracy and human rights. The rights of people living in a country – the right to be citizens of a continent, the right to travel freely, to live, to work, and to move freely – cannot be subject to the vote of others. You cannot allow the freedom and basic rights of more than half of a nation's population to be decided by a majority vote.

This point is crucial: how could we allow fundamental rights to be up for a vote? For example, imagine if other basic rights were put to a vote – the right to free speech, the right to practise one's religion, the right to personal safety, the right to marry whom you choose, or the right to equality under the law. These are rights that, by their nature, cannot be decided by a majority vote because they are inherent and universal, not dependent on the whims of the majority.

In a democracy, these rights must be protected for everyone, regardless of the outcome of any referendum. When these fundamental rights are subjected to popular vote, we risk undermining the very principles that democracy is built on – the protection of the individual against the tyranny of the majority. The right to be free and equal in society is something that must always stand above political fluctuations.

41.

FURTHER READING AND EXPLORATION

- Rodrik, D. (2018), *Straight Talk on Trade*
- Chang, H-J. (2002), *Kicking Away the Ladder*
- Baldwin, R. (2016), *The Great Convergence*
- Stiglitz, J. and Charlton, A. (2005), *Fair Trade for All*
- WTO, *World Trade Report* (various years)

PART VI

SUSTAINABILITY

As we reflect on the course of history and examine how far we have come economically, we see that the foundation of our modern world was laid through various transformative events. From the Magna Carta, which laid the groundwork for human rights and democracy, to the Industrial Revolution that sparked unprecedented economic growth and technological progress, humanity has made giant strides in improving living standards. Innovations and freedoms have been central to this evolution, driving social and economic changes that have significantly shaped the way we live today. But now, as we stand at a crossroads, the conversation turns towards sustainability. It is a topic that, until recently, seemed like a far-off concern, yet today, it is undeniable and inescapable. In a remarkably short period of time, all this economic progress has come at a cost to the planet that made it possible. What have we overlooked in our journey? And perhaps more importantly, what can we do about it now?

When we talk about sustainability, it's crucial to recognise the fundamental error we've made: viewing progress and economic growth as mutually exclusive from environmental impact. For centuries, our economies and societies have been driven by the belief that more production, more consumption, and more expansion are the key to a better life. The Industrial Revolution, while it brought technological advancements that fundamentally transformed the world, also set the stage for exploitation – not just of human labour but of natural resources. The drive for efficiency, for mass production, and for unrestrained innovation came at the expense of the environment. This mindset of endless growth, where nature and resources were seen as limitless, led us to overlook the importance of balance and sustainability.

What did we miss in the process? We failed to account for the long-term consequences of our actions. In our relentless pursuit of progress, we have created a world of consumption, waste, and environmental degradation. The idea of infinite growth on a finite planet was always a fallacy. We have extracted resources from the Earth at an unsustainable rate, polluted the air and water, and left scars on the land. The ecosystems that we depend on are increasingly under threat, and the climate crisis now looms larger than ever before. The consequences of this oversight are not just theoretical – they are real and immediate. We face rising temperatures, extreme weather events, biodiversity loss, and pollution on a scale never before witnessed.

So, where did we go wrong? The first mistake was seeing environmental concerns as secondary to economic ones. For too long, the economy and the environment were treated as separate entities, with the environment often sacrificed for the sake of growth. Economic policies were designed to maximise production and consumption without considering the ecological costs. Natural resources were extracted and exploited with little regard for the long-term health of the planet. As we built our economies, we overlooked the fact that a healthy environment is not only essential for human survival but is also the foundation of sustainable economic prosperity. The countries most vulnerable to climate shocks are often the ones least responsible for

the emissions that caused them. This is a sobering reminder that sustainability is not just an environmental issue but a justice issue, demanding solidarity and global responsibility.

The second error was in our approach to technology and innovation. While technological advancements have brought incredible benefits, they have also often been designed without fully considering their environmental impact. Industrial processes, for example, were optimised for efficiency and output without factoring in the waste they generated. The shift towards disposable goods and planned obsolescence became a hallmark of the consumer culture, encouraging endless consumption. The rise of fossil fuels powered much of this innovation, but it also led to the burning of carbon, contributing to climate change.

The third mistake was our failure to recognise the interconnectedness of systems. The environment, the economy, and society are not separate spheres – they are interwoven. When one part of the system suffers, the entire system is impacted. The degradation of ecosystems affects food security, health, and livelihoods. Climate change has economic consequences, from disrupted supply chains to rising costs of living. Yet, for too long, we acted as though these issues were isolated. As a result, the solutions we implemented were often piecemeal and short-term, rather than systemic and long-term.

So, what can we do now? The challenge is huge, but it is not impossible. First and foremost, we must shift our mindset from growth at any cost to growth that is sustainable and inclusive. We need to integrate environmental concerns into every aspect of decision-making, whether it's economic policy, technological development, or urban planning. The focus must be on creating an economy that works within the limits of the planet, not one that seeks to overpower them. This requires a shift towards circular economies, where resources are used efficiently, waste is minimised, and products are designed to last longer.

Secondly, we must embrace innovation, but not just in the traditional sense. Technological advancements must be developed with sustainability in mind. Renewable energy technologies, for example, offer a path away from fossil fuels and towards a greener future. However, we need to continue investing in clean energy, energy storage solutions, and green technologies that reduce carbon footprints. We must prioritise the development of sustainable agricultural practices, eco-friendly manufacturing processes, and waste management systems that help reduce environmental impact.

Thirdly, we need to recognise the importance of policy in driving change. Governments must be at the forefront of implementing the policies that promote sustainability. This includes implementing carbon pricing mechanisms, incentivising green technologies, and enacting stricter environmental regulations. However, these policies must be accompanied by global cooperation. Climate change and environmental degradation are global issues that require coordinated efforts across nations. The Paris Agreement, for example, is a step in the right direction, but more needs to be done to ensure that all countries, regardless of their economic status, can contribute to environmental protection.

Lastly, we must change our consumption patterns. As individuals, we have a role to play in reducing waste, conserving energy, and making more sustainable choices. This means shifting away from a culture of disposability towards one of repair, reuse, and recycling. It also means rethinking our relationship with nature and recognising that the Earth's resources are finite. The rise of conscious consumerism is a positive

development, but it must become the norm, not the exception. For instance, companies like Patagonia offer free repairs on their products, and in Sweden, tax incentives are given for repairing goods rather than replacing them. These are practical examples of how circular economic principles are already being applied today.

The key question remains: Is it too late? Have we gone too far, and is the damage irreversible? While the situation is dire and the road ahead will not be easy, there is still hope. The beauty of humanity lies in our capacity for adaptation and innovation. While we have made significant mistakes, we are also capable of making significant changes. The choices we make now will determine the future of our planet. If we act swiftly, we can still prevent the worst outcomes. However, the longer we wait, the harder it will be to reverse the damage.

In conclusion, sustainability is not just a trend or a passing concern – it is the defining challenge of our time. It is the responsibility of governments, businesses, and individuals to come together and create a world that is not only economically prosperous but also ecologically sustainable. While the road to recovery may be long, it is not too late to change our course. The time for action is now, and the choices we make today will shape the world for generations to come.

42.

THE COST WE DO NOT SEE UNTIL IT IS TOO LATE

Sustainability is not an optional chapter. It is the chapter that determines whether the rest of the book has meaning. Economic growth, trade, innovation, and financial stability all become hollow achievements if the ecological foundation of life is weakened beyond repair.

The reason sustainability is difficult is not because humans do not care. It is because incentives are misaligned. Many environmental costs are shared, delayed, and invisible, while profits are private, immediate, and concentrated. Markets are powerful at producing what can be sold. They are weaker at protecting what belongs to everyone: clean air, stable climate, biodiversity, oceans, future generations.

This chapter begins with a simple truth: when markets fail, it is not always because individuals behave badly. It is often because the system rewards behaviour that is harmful in the long run. That is why sustainability is a macroeconomic issue. It requires coordination, regulation, public investment, and institutions that can look beyond short-term profit and short-term politics.

In *Better Together*, sustainability is inseparable from democracy and justice. Environmental protection requires rules. Rules require enforcement. Enforcement requires institutions. And institutions require legitimacy. If a society is deeply unequal, green transitions become politically fragile, because the costs feel unfair. If people believe policies are designed to punish ordinary households while protecting large corporations, resistance grows and trust collapses. Sustainability must therefore be designed as a shared project, with fair distribution of costs and benefits, and with genuine participation.

This chapter also highlights a deeper tension that runs through modern capitalism. Many firms pursue cost minimisation and profit maximisation, not because managers are evil, but because the competitive system pressures them. Yet the result can be catastrophic when cost minimisation means cutting corners on pollution, labour safety, or waste disposal, and when profit maximisation means pushing consumption far beyond need. The *Better Together* question is not whether firms should make profit. It is whether profit should remain the ultimate goal when the planet is sending clear signals that we are living beyond ecological limits.

This is where public policy becomes central, not as interference, but as collective self-defence. Carbon pricing, regulation, public infrastructure, clean energy investment, and circular economy design are tools to realign incentives. Behavioural economics also plays a role, because people do not respond to information alone. They respond to defaults, convenience, social norms, and framing. Smart design can support sustainable choices without relying on constant moral effort.

Sustainability also forces us to think globally. Pollution crosses borders. Climate change does not respect

national sovereignty. Yet global coordination is hard because countries have different histories, different responsibilities, and different capabilities. Wealthy nations built prosperity with high emissions. Many poorer nations still seek development. A Better Together approach recognises this tension and insists on fairness: transitions must include financial support, technology transfer, and honest cooperation, not lectures.

Finally, sustainability links back to the other macro chapters in a very concrete way. Monetary and fiscal policy shape investment. Trade shapes supply chains. Labour markets shape livelihoods. If sustainability is treated as an add-on, it will fail. It must be embedded into how economies allocate capital, organise production, and define success.

This chapter is therefore about more than environment. It is about the kind of civilisation we choose to be. Do we build systems that reward short-term extraction, or systems that protect long-term life? In *Better Together*, sustainability is not a sacrifice. It is the condition for freedom, dignity, and peace, for us and for those who come after us.

43.

WHY MARKETS ALONE CAN'T DELIVER SUSTAINABILITY

Markets are powerful; there's no doubt about that. They've played a central role in shaping our modern world, from the clothes we wear to the phones in our pockets. But while markets are brilliant at allocating resources in many situations, they are not perfect. In fact, there are times when they get things quite wrong. One of the clearest examples is when individual decisions carry consequences for others that are not reflected in prices. Economists call these externalities, and they lie at the heart of many sustainability problems we face today.

Externalities happen when the actions of one person or firm have an effect – either positive or negative – on others who are not directly involved in the activity. What makes externalities especially tricky is that the people or businesses involved often don't take these wider effects into account when making their decisions. This means that what's good for the individual isn't always good for society. And that, in turn, means that the market outcome is not efficient. It doesn't lead us to the best possible result for everyone.

Let's look at one of the most powerful examples of a positive externality: education. Most people who invest time and money into getting a good education do so because it benefits them directly. It opens up better job opportunities, increases lifetime earnings, and improves personal development. But education is also one of the most socially valuable activities we can encourage. An educated population leads to a more informed public, a stronger democracy, lower crime rates, better parenting, and higher rates of volunteering. It also contributes to productivity and economic growth in ways that benefit everyone, not just the individual who went to school or university. These wider benefits are rarely captured in tuition fees or salaries, which means that left to the market alone, society would end up with too little education. This is especially true for people from lower-income backgrounds, who might not be able to afford the up-front costs even though the long-term social benefits of their education would be huge. That's why governments fund schools, subsidise university places, and provide student loans. These policies aren't acts of charity; they are corrections to a system that, left alone, would produce too little of a good thing.

Vaccination is another excellent example of a positive externality in action. When someone gets vaccinated, the immediate benefit is to themselves; they reduce their risk of illness. But vaccination also reduces the chances of spreading diseases to others. This helps protect vulnerable groups, like infants, elderly people, and those with weakened immune systems. When enough people are vaccinated, we achieve something called herd immunity, which stops outbreaks in their tracks. But here's the catch: if people only consider their own private benefit, some might decide that it's not worth the effort or the risk, especially if they think others are already vaccinated.

If too many people think this way, the system breaks down and everyone is worse off. This is why public health campaigns and vaccination programmes exist. They help align private decisions with public benefits.

The same logic applies in reverse when it comes to negative externalities. Think about industrial pollution. When a factory produces goods, it considers its costs of labour, materials, and energy. But what if the factory emits harmful chemicals into the local river? That pollution can ruin fishing grounds, poison wildlife, or harm people living downstream. These are real costs, but they are not paid by the factory. Instead, they are pushed onto the public, onto ecosystems, and often onto future generations. In economic terms, the factory's private cost is lower than the true social cost of its activity. So it produces more than it should, and the market outcome is inefficient. What if sustainability isn't a burden but an opportunity to design a fairer, smarter, and more beautiful world? What role will you play in building that future?

A vivid example of this is the growing crisis of plastic pollution in our oceans. Plastic is cheap, convenient, and used everywhere. But its environmental cost is enormous. Once plastic enters rivers and seas, it breaks down into microplastics that can be eaten by fish and end up in our food chain. Sea turtles, birds, and whales often die from ingesting plastic. And the clean-up costs for beaches and harbours are staggering. Yet when someone buys a bottle of water or a takeaway container, the price doesn't reflect any of that. The cost to society is invisible at the point of purchase, and so the damage continues. Again, the market has failed to tell the full truth. This is why some countries have introduced charges for plastic bags, bans on single-use plastics, and incentives for businesses to switch to biodegradable packaging. These are not about interfering for the sake of it; they are about making sure that people face prices that reflect the real costs of their choices.

These kinds of interventions are often described as market corrections. Rather than rejecting the market system altogether, they aim to improve it by making sure that all the relevant costs and benefits are taken into account. In other words, they help bring private decisions in line with social outcomes. This can be done in different ways. Sometimes, the solution is to tax harmful activities. A carbon tax, for example, makes polluters pay for the emissions they produce. Sometimes, the answer is to subsidise beneficial activities, like grants for renewable energy or electric vehicles. And sometimes, the best approach is to regulate directly by setting standards or banning harmful practices.

Of course, none of this is easy. Designing good policy involves trade-offs, and there's always the risk of unintended consequences. That's why the job of public institutions is so important. Governments, local councils, public agencies, and even international organisations exist to protect the interests of society – especially when individual decisions fall short. These institutions are not perfect, and they need to be held accountable, but without them, many of the most serious challenges we face would go unaddressed.

Think about the climate crisis. No single person or company can solve it alone. The emissions that drive climate change come from millions of small decisions – how we travel, what we eat, how we heat our homes. Each of these decisions is shaped by prices, habits, and incentives. And none of us individually sees the full cost of our choices. But collectively, the impact is massive. This is the textbook case of a global externality. It doesn't respect borders, it can't be solved by market forces alone, and it affects future generations who have no say in

today's decisions. The only way to tackle it is through coordinated action, informed by science and guided by values. And that means public policy has to step in.

Sustainability, then, is not just about the environment. It's about the economy too. It's about recognising that markets are good at many things, but they need help when it comes to aligning private interests with the public good. It's about using the tools of policy – taxes, subsidies, regulations, public investment – to steer the system towards outcomes that are fairer, cleaner, and more efficient in the long run. Most importantly, it's about seeing ourselves not just as consumers or businesses, but as members of a society that have shared responsibilities and shared stakes in our future.

Letting markets run wild might seem like freedom, but real freedom comes from living in a society that works for everyone. That means facing up to externalities, designing better systems, and building a future where progress doesn't come at the expense of people or the planet.

Across the world, young people have begun to lead – organising protests, launching start-ups, and demanding action from governments and corporations. Their message is clear: the future belongs to us, and we are not waiting for permission to shape it.

44.

RECYCLING SUCCESS STORIES AND THE ENVIRONMENTAL PARADOX OF WEALTHY NATIONS

When it comes to sustainability and waste management, some countries stand out for their remarkable success in recycling. These nations have not only recognized the importance of reducing waste but have also implemented policies and systems that make recycling an integral part of their everyday life. At the forefront of this movement is Germany, often hailed as one of the most successful recycling countries in the world. However, the situation in other wealthy nations is more complex. Despite having the resources and technology to make substantial environmental changes, many rich countries still struggle with pollution, waste management, and the ethical questions surrounding the exportation of waste to less regulated regions.

Germany has long been regarded as a global leader in recycling. With a recycling rate consistently above 60%, the country has set the standard for efficient waste management. As of 2022, Germany achieved a remarkable 69% recycling rate for municipal solid waste (MSW), the highest among industrialized nations. What's more impressive is how the country has managed to keep improving this rate over the years. One of the key factors in Germany's success is its "Green Dot" system, introduced in the early 1990s. This system requires manufacturers to pay for the recycling of the packaging they produce, incentivising companies to design products with recyclability in mind.

In addition, Germany has implemented strict waste sorting regulations, requiring households and businesses to separate their recyclables from general waste. The country also promotes public awareness campaigns, which educate citizens on the importance of recycling and proper waste disposal. As a result, the German public has developed a deep sense of responsibility toward recycling, and this cultural shift has helped maintain the country's leading position in waste management.

Despite its successes, Germany has faced challenges in recent years. Some reports suggest that up to 40% of the material placed in recycling bins is incorrectly sorted, which hinders the efficiency of the system. Nevertheless, Germany's commitment to recycling is unmatched, and its efforts provide a valuable blueprint for other countries striving to improve their own waste management practices.

Germany's dominance in recycling is matched by Austria, which has made impressive strides in waste management as well. Austria's recycling rate is currently about 54%, and the country has introduced innovative policies, such as a ban on landfilling certain types of waste and requirements for producers to manage the entire lifecycle of their products. The Austrian government also enforces strict regulations on waste sorting, which

has significantly improved the efficiency of its recycling programmes. These measures have not only reduced waste but have also encouraged the growth of a recycling-orientated economy.

Another country that stands out in the field of recycling is Taiwan. With a 55% recycling rate, Taiwan has made great progress in a relatively short amount of time. Taiwan's success is attributed to its "4-in-1 Recycling Program", which involves door-to-door collection of recyclables, public education campaigns, and financial incentives for recycling. The government has also made it mandatory for businesses to recycle certain types of waste, ensuring that the responsibility is shared between citizens and corporations. Taiwan's approach has been recognized as one of the most efficient recycling programmes in Asia, and it serves as an example of how systematic and organized efforts can lead to significant environmental improvements.

While countries like Germany, Austria, and Taiwan have demonstrated exceptional recycling results, the United Kingdom lags behind in this regard. As of 2022, the UK's recycling rate for household waste was just 44%, a figure that represents a stagnation in its progress toward more sustainable waste management. The situation is even worse in England, where the rate stands at only 43.4%. Although Wales has made strides, reaching a recycling rate of 56.9%, there is still much work to be done to achieve the kind of success seen in other parts of Europe and Asia.

The UK's relatively poor performance in recycling can be attributed to several factors, including a lack of consistent public education on waste sorting, limited infrastructure for recycling, and a weak enforcement of regulations. Additionally, unlike countries like Germany, the UK has not yet fully embraced extended producer responsibility (EPR) schemes, where manufacturers are held accountable for the entire lifecycle of their products. This has allowed companies to avoid paying for the recycling of their products, which, in turn, has discouraged investment in more sustainable production practices.

The issue of waste management highlights a broader environmental paradox: wealthy nations, despite their advanced technology and economic resources, continue to pollute the environment at alarming rates. While these countries have the means to implement effective recycling systems and reduce their carbon footprints, they often fail to do so. High consumption levels, wasteful production practices, and an overreliance on fossil fuels contribute to the environmental degradation that these nations perpetuate.

In fact, the wealthier a country is, the higher its consumption of resources and production of waste tend to be. The United States, for example, is one of the largest producers of waste in the world, with Americans generating more than 250 million tonnes of trash each year. Despite efforts to improve waste management, the U.S. still struggles with high levels of landfill usage, plastic pollution, and carbon emissions.

The paradox deepens when we consider how wealthy nations often export their waste to countries with less stringent environmental regulations. In the past few decades, many Western countries, including the UK, have sent plastic waste to countries like China, India, and several Southeast Asian nations. These countries, while lacking the necessary infrastructure to process the waste, have been forced to deal with the environmental consequences. China's 2018 ban on importing foreign plastic waste marked a turning point in the global waste trade, but many countries have continued to find loopholes by shipping their waste to other countries with looser regulations.

To further illustrate the contradictions within wealthy nations' environmental practices, consider the controversial phenomenon of selling bottled air. A prime example of this paradox is the sale of "fresh air" in a can, which has become a lucrative business in some parts of the world. One particularly striking example comes from Scotland, where fresh air from rural areas is collected, bottled, and sold to wealthy consumers in places like China. The air, marketed as a luxury product, is sold for exorbitant prices, with some cans reaching up to £80. This bizarre business venture highlights the degree to which pollution has become a global issue. In areas where air quality is so poor that people are willing to pay for bottled clean air, we see the devastating consequences of environmental degradation.

This practice raises several ethical questions. Not only does it reflect the dire state of the environment in some countries, but it also underscores the failure of wealthy nations to address their own pollution problems. Instead of focusing on reducing pollution at home, some of these nations have commodified the very thing that should be freely available to all: clean air.

The recycling successes of countries like Germany, Austria, and Taiwan provide valuable lessons for the rest of the world. These nations have demonstrated that, with the right policies, public engagement, and infrastructure, it is possible to achieve high recycling rates and reduce waste. However, the environmental performance of wealthy nations, particularly the UK and the United States, exposes a troubling paradox. Despite their resources, these countries continue to struggle with high consumption rates, pollution, and waste management. Furthermore, the practice of exporting waste to countries with looser environmental regulations raises serious ethical concerns.

As we move forward, it is essential for wealthy nations to recognise their global responsibility to reduce waste, protect the environment, and lead by example. This includes not only improving domestic recycling systems but also ensuring that waste is not offloaded onto less developed nations. The success of recycling programmes around the world proves that change is possible, but it requires a shift in mindset, policy, and global cooperation. If we are to address the environmental challenges of the 21st century, we must recognise that sustainability is a shared responsibility, and we must act with the urgency and commitment that the planet's future demands.

45.

USING BEHAVIOURAL ECONOMICS TO ADDRESS SUSTAINABILITY CHALLENGES

When it comes to addressing sustainability issues, it's important to recognise that the solution doesn't always lie in just technological advancements or strict regulations alone. If we approach these challenges with a scientific mindset, particularly by incorporating insights from behavioural economics, we can craft policies that not only encourage better choices but also fundamentally shift societal behaviour. Sustainability issues, such as waste reduction, energy conservation, and pollution control, are deeply rooted in the way people think, make decisions, and act on a daily basis. The key to tackling these problems effectively lies in understanding these behaviours and leveraging that understanding to create policies that can truly drive change. In this section, we will explore how behavioural economics can offer practical solutions to some of the most pressing sustainability challenges, particularly in relation to consumption patterns, resource management, and individual decision-making.

While traditional economic models often assume that people make decisions in a perfectly rational way, behavioural economics acknowledges that humans are influenced by psychological, social, and emotional factors that can lead to suboptimal choices, especially when it comes to the environment. We are often unaware of the long-term costs of our actions, or we may fail to properly value the benefits of sustainability. Here, behavioural economics helps us design policies that nudge people toward making better choices, while still respecting their freedom to choose. From introducing small fees or incentives to altering the context in which decisions are made, the insights provided by behavioural economics offer a new way to create policies that promote sustainability without the need for heavy-handed regulation.

As we dive into the case of the 10p plastic bag charge, we'll see how a simple, behaviour-driven approach led to a massive reduction in plastic bag consumption. But the power of behavioural economics goes far beyond that. By using the principles of loss aversion, framing, nudging, and other psychological factors, policymakers can encourage individuals and businesses to make more sustainable choices, from reducing energy consumption to promoting the use of reusable products. These techniques not only create an environment where sustainable choices are easier and more appealing but also help shift long-held habits and practices that are detrimental to the environment.

The beauty of these behavioral approaches is that they don't require massive changes to existing systems. Instead, they work with human nature, using subtle shifts in incentives, information, and decision-making environments to achieve big results. Whether it's encouraging consumers to use less plastic, conserve water, or switch to greener energy sources, the potential to use behavioural economics to address sustainability is vast.

Let's explore some of these ideas further, beginning with one of the most successful examples: the 10p plastic bag charge.

The story of the 10p plastic bag charge is a powerful example of how behavioral economics can be harnessed to shape policy that influences real-world behaviour. When this policy was first introduced in the UK in 2015, it had an immediate and tangible effect on reducing plastic bag usage. But the story behind it isn't just about a small charge on plastic bags – it's a story of how governments and societies can learn to nudge people toward more sustainable behaviors by understanding the way humans think, make decisions, and respond to incentives.

Before the introduction of the plastic bag charge, plastic bags were freely distributed in stores across the UK. People took them without thinking, using them for a range of purposes, from carrying groceries to collecting laundry. But, while these plastic bags were free to the consumer, they were not without cost. In fact, the environmental cost was enormous. According to estimates, around 7.6 billion plastic bags were used in the UK alone each year, contributing to pollution, wildlife harm, and the growing mountain of plastic waste in our oceans. The bags were single-use, and even though people might have been aware of the harm they caused, they didn't truly internalise this as their problem. They didn't see the impact of a single plastic bag on the environment because the cost wasn't made apparent to them. This is where behavioural economics comes in – it offers insight into why people make these choices and how policy can change those behaviours.

The solution, in this case, was to impose a charge. The 10p plastic bag fee introduced a simple yet powerful nudge. It wasn't a ban on plastic bags, nor was it a massive fine – it was just enough to make people think twice before taking that free bag. The results were striking. In the first year after the policy was enacted, plastic bag use in the UK dropped by 80%. This reduction was a direct result of consumers now internalising the environmental cost of their actions, as they had to pay a small amount for each plastic bag they used. That 10p became a signal – it was the external cost of the plastic bag being placed squarely on the consumer. What was once free and seemingly costless now had a tangible price attached to it, and it made people rethink their behaviour.

This dramatic change in behaviour can be explained by several concepts from behavioural economics. One of the most important of these is loss aversion. Loss aversion refers to the psychological principle that people feel the pain of losing something much more intensely than the pleasure of gaining something of equal value. In the case of the 10p charge, consumers felt the pain of having to pay for a plastic bag. That small loss – a mere 10p – had a greater emotional impact than the convenience of having a free bag. It was a clear and simple economic decision for the consumer: is the 10p worth the benefit of using the plastic bag, or would they rather bring their own reusable bag to avoid the cost? This small charge, therefore, became a powerful motivator for change.

In addition to loss aversion, externalities played a key role in the success of this policy. An externality is an unintended consequence of an activity that affects other people. In the case of plastic bags, the externalities were environmental: the pollution of oceans, harm to wildlife, and the long-lasting impact of plastic on ecosystems. People, however, typically do not account for these externalities when making everyday decisions.

By introducing a charge, the government effectively forced consumers to internalise the external cost of using plastic bags. This made them more conscious of the broader impact of their choices.

The success of the 10p plastic bag charge is not just a UK story – it’s been replicated across the globe, and it highlights how small nudges can make a big difference. In 2002, Ireland became the first country in the world to introduce a plastic bag tax. The results were immediate: plastic bag use dropped by 90% in the first year. The policy was so successful that it inspired other countries, including Denmark, France, and Rwanda, to adopt similar measures. In some places, like Kenya, plastic bag use was banned altogether, and the country became one of the first in the world to criminalise plastic bag use, with severe penalties for offenders. These policies show how powerful behavioural economics can be when applied to sustainability issues. The charge or tax creates an incentive for individuals to change their behaviour, making them more aware of the environmental costs of their actions.

One of the most intriguing aspects of the 10p charge, and policies like it, is how they reflect our tendency to respond to small, immediate incentives rather than long-term benefits. Environmental degradation, like climate change or plastic pollution, often feels distant and abstract to most people. It’s hard to feel the immediate impact of using a plastic bag, especially if it’s something we’ve been doing for years. However, by imposing a small, immediate cost, policymakers are making the environmental cost more tangible. The beauty of this approach is that it doesn’t require people to fully understand the complexities of environmental science or climate change – it just taps into a simple human reaction to paying for something they once got for free.

Framing is another important concept that helps explain why policies like the plastic bag charge are so effective. People’s decisions can be heavily influenced by how choices are framed. In the case of the 10p charge, the government framed the policy as a way to reduce waste and protect the environment. It wasn’t just a charge for the sake of raising money – it was presented as a step toward making a more sustainable society. The framing of the charge as a “green” initiative, rather than just a tax, helped shift public perception. People were more willing to accept the charge because they understood that the money wasn’t going into the government’s pocket but was part of a broader effort to tackle an urgent environmental issue.

Nudge theory also plays a key role in the success of the plastic bag charge. The concept of nudging, popularised by Richard Thaler and Cass Sunstein, suggests that people can be guided toward making better decisions without limiting their freedom of choice. The 10p charge didn’t ban plastic bags or make it illegal to use them – it simply nudged people toward making a more sustainable choice by making the costs of plastic bags more visible. Instead of using force, the policy relied on altering the environment to encourage the desired behaviour. People could still choose to use plastic bags, but they were now more likely to think twice before doing so.

The effectiveness of these policies also brings us to another concept in behavioural economics: bounded rationality. This is the idea that humans are not always perfectly rational and are limited in their ability to process information and make decisions. In many cases, individuals may not be fully aware of the environmental impacts of their actions, and they often make decisions based on convenience rather than long-term consequences. By introducing a policy that makes the environmental cost explicit, the government helps

overcome this limitation by simplifying the decision-making process. The 10p charge creates a clear, easy-to-understand choice: either use a plastic bag and pay a small fee, or bring your own reusable bag and avoid the charge.

But the impact of these policies goes beyond plastic bags. They offer a blueprint for how we can tackle other sustainability challenges. Whether it's reducing carbon emissions, minimising food waste, or promoting energy efficiency, behavioural economics provides the tools to design policies that influence behaviour in meaningful ways. The key is to understand that people don't always act in their own long-term best interest or the best interest of society – but with the right incentives and nudges, they can be guided toward making choices that benefit both themselves and the environment.

As we look toward the future, the success of policies like the 10p plastic bag charge offers hope. If we can continue to build on these insights from behavioural economics, we can create a world where sustainability becomes the default, not the exception. While the challenges we face, such as climate change and resource depletion, are daunting, the success of these simple, behaviour-driven policies demonstrates that change is possible. It's not about imposing drastic measures or restricting freedom – it's about nudging people toward better choices, making sustainable behaviour the easy choice, and creating a world where we all live in harmony with the planet.

46.

FURTHER READING AND EXPLORATION

- Daly, H. (1996), *Beyond Growth*
- Raworth, K. (2017), *Doughnut Economics*
- Stern, N. (2007), *The Economics of Climate Change*
- Jackson, T. (2009), *Prosperity Without Growth*
- Polanyi, K. (1944), *The Great Transformation*

PART VII

MICRO FOUNDATIONS WITHIN A MACRO FRAMEWORK

At the heart of economic progress lies the individual. It is individual creativity, initiative, and entrepreneurship that truly drive development. When people feel free and secure, their creativity flourishes. A society that protects individual freedoms and ensures personal safety lays the foundation for innovation and growth.

This is especially true in science and academia. A scientist must be able to ask bold questions and pursue unconventional ideas without fear. They should not worry whether their research might upset political authorities, provoke institutional backlash, or offend powerful interest groups in society. If they do, the pursuit of knowledge becomes limited, and the potential for progress is stifled.

Unfortunately, in many countries around the world -whether governed through democratic means or not- those in power often suppress critical thinking and dissent to maintain control. They imprison individuals for expressing ideas or conducting research that challenges the status quo. As a result, prisons in some places are filled not with criminals, but with people whose only crime was to speak, write, or think differently.

History is full of examples. Galileo Galilei was persecuted by the Church for promoting the idea that the Earth revolves around the Sun. In the Soviet Union, countless scientists, writers, and thinkers were imprisoned during Stalin's regime for being seen as threats to the state. More recently, figure like Liu Xiaobo in China became symbol of resistance simply for standing up for ideas, research, or civil rights.

From Europe to Asia, the pattern repeats: when power becomes concentrated and intolerant of criticism, creativity is silenced. And when creativity is silenced, economic and social progress stalls.

This is why the protection of individual freedom is not just a political or moral issue – it is an economic one too. Societies that foster freedom of thought, open inquiry, and personal safety are the ones most likely to achieve long-term prosperity.

In societies where individual creativity is truly supported, people are not afraid to think for themselves or to come up with new ideas. They feel confident to explore, to question, and to challenge the norm. This kind of open environment is where real progress begins.

Yes, we have seen that even some authoritarian regimes allow a degree of innovation. China is often cited as an example. In such systems, however, innovation is permitted only within the limits set by those in power. Progress happens, but it is controlled. The regime allows innovation to a point, mainly because it serves economic goals and brings in financial gains. But when new ideas begin to touch on deeper values like freedom, equality, or justice, those in charge step in. People are given just enough prosperity to keep them from resisting, and sometimes even to make them support the system. But if they start asking questions about fundamental human values, the freedom they once had quickly disappears.

Creativity often begins with a single spark. Think about the story of Nike. One morning at breakfast, a coach named Bill Bowerman experimented with his waffle iron to create a better shoe sole. This small moment led to a big idea. He and his former student, Phil Knight, began trying to turn that idea into a business. They went from place to place looking for someone who believed in them, but it wasn't easy. Even their logo – the now world-famous swoosh – was designed by a university student, Carolyn Davidson, who was paid just 35 dollars at the time. The brand only gained serious attention after athletes wore Nike shoes in the Olympics.

What this story shows us is simple. Great innovations don't come from governments or large institutions. They come from individuals with ideas, with courage, and with space to explore. But for these sparks to become something bigger, the right environment needs to be in place. That means financial systems that support new businesses, institutions that encourage experimentation, and a culture that rewards bold thinking.

If a country wants to succeed in producing high-value innovations and taking big steps forward, it must create the conditions for people to think freely. That's how economies grow, and that's how societies move forward.

47.

BEFORE WE BEGIN: WHY MICRO DECISIONS MATTER

This part of the book is about small choices. The kind we make every day, often without noticing. What to buy. How much to charge. Where to cut costs. Whether to pay a little more or a little less. Whether to think only about today, or also about tomorrow.

At first glance, these decisions feel private. Personal. Limited in scope. A consumer choosing between two products. A café owner setting prices. A manager deciding how to organise work. An entrepreneur looking for the cheapest supplier. None of these choices seems powerful on its own.

But taken together, they shape the world.

They determine whether work feels dignified or exhausting. Whether innovation spreads opportunity or concentrates power. Whether rivers stay clean or slowly fill with waste. Whether prices feel fair or predatory. Whether growth lifts many people, or only a few.

Microeconomics is usually taught as the study of individual behaviour. How consumers choose. How firms set prices. How markets reach equilibrium. In textbooks, these decisions are presented as neutral, technical, and largely harmless. The goal is efficiency. The assumption is that if each person acts rationally, the outcome will somehow take care of itself.

This book takes a different view.

Here, microeconomics is not a collection of formulas or abstract curves. It is a way of seeing how **individual decisions interact**, reinforce one another, and accumulate into systems. It is about understanding that what feels rational at the individual level can become destructive at the collective level.

Cutting costs makes sense for one firm.

When everyone does it, wages collapse.

Maximising profit makes sense for one company.

When everyone does it, ecosystems are pushed beyond their limits.

Using technology to gain an edge feels innovative.

When everyone relies on the same tools, power concentrates and choice disappears.

None of this requires bad intentions. Most damage is done by ordinary people making reasonable decisions in environments that reward speed, scale, and short-term gains.

That is why this part of the book exists.

Not to tell you what to buy, sell, or build.

But to help you see the **hidden consequences** inside everyday economic choices.

In *Better Together*, microeconomics is not about learning how to win against others. It is about learning how our actions affect one another, often in ways we never planned. It is about recognising that prices are not just numbers, costs are not just technical constraints, and profit is not just success. They are signals. They reward certain behaviours and punish others. They quietly shape the future.

Throughout this section, you will encounter stories rather than equations. Real people rather than representative agents. Markets that feel messy, imperfect, and human. You will see how power enters through scale, how inequality emerges from cost structures, how innovation can both liberate and dominate, and how technologies like artificial intelligence are changing the very meaning of work, creativity, and value.

The aim is not to turn you into an economist.

The aim is to give you a clearer lens. So that when you act as a consumer, a worker, an entrepreneur, a manager, or a citizen, you can recognise that your micro decisions are never isolated. They are part of a larger conversation. A conversation about fairness, sustainability, dignity, and the kind of future we are building together.

With that in mind, let us begin where all economics truly begins.

With the individual.

48.

WHAT MICROECONOMICS BECOMES IN BETTER TOGETHER

In most books, microeconomics is presented as a neutral science. Firms maximise profit. Consumers maximise satisfaction. Markets are assumed to work best when left alone, and efficiency is treated as the ultimate goal. The message is subtle but powerful. If everyone follows their own interest rationally, the outcome will be good enough.

This book does not reject microeconomics. But it does reject the idea that microeconomic decisions are neutral.

In *Better Together*, microeconomics becomes the study of **consequences**.

It asks not only what is rational for one individual or one firm, but what happens when similar decisions are repeated across millions of people, firms, and countries. It asks how incentives shape behaviour, and how behaviour, over time, shapes inequality, environmental damage, market power, and social trust.

Here, pricing is not just about covering costs or beating competitors. It is about access, fairness, and exclusion. A low price can be efficient, but it can also hide unpaid environmental costs or underpaid labour. A high price can signal quality, but it can also lock people out of essential goods.

Costs are not just technical constraints. They reflect choices. When firms minimise costs by outsourcing production, using cheaper materials, or automating labour, they are not simply being efficient. They are shifting burdens, often onto weaker workers, poorer countries, or future generations.

Profit is not treated as a moral failure, but neither is it treated as the ultimate measure of success. Profit tells us who has power in the market, who can survive, and who can grow. But profit maximisation, pursued without limits, has helped create a world where ecosystems are exhausted, inequality widens, and a handful of firms dominate entire industries.

Scale matters. Big markets and big firms can reduce costs dramatically by producing at very large quantities. This is often celebrated as progress. Yet the same logic explains why small producers disappear, why local diversity fades, and why economic power becomes concentrated in a few hands. What looks efficient from a distance can feel suffocating up close.

Technology, especially artificial intelligence, sharpens these tensions. AI reduces costs, accelerates production, and allows firms to operate at unprecedented scale. It also weakens the link between work and income, creativity and reward, innovation and inclusion. In a world where marginal costs approach zero and algorithms shape prices, the old assumptions of microeconomics can no longer be taken for granted.

This is why microeconomics in this book is inseparable from ethics.

Not ethics as moral preaching, but ethics as responsibility. Responsibility for understanding that every micro decision sends a signal. It rewards certain behaviours and discourages others. It shapes the rules of the game, often invisibly.

When millions of consumers choose the cheapest option, they reward cost cutting.

When millions of firms chase maximum profit, they reward extraction.

When technologies are adopted without boundaries, they reward concentration of power.

None of this happens because people are cruel. It happens because systems amplify individual incentives.

The purpose of this section is to make those amplifications visible.

To show how demand and supply are not just curves, but voices with unequal volume.

To show how pricing power emerges, and why some people are price takers while others set the rules.

To show how competition can foster innovation, but also destroy cooperation.

To show how efficiency wages, fair pricing, and responsible design can change outcomes without abandoning markets altogether.

Microeconomics, understood this way, becomes a civic skill. It helps us recognise when “rational” choices are quietly pushing us in the wrong direction, and when small adjustments can make systems more humane, more resilient, and more fair.

This is the spirit in which the chapters that follow are written.

Not to teach you how to win at the market.

But to help us understand how to live with one another, through the market, without destroying the future we share.

49.

LEARNING MARKETS THE HARD WAY: CHOICE, UNCERTAINTY, AND INSTITUTIONS

Let us begin with something deceptively simple: a choice.

Imagine you are a university student approaching graduation. You may have an idea for a business that has been forming quietly in your mind for months, or you may have no idea at all. Perhaps what drives you is not ambition but necessity. Rent must be paid. Bills arrive regardless of long-term plans. Life does not pause while you figure yourself out. At some point, you face a decision: do you look for work, or do you try to create something of your own?

This moment matters more than it appears. It is easy to describe it as a private decision, an individual problem to solve. But in reality, this small choice sits at the intersection of markets, institutions, and political systems. Whether entrepreneurship is a realistic option for you depends not only on your creativity or effort, but on the environment you operate in. Are contracts enforced? Is property protected? Is failure treated as a learning process or as a permanent stigma? Are rules clear, predictable, and applied equally?

Now pause and consider how many people around the world are making a similar decision at this exact moment. Millions wake up each day thinking, “I need to create something.” In societies where democratic institutions function well, where the rule of law is respected and entry into markets is open, this impulse becomes a source of innovation and shared prosperity. In societies where power is arbitrary, corruption widespread, or failure punished harshly, the same impulse can turn into fear, informality, or quiet withdrawal from economic life altogether.

This is where microeconomics begins to look very different from how it is often presented. In textbooks, entrepreneurship is frequently reduced to curves, cost functions, and profit maximisation. Entry and exit are assumed to be frictionless. But in real life, entry into a market is a political and institutional achievement. The ability to try, fail, restart, and try again is not guaranteed. It is produced by systems that protect individual agency and limit arbitrary power.

For some, starting a business is a calculated gamble based on opportunity. For others, it is a last resort. For many, it is both at once. What unites these experiences is uncertainty. You do not know how customers will respond. You do not know whether costs will rise unexpectedly. You do not know whether competitors will appear tomorrow. This uncertainty is not a flaw in the system. It is the normal condition of economic life. Whether individuals are willing to face it depends on trust, not just in markets, but in institutions.

When people believe that effort will be rewarded fairly, that rules will not change overnight, and that mistakes will not destroy their future, they are more willing to act. When they do not, they become cautious, defensive, and short-term focused. At the micro level, this looks like risk aversion. At the macro level, it becomes stagnation.

This is why entrepreneurship cannot be separated from democratic values. The freedom to enter a market, to set prices, to negotiate contracts, and to walk away without fear are economic expressions of deeper political principles. They rely on free speech, legal equality, and institutional accountability. Without these, entrepreneurship becomes privilege rather than possibility.

So when we talk about the entrepreneur's world, we are not talking about heroic individuals operating in a vacuum. We are talking about people making small, everyday decisions inside systems that either support or suppress initiative. These decisions feel personal, but when multiplied across millions of lives, they shape the structure of entire economies.

With that framing in mind, let us turn to what these choices look like in practice.

Further reading for 49.1

- Frank H. Knight, *Risk, Uncertainty and Profit*
- Israel M. Kirzner, *Competition and Entrepreneurship*
- Douglass C. North, *Institutions, Institutional Change and Economic Performance*
- Daron Acemoglu and James A. Robinson, *Why Nations Fail*

50.

TWO STORIES OF ENTERPRISE: LEARNING, FAILURE, AND THE RIGHT TO TRY AGAIN

To see what this feels like in real life, let me share two stories about entrepreneurship in practice.

Let me share a personal story.

Just before I began my master's degree, I was in the middle of preparing for exams, gathering documents, and trying to work out how to take the next step in my education. But life does not wait for plans to settle, and neither do expenses. Rent still had to be paid. Food still had to be bought. So, like many others, I looked for a way to earn a living while moving forward.

I started a small business.

In a shopping mall near where I lived, there was an opportunity to rent one of those small carts placed in the open spaces between large brand-name stores. You have probably seen them before, selling sunglasses, phone cases, perfumes, or small accessories. Mine sold NBA and NFL caps.

It was not a grand business idea. There were no investors, no branding agency, no business plan polished for presentation. There was just a cart, some stock, and the willingness to try. Every decision was immediate and concrete. How many caps should I order this week? Which teams were selling better? Should I lower the price slightly to move stock faster, or keep it where it was and accept slower sales? When the mall was quiet, should I wait it out or rethink the product mix?

Financially, it did not make me rich. What I earned was roughly what I might have made working for someone else. But the experience was fundamentally different. I was not just earning a wage. I was learning what it means to operate within a market. Pricing was no longer a theory. Inventory was no longer an abstract cost. Customers were not demand curves, they were people who stopped, looked, hesitated, asked questions, walked away, or smiled and bought.

There were long stretches of boredom, standing there watching people pass by without stopping. And then there were brief moments of satisfaction when someone said, "I'll take this one." Those moments mattered more than the money. They were small signals that my choices had connected with someone else's needs or preferences.

What mattered even more was responsibility. Every aspect of the operation rested with me. If stock ran out, that was my fault. If prices were too high, customers disappeared. If prices were too low, the margin vanished. There was no manager to blame, no system to hide behind. This is often described as freedom, but it is a demanding kind of freedom. It comes with exposure and accountability.

When my master's programme finally began, I had to close the business. There simply was not enough time

to keep it running alongside full-time study. But I did not leave empty-handed. I walked away with experience. With an understanding of how microeconomic decisions feel when they are real, not theoretical.

That cart taught me something essential about markets that no diagram ever could. Markets are not neutral spaces where everyone competes on equal footing. They are shaped by access. I could rent that cart because the system allowed entry at a small scale. I did not need political connections, special permissions, or informal payments. The rules were clear. I paid the fee, followed the regulations, and operated openly.

This matters more than it might seem. In many parts of the world, small-scale entrepreneurship is blocked not by lack of ideas, but by barriers to entry. Licences are arbitrary. Rules change without warning. Informal payments are expected. In such environments, the kind of experiment I ran would be impossible or too risky to attempt. The result is not fewer entrepreneurs because people lack creativity, but because systems do not allow safe experimentation.

My cart did not change the economy. But multiplied across thousands or millions of similar attempts, these small ventures form the backbone of dynamic societies. They allow people to test ideas, learn from mistakes, and build confidence. They also create dignity. Even when income is modest, being able to earn through one's own effort within a fair system carries social value.

This is why micro-level opportunity is inseparable from democratic values. The freedom to try, to fail, and to exit without fear depends on predictable rules and equal treatment. Where these conditions exist, small economic experiments become learning processes. Where they do not, people retreat into informality or dependence.

So when we talk about entrepreneurship at the micro level, we are not celebrating risk for its own sake. We are examining whether societies create environments in which ordinary people can act, learn, and contribute. My cart was small. But it sat inside a system that allowed it to exist. And that system is what turns individual effort into collective progress.

When Systems Allow You to Try Again

At the same time that I was running my small cart, a close friend of mine was attempting something similar, but on a larger scale. Instead of one cart, he operated several, scattered across different shopping malls. On paper, this looked like progress. Expansion is often treated as success. More locations, more stock, more exposure. But the reality was far less stable.

He struggled. Repeatedly.

Margins were thin. Foot traffic was unpredictable. Rent was high and inflexible. Some malls were busy on weekends and empty during the week. Others suffered from poor location or changing consumer habits. Each new cart added complexity, not just opportunity. Inventory had to be managed across locations. Staff had to be supervised. Losses in one place could wipe out gains elsewhere.

Several times, he went bankrupt.

In many societies, bankruptcy is treated as a personal failure, a mark that follows you indefinitely. But where legal systems function properly, bankruptcy is something else. It is a mechanism. A way to reset, to re-

enter, to try again without being permanently excluded from economic life. My friend's story unfolded in an environment where failure did not mean social death. He could start again. That mattered.

While he was struggling, the wider environment was changing. Traditional shopping malls were losing their appeal. Online shopping was growing rapidly. New generations were changing how and where they consumed. Malls that once felt vibrant began to feel tired. Stores closed one by one. Empty windows appeared, covered with posters saying "coming soon," which often meant "nothing is coming."

For mall owners, empty shops are more than lost rent. They signal decline. Fewer visitors come. Remaining stores suffer. The atmosphere shifts. The mall becomes a place people pass through rather than linger in. This is how systems deteriorate, not through a single shock, but through cumulative withdrawal.

Most people saw this decline and walked away. My friend saw something else.

He realised that empty shops were a problem not just for him, but for the mall owners themselves. He approached the management of one mall with a proposal. He said, "You have empty stores that bring in no rent and make the place look half-alive. Let me use one of them temporarily. Not permanently. Just until you find a long-term tenant."

He added a crucial condition. There would be no long contract. If a major brand appeared and wanted the space, he would leave with one day's notice. No legal battles. No delays.

In return, he asked to pay only a symbolic rent. Something minimal. Enough to cover basic costs, but not the high rents charged to large brands. His argument was simple. The shop would be open. Lights on. Customers browsing. From the outside, it would look like business was happening. That appearance mattered.

The mall management agreed.

This agreement only worked because the institutional environment allowed flexibility and trust. Rules could be interpreted pragmatically. Contracts could be negotiated. Neither side feared arbitrary punishment. This is often invisible, but it is central to how real markets function.

He started selling low-cost clothing. Everyday items. Nothing luxurious. Nothing branded. Products people might buy on impulse. He priced them just above cost. Low margins, high volume. Because his rent was minimal, the model worked.

Customers came. The shop felt busy. The mall looked alive again. Management was pleased. They offered him another space. Then another. Soon, he repeated the same model in a second mall, then a third. What began as a temporary survival strategy turned into a scalable business model.

Eventually, he was running pop-up style stores across multiple regions. He became a millionaire.

This outcome is often misread. It is tempting to say he succeeded because he was clever or resilient. He was both. But that is not the full story. He succeeded because the system allowed repeated failure without permanent exclusion. Because entry and re-entry were possible. Because negotiation was legal, transparent, and respected.

In many countries, this story would be impossible. After the first bankruptcy, doors would close. Credit would disappear. Trust would vanish. Failure would be punished rather than treated as information. The result would not be fewer mistakes, but fewer attempts.

This is where microeconomics and democratic values meet. The right to try again is not just a legal detail. It shapes behaviour. When people know that failure will not destroy them, they take calculated risks. When they know it will, they retreat into caution or informality.

My friend did not exploit the system. He used it as it was meant to be used. He identified a failing structure, offered value to all sides, and adapted. Customers benefited. Landlords benefited. He benefited. This is what markets look like when individual initiative and institutional design reinforce one another.

And yet, when I congratulated him, I also challenged him. I suggested that what he had built was not just a profitable business model, but a foundation. A platform that could be used to create something more ambitious, something that integrates responsibility, sustainability, and long-term social value into the core of the business rather than treating them as optional extras.

He smiled and said, “I think it’s too late for me to dream that big. I’m past that phase.”

He was in his early forties.

At first glance, this sounds like a personal limitation. But it wasn’t. It reflected something deeper. His response was shaped by culture, by social expectations, and by the unwritten rules about what ambition is supposed to look like at different stages of life. In some societies, dreaming big is encouraged well into adulthood. In others, ambition is quietly narrowed over time, redirected toward stability, respectability, and staying within what feels appropriate.

This is not about lack of ability or imagination. It is about the boundaries that societies place around aspiration. Cultural norms signal when it is acceptable to take risks, when it is time to “settle,” and what kinds of goals are considered realistic or respectable. Over time, these signals become internalised. People stop not because they cannot imagine more, but because imagining more begins to feel out of place.

This is where micro decisions meet collective culture. The difference between societies is not only in the businesses they create, but in how long they allow people to think expansively about their role in the world. Some environments normalise the idea that small ventures can grow into institutions with social purpose. Others encourage success, but only up to a certain point, beyond which ambition is seen as unnecessary, disruptive, or even inappropriate.

What moves a society forward is not just economic growth. It is the cultural and institutional space to imagine better systems, and the freedom to believe that one person, one business, or one second chance can still evolve into something that serves the wider public good.

Further reading for 49.2

- Joseph A. Schumpeter, *Capitalism, Socialism and Democracy*
- Karl Polanyi, *The Great Transformation*
- Mariana Mazzucato, *The Entrepreneurial State*

51.

PROTECTION, COSTS, AND SCALE: WHY EFFICIENCY AND POWER ARE NEVER NEUTRAL

Uniqueness, Protection, and the Boundaries of Power

Once a business idea exists, another set of micro decisions immediately comes into play. These decisions are quieter than opening a shop or negotiating rent, but they are just as important. How unique is the idea? Can it be protected? And if it can, should it be?

These questions are not technical details. They shape the kind of market that will emerge and the balance of power within it. If an idea can be copied easily, competitors will appear quickly. Prices will be pushed down. Profits will be limited. Survival will depend on efficiency, speed, or scale. If an idea can be legally protected through copyright, trademarks, or patents, the picture changes entirely. Protection creates exclusivity. Exclusivity creates market power.

This is where the rule of law enters microeconomics in a very concrete way. Intellectual property rights only function where legal systems are credible, predictable, and enforced equally. Without trust in courts and contracts, originality provides little security. Ideas are stolen. Innovation retreats. People keep their knowledge hidden rather than sharing it through markets.

Consider music. Imagine you write and record a song. You upload it to a platform like Spotify, and it becomes popular. Millions of people listen to it. That song is legally yours. Others can enjoy it, but they cannot use it commercially without permission. Every time it is streamed, licensed, or played publicly, you receive recognition or income. The reward is not guaranteed because the song is “good,” but because institutions recognise and protect authorship.

Now consider a different kind of innovation. After years of research, you develop a new medical device or drug that solves a problem others could not. You apply for a patent, and it is granted. For a fixed period, often up to twenty years, no one else can legally produce or sell the same invention. During that time, you are the sole supplier. You operate in a monopoly market.

Monopoly is often treated as a bad word in economics, and for good reason. Unchecked monopoly power can lead to high prices, restricted output, and exploitation. But monopoly itself is not always the problem. The source of monopoly matters. A monopoly created by innovation and protected by transparent, time-limited legal rules is very different from a monopoly created by political favour, corruption, or force.

The COVID-19 pandemic provides a clear example. Companies such as Pfizer and Moderna developed

vaccines based on mRNA technology at unprecedented speed. Their innovations were protected by patents. This gave them exclusive production rights and substantial market power. Their profits were enormous. This raised ethical and political questions, particularly about global access and pricing. But it also highlighted a deeper tension. Without the expectation of protection and reward, such rapid innovation might not have occurred at all.

This is the delicate balance democratic societies must manage. Intellectual property rights exist to encourage innovation by allowing temporary market power. But they are legitimate only when embedded within broader systems of accountability, transparency, and public oversight. When protection becomes permanent, opaque, or disconnected from social benefit, it stops being an incentive and becomes extraction.

At the firm level, these protections shape pricing and production decisions. A monopolist does not face the same pressures as a competitive firm. The goal is not to produce as much as possible at the lowest cost. The goal is to maximise profit. This happens where marginal revenue equals marginal cost. That point often involves producing less than what would be socially optimal and charging a higher price.

This outcome is not driven by greed alone. It is built into the structure of monopoly markets. When firms have pricing power, they limit output to preserve margins. This is why legal protections must be temporary and conditional. Without limits, market power hardens into dominance.

If an idea is not protected, the logic reverses. In highly competitive markets, firms become price takers. They sell at the market price and can only influence profits by reducing costs or increasing volume. Many entrepreneurs operate in this world. It is demanding, unstable, and often unforgiving. But it also limits power concentration.

Between these extremes lies monopolistic competition. Products are similar but differentiated. Coffee shops, clothing brands, restaurants, software tools. Firms have some pricing power, but not much. Innovation here often takes the form of design, experience, branding, or identity rather than technology. Entry is relatively easy, so profits tend to be temporary. This constant pressure is what drives variety and experimentation, but also insecurity.

Each of these market structures is not just an economic category. It is a political outcome. Laws determine how easy it is to protect ideas, how long protection lasts, and how aggressively market power is regulated. Democracies face a continuous challenge: how to reward innovation without allowing dominance to undermine competition, access, or fairness.

This is why microeconomic decisions about protection and pricing cannot be separated from democratic values. The same legal system that protects a small inventor also sets boundaries on how far power can extend. When that balance is lost, markets stop serving society and begin serving only those who already hold advantage.

Understanding this is essential for anyone building a business, managing innovation, or designing policy. Market power is not inherently evil, but it is never neutral. It must be justified, limited, and accountable if it is to contribute to shared prosperity rather than erode it.

Costs, Scale, and the Meaning of Efficiency

Once questions of uniqueness and market power are settled, entrepreneurs face another set of decisions that appear technical, but are anything but neutral. How much should be produced? How large should the operation become? And how should costs be managed along the way?

At first glance, cost control sounds simple. Lower costs mean higher profits. But the path from production to profit is not linear. When a business begins operating, increasing output often reduces average cost. Fixed costs such as rent, machinery, software, or licences are spread over more units. This is what economists call economies of scale. It is one of the reasons firms seek to grow.

In the early stages, scaling up often feels like progress. Processes become smoother. Suppliers offer better terms. Workers specialise. Each additional unit costs less to produce than the one before. From the outside, this looks like pure efficiency. From the inside, it feels like momentum.

But economies of scale do not continue forever. Every firm eventually reaches a point where costs stop falling. This is the minimum point on the average cost curve. Beyond this point, further expansion can leave costs unchanged for a while, a phase known as constant returns to scale. And then, if growth continues, costs begin to rise.

This is where diseconomies of scale emerge. Coordination becomes harder. Communication breaks down. Decision-making slows. Managers spend more time monitoring than innovating. Workers feel less visible and less valued. Mistakes increase. What once felt efficient begins to feel heavy.

These rising costs are not simply technical failures. They reflect organisational choices. How much autonomy do workers have? How is information shared? Are decisions centralised or decentralised? Is speed valued over care? Is growth pursued for its own sake, or for a purpose?

This is why cost curves are not just diagrams. They represent lived realities inside firms. When costs rise because coordination fails or morale drops, it tells us something about how people are treated and how power is organised.

Now comes the crucial distinction. Firms do not aim to minimise costs. They aim to maximise profit. This difference matters.

In competitive markets, firms often produce near the lowest point of their cost curve because price is given. Producing more or less would reduce profit. In markets with pricing power, however, the logic changes. A monopolist or differentiated firm compares marginal cost with marginal revenue and produces where they are equal. This point may be well above the minimum cost level.

In practical terms, this means firms with market power deliberately produce less than they could. They restrict output to keep prices high. This is not irrational. It is exactly what profit maximisation requires. But it has consequences. Fewer goods are produced. Prices rise. Access is limited.

This gap between what is privately optimal and what is socially efficient lies at the heart of many economic tensions. It explains why some essential goods remain scarce despite available capacity. It also explains why regulation, competition policy, and public provision exist in democratic societies.

Cost decisions also shape work. A firm that cuts costs aggressively may reduce wages, training, or job

security. In the short term, this may raise profits. In the long term, it can undermine productivity, loyalty, and quality. Efficiency achieved by exhausting people is rarely sustainable.

Other firms choose a different path. They accept higher costs in exchange for stability, skill, and trust. They invest in training. They pay slightly more. They allow mistakes without punishment. These choices show up in the cost structure, but they also show up in the experience of work and in the quality of output.

This is where microeconomics connects to dignity. Cost curves do not tell us how costs are reduced. They do not show whether savings come from innovation, exploitation, or cooperation. Yet those differences matter enormously for the kind of society markets produce.

Scale also has environmental implications. Large-scale production can reduce resource use per unit, but it can also lock firms into rigid systems that resist change. Smaller operations may be less efficient in narrow cost terms, but more flexible and responsive to local needs. Again, there is no neutral choice. Each path reflects priorities.

When businesses chase scale without purpose, they often become fragile. When they grow with intention, aligned with clear values, scale can support resilience and social benefit. The difference lies not in the curve, but in the choices made along it.

Understanding costs and scale, then, is not about memorising shapes on a graph. It is about recognising that efficiency is a social outcome. It reflects how firms organise people, distribute power, and balance short-term gain against long-term sustainability.

These decisions may feel internal to the firm. But multiplied across the economy, they determine how work feels, how resources are used, and whether growth supports shared prosperity or deepens inequality.

Scale, Market Size, and Why Some Economies Compete and Others Struggle

So far, we have talked about economies of scale as if they were simply a feature of firm behaviour. Produce more, spread fixed costs, lower average cost. In theory, this logic applies everywhere. In practice, it depends on something far bigger than the firm itself: the size of the market.

Economies of scale are not achieved automatically. They require demand. A firm can only move down its cost curve if it can sell enough output to reach the point where average costs are lowest. That point might require producing tens of thousands, millions, or even billions of units. If the market is too small, the firm never reaches it.

This is where geography, population, and market integration enter microeconomics.

In large countries with big domestic markets, firms can often achieve efficient scale without ever selling abroad. A company operating in the United States, China, or India may reach the lowest point of its cost curve simply by serving domestic consumers. High fixed costs can be spread widely. Unit costs fall. Prices become competitive. These firms can then enter international markets from a position of strength.

Now contrast this with a small country.

Imagine a firm operating in a country with a population of a few million. Even if it captures a large share of the domestic market, total demand may still be far below what is needed to reach minimum efficient

scale. Average costs remain high. Prices remain uncompetitive. The firm is not inefficient because it is poorly managed. It is inefficient because the market is too small.

This creates a structural disadvantage.

When firms in small markets attempt to compete internationally, they face rivals whose costs are already lower simply because they operate at scale. Even if the smaller firm is innovative, well run, and productive, it may struggle to survive. This is not a failure of entrepreneurship. It is a constraint imposed by market size.

This insight explains why access to larger markets is economically transformative. Trade agreements, customs unions, and common markets are not just about exporting more. They are about allowing firms to reach scale. By expanding the effective size of the market, integration allows firms to move down their cost curves, invest in better technology, and compete on price and quality.

This is one of the strongest economic arguments for cooperation between countries.

When markets fragment, firms are trapped at suboptimal scale. When markets integrate, firms gain room to grow. This is why small open economies often depend heavily on export access. Without it, many industries simply cannot exist at competitive cost levels.

The European Single Market is a clear example. By removing barriers between national markets, it allowed firms in smaller countries to operate as if they were serving a continental economy. This made it possible to justify large fixed investments, advanced manufacturing, and specialised production. Without such integration, many of these firms would never have reached efficient scale.

The same logic applies in reverse. When countries retreat behind borders, impose trade barriers, or politicise market access, firms lose scale. Costs rise. Variety shrinks. Innovation slows. What looks like protection at the national level often becomes inefficiency at the firm level.

This is where microeconomics meets democratic choice. Market size is not a natural fact. It is shaped by political decisions about openness, cooperation, and rule-based exchange. Choosing to integrate markets is choosing to allow firms and workers to benefit from scale. Choosing isolation limits those possibilities.

Economies of scale, then, are not just a technical feature of production. They are a collective achievement. They depend on trust between societies, predictable rules, and willingness to cooperate beyond borders.

And this brings us directly to the next question. If firms operate in markets where scale, competition, and strategy differ so dramatically, how do they behave when there are many rivals, a few powerful rivals, or none at all?

That is where market structure comes in.

Further reading for 49.3

- Joseph E. Stiglitz, *The Price of Inequality*
- Thomas Piketty, *Capital and Ideology*
- Lina M. Khan, “Amazon’s Antitrust Paradox”

52.

MARKET STRUCTURE, STRATEGY, AND RESPONSIBILITY: FROM COMPETITION TO COLLECTIVE FUTURES

So far, firms have often appeared as if they make decisions in isolation. Costs are analysed. Scale is chosen. Markets are entered or exited. But in many real-world settings, especially where only a few firms dominate, this picture breaks down. Firms do not simply respond to prices or demand. They respond to one another.

This is where strategic interaction becomes central to microeconomics.

In markets with many competitors, individual firms can often ignore what others do. But in markets with only a few powerful players, every decision is shaped by expectations. What will rivals do if prices change? How will they respond to innovation? Will they retaliate, imitate, or withdraw? In such environments, there is no single best decision in isolation. Every move depends on how others are expected to react.

Game theory studies precisely these situations. It examines settings in which outcomes depend not only on one's own choices, but also on the choices of others. This is not a marginal case. It is the normal condition of oligopolistic markets.

Consider a simple example. Two cafés face each other on a busy street. Each must decide whether to keep prices high or cut them. If one café cuts prices while the other does not, it may gain customers. But if both cut prices, profits collapse for both. Each café faces a dilemma. Cutting prices seems attractive, yet mutual price cutting leaves everyone worse off.

No one intends to destroy profits. It happens because individual incentives do not align with collective outcomes.

This type of strategic tension appears repeatedly in real markets. Airlines monitor ticket prices on the same routes. Supermarkets track promotions by rivals. Mobile phone providers observe contract terms offered elsewhere. A small adjustment by one firm can trigger reactions across an entire industry.

Importantly, these interactions are rarely one-off events. Firms meet each other again and again. Today's behaviour influences tomorrow's response. Over time, patterns emerge. Aggressive competition may give way to stability. Firms may avoid provoking one another. Prices may move together. Innovation may slow or become defensive rather than transformative.

Economists describe this as tacit coordination. It does not require secret meetings or explicit agreements. It emerges through observation, learning, and shared interest in avoiding mutually damaging outcomes. From

the firm's perspective, this behaviour is often rational. From society's perspective, it raises concerns about reduced choice, higher prices, and concentrated power.

Strategic behaviour also involves commitment and signalling. A firm that invests heavily in capacity, technology, or branding is not only increasing production. It is sending a message to rivals. It is signalling seriousness, long-term presence, and willingness to compete. These signals shape expectations and alter how competitors behave.

New entrants can disrupt these strategic equilibria. When a newcomer behaves unpredictably, accepts lower margins, or expands aggressively, existing players are forced to respond. Entire markets can be reshaped, not because technology changes, but because the rules of interaction change.

Yet strategic games are never played on a blank canvas. Institutions matter.

Competition law, transparency rules, and regulatory oversight exist because strategic interaction can produce outcomes that harm the public even when firms behave rationally. Without constraints, firms may collude, exclude rivals, or lock in dominance. With rules, competition can remain dynamic without becoming destructive.

This balance is fragile and deeply political. It reflects choices about how much power society is willing to tolerate in private hands. It also reflects beliefs about whether markets should serve consumers and workers, or primarily protect incumbents.

Game theory, then, is not just about calculation. It is about trust, fear, reputation, and expectation. Firms punish deviation. They reward cooperation. These dynamics resemble social interaction more than mechanical optimisation. Markets function not only through prices, but through norms and repeated relationships.

Understanding strategic interaction helps explain why markets sometimes deliver cooperation and sometimes conflict. It shows why individually rational behaviour can generate collectively poor outcomes. And it explains why governance is not an external add-on to markets, but a condition for their functioning.

At this point, the focus widens.

Up to now, we have examined strategy, power, and interaction largely in economic terms. But micro decisions do not stop at prices or profits. They spill outward into the environment, working conditions, communities, and long-term social outcomes.

Every business decision carries consequences beyond the firm. Choices about materials, sourcing, product design, durability, and labour practices shape entire production systems. Each decision may seem small and reasonable in isolation. Taken together, they define the world people live in.

Traditional microeconomics often struggles here. If each firm focuses solely on minimising costs and maximising profit, outcomes can become destructive without any malicious intent. Pollution accumulates. Workers burn out. Communities weaken. Shared resources are depleted. These outcomes emerge not because individuals are bad, but because incentives are misaligned.

Markets are powerful at allocating private goods. They are weak at protecting shared ones.

Clean air, stable climates, social trust, and human dignity do not belong to any single firm. When businesses are not required to account for the costs they impose on others, those costs accumulate silently. This is why

sustainability cannot be treated as a side issue or a branding choice. It must be embedded in everyday micro decisions.

Some firms choose to design products that last longer, even if this reduces short-term sales. Others invest in fair wages, training, and job security, accepting higher costs in exchange for loyalty, skill, and stability. Some invest in cleaner production methods, sacrificing short-term margins to reduce long-term risk.

These choices are easier to make when rules support them. Environmental regulation, labour standards, transparency requirements, and accountability mechanisms level the playing field. They ensure that responsible behaviour is not punished. In democratic societies, such rules are not constraints on markets. They are conditions that allow markets to function without destroying their own foundations.

At the micro level, responsibility often begins with simple questions. Can production be organised differently? Can sourcing be improved? Can work be structured with dignity in mind? These questions rarely have easy answers. But asking them changes behaviour. It shifts firms from extraction toward stewardship.

This also changes how success is defined. Profit remains necessary. Firms must survive. But survival alone is not enough. Businesses that ignore social and environmental consequences may grow quickly, only to collapse under regulatory backlash, reputational damage, or resource scarcity. Firms that think long-term often grow more slowly, but with greater resilience.

For entrepreneurs and managers, this means recognising that every decision sits within a larger system. Choosing the cheapest supplier may increase margins today while undermining labour standards tomorrow. Scaling rapidly may impress investors while locking firms into rigid, unsustainable practices. Aggressive competition may win market share while eroding trust and cooperation.

This is where the idea of being better together becomes concrete.

Markets work best when individual initiative aligns with collective well-being. This alignment does not occur automatically. It requires institutions, norms, and shared values that guide behaviour beyond narrow self-interest. Democratic societies are uniquely positioned to support this alignment through debate, regulation, and collective choice.

Seen in this way, microeconomics is not about teaching people how to win against others. It is about understanding how everyday decisions accumulate into social outcomes. Markets are not separate from society. They are one of the primary ways society organises itself.

Strategy, pricing, scale, and competition all matter. But they matter most when guided by responsibility and accountability. When micro decisions are made with awareness of their wider impact, markets become tools for collective progress rather than engines of division.

That is the core message of this section. Individual choices matter. But they matter most when embedded in systems that allow people to thrive together.

53.

WHY ADVERTISING WORKS (SOMETIMES)

Persuasion, Power, and the Shaping of Choice

Once a product exists and a price has been set, a new question appears. How do people find out about it? And more importantly, how do they come to want it?

Advertising is often presented as a simple tool. You show people what you sell, and if they like it, they buy it. In this view, advertising is informational. It helps markets work more smoothly by reducing ignorance.

Sometimes this is true.

But very often, advertising does much more than inform. It shapes perception, frames choices, and quietly influences how people think about value, status, and even themselves. That is why advertising sits at the centre of microeconomics, psychology, and power.

Consider a simple case. Someone selling grilled corn on a beach. Ten sellers line the same stretch of sand. The product is identical. The smell carries across the crowd. Prices are visible. In this setting, advertising makes little sense. No slogan will convince someone that your corn is fundamentally different. What matters is location, timing, and visibility. Being seen is enough.

Now contrast this with a small producer making something distinctive. Hand-stitched leather bags, specialty coffee, independent music, or locally produced food. Here, advertising is not about shouting louder. It is about telling a story. About communicating identity, craft, care, and meaning.

In these markets, advertising helps create differentiation. It explains why two objects that look similar can command very different prices. One is just a product. The other carries narrative, emotion, and symbolism.

This is where advertising begins to blur the line between information and persuasion.

Advertising works best when products are not easily compared. When quality is subjective. When experience matters more than measurable features. In these cases, consumers cannot simply calculate value. They rely on cues. Images. Brands. Recommendations. Familiar names.

Firms understand this. Over time, advertising has evolved from description to psychology. It no longer asks, “What does this product do?” It asks, “Who are you if you buy it?”

At this point, microeconomics stops being neutral.

Advertising does not affect all firms equally. Large firms benefit disproportionately. They can afford repeated exposure. They can saturate attention. They can make their brand feel familiar, and familiarity feels like trust. Smaller firms struggle to compete, even when their products are better, because attention itself becomes a scarce resource.

This is one of the quiet ways power enters markets. Not through price or quality alone, but through visibility.

Advertising also interacts with behaviour in subtle ways. Repetition makes claims feel true. Scarcity messages create urgency. Anchoring frames prices as bargains. Emotional association transfers feelings from image to product. None of this requires deception. It works because human attention is limited and decision-making is contextual.

From a democratic perspective, this matters. If markets reward those who can shape perception rather than those who deliver value, outcomes shift. Choice remains, but it becomes guided. People feel free, yet their preferences are quietly nudged.

This does not mean advertising is inherently bad. In many cases, it supports creativity, funds media, and helps new ideas spread. But it does mean that advertising is never neutral. It shapes demand as much as it responds to it.

This is why regulation enters the picture. Rules around false claims, political advertising, data use, and targeting exist because persuasion can easily cross into manipulation. In democratic societies, the goal is not to silence firms, but to protect the conditions under which choice remains meaningful.

Advertising becomes especially powerful when combined with data. Platforms can target messages based on behaviour, mood, or vulnerability. What once reached everyone now reaches individuals. The message adapts. The market fragments. The line between persuasion and influence becomes harder to see.

At the micro level, firms decide whether to advertise, how much to spend, and what tone to use. At the macro level, these choices shape culture, attention, and trust. When advertising dominates public space, voices with fewer resources struggle to be heard. When persuasion overwhelms information, markets may remain active but less honest.

This brings us back to the core argument of this book. Micro decisions matter not only because they affect profit, but because they shape the environment in which everyone chooses. Advertising can support informed choice, or it can distort it. Which outcome prevails depends on incentives, institutions, and values.

Understanding why advertising works, and when it should be limited, is not about rejecting markets. It is about recognising that markets function best when persuasion does not overpower autonomy.

Further Reading and Exploration

Advertising, persuasion, and consumer behaviour

- **George Akerlof and Robert Shiller**, *Phishing for Phools*

Shows how markets systematically exploit psychological vulnerabilities rather than merely satisfying preferences.

- **Robert Cialdini**, *Influence*

Classic work on persuasion mechanisms used in marketing and everyday life.

Behavioural economics and framing

- **Daniel Kahneman**, *Thinking, Fast and Slow*
Explains cognitive biases that advertising frequently exploits.
- **Amos Tversky and Daniel Kahneman**, “Judgment under Uncertainty”
Foundational paper on heuristics and framing effects.

Power, media, and democracy

- **Shoshana Zuboff**, *The Age of Surveillance Capitalism*
Examines how data-driven advertising reshapes autonomy and democratic choice.
- **Jürgen Habermas**, *The Structural Transformation of the Public Sphere*
Analyses how commercialisation affects public debate and democratic discourse.

Regulation and responsibility

- **Cass Sunstein**, *The Ethics of Influence*
Explores when nudging becomes manipulation and how democratic societies should respond.
- **OECD**, *Consumer Policy and Behavioural Economics*
Policy-oriented discussion of protecting consumers without banning markets.

54.

HOW BEHAVIOURAL ECONOMICS CHANGED THE RULES OF THE MARKET

Heuristics, Nudges, and the Quiet Power of Choice Architecture

For a long time, economics assumed that people make decisions by weighing costs and benefits. If advertising worked, it was because it conveyed useful information. If prices changed behaviour, it was because people responded rationally.

Behavioural economics challenges this picture.

It begins with a simple observation. Humans do not have unlimited attention, time, or cognitive capacity. We live busy lives. We rely on shortcuts. We simplify. These shortcuts, known as heuristics, help us function in a complex world, but they also make us predictable.

One of the most powerful heuristics is anchoring. The first number we see becomes a reference point. A price reduced from one hundred to seventy feels like a bargain, even if seventy is still high. Advertising uses anchors constantly. “Was £100, now £70” works even when £100 was never a serious price.

Another key heuristic is availability. Events and images that are vivid or repeated feel more likely and more important. This is why advertising relies on repetition. Familiar brands feel safer, not because they are better, but because they are known.

Then there is loss aversion. People experience losses more strongly than gains. Avoiding a loss feels more urgent than achieving a gain of the same size. Advertising phrases like “don’t miss out” or “last chance” exploit this asymmetry. The fear of losing an opportunity drives action more than the promise of benefit.

Behavioural economics also highlights framing. The same information can produce different decisions depending on how it is presented. A yoghurt described as “90 percent fat free” feels healthier than one described as “10 percent fat”, even though they are identical. Advertising is, at its core, an exercise in framing.

Choice overload is another insight. When people face too many options, they often freeze, delay, or default to familiar brands. In these situations, firms that dominate attention gain advantage, not because they offer better value, but because they simplify choice.

These patterns reveal something uncomfortable. Markets do not merely respond to preferences. They shape them. Firms that understand heuristics can design environments where certain choices become easier than others.

This is known as choice architecture. Shelves, website layouts, default options, subscription settings, and recommendation algorithms all influence behaviour without removing freedom. People can still choose, but the path is guided.

This raises ethical and democratic questions.

If firms know that consumers are biased, should they be allowed to exploit those biases? At what point does persuasion become manipulation? When does nudging cross into steering?

Behavioural insights can be used for good. They can encourage saving, healthier eating, or lower energy consumption. But they can also be used to extract value from inattention, fatigue, or fear. In digital markets, where data allows personalised nudges, the power imbalance grows even further.

This is why behavioural economics strengthens, rather than weakens, the case for democratic oversight. Freedom of choice does not disappear when people are biased. It becomes more fragile. Protecting autonomy requires transparency, accountability, and limits on exploitation.

In the context of this book, behavioural economics forces us to rethink what it means for markets to be free. A market is not free simply because no one is forced. It is free when people can choose without being systematically misled, overwhelmed, or quietly steered.

Understanding heuristics does not make us immune to them. But it gives us awareness. And awareness is the first step toward building markets that work *better together*, not by denying human psychology, but by respecting it.

Further Reading and Exploration

Behavioural foundations

- **Herbert Simon**, “A Behavioral Model of Rational Choice”
- **Daniel Kahneman and Amos Tversky**, “Prospect Theory”

Nudges and choice architecture

- **Richard Thaler and Cass Sunstein**, *Nudge*
- **Cass Sunstein**, *The Ethics of Influence*

Markets, manipulation, and power

- **George Akerlof and Robert Shiller**, *Phishing for Phools*
- **Shoshana Zuboff**, *The Age of Surveillance Capitalism*

55.

WHEN ALGORITHMS DECIDE FOR US

AI-Driven Persuasion, Personalisation, and the Future of Choice

Behavioural economics revealed that humans rely on shortcuts. Artificial intelligence takes this insight and scales it beyond anything earlier economists could imagine.

Traditional advertising spoke to crowds. AI-driven advertising speaks to individuals.

Every click, pause, scroll, purchase, search, or hesitation becomes data. Algorithms do not need to understand you as a person. They only need to recognise patterns. Over time, they learn which images trigger attention, which words create urgency, which prices feel acceptable, and which moments make you vulnerable to influence.

This is not science fiction. It is how modern markets already operate.

Platforms do not simply show adverts. They predict behaviour. They test variations constantly. Thousands of messages are tried simultaneously, adjusted in real time, and refined based on response. The message you see is not chosen because it is informative, but because it is statistically effective for someone like you, at that moment.

From a microeconomic perspective, this changes the nature of demand.

Demand no longer reflects stable preferences waiting to be discovered. It becomes something that is actively shaped. What people want is influenced by what algorithms decide to show them. The boundary between preference and persuasion blurs.

AI does not just respond to heuristics. It learns them.

If loss aversion works, the system amplifies it.

If scarcity increases clicks, scarcity is simulated.

If emotional content spreads faster, emotion is prioritised.

Over time, markets become optimised not for welfare, truth, or quality, but for engagement.

This creates a new form of power.

Large firms gain an advantage not simply because they produce better goods, but because they control data, infrastructure, and attention. Smaller firms struggle to compete, not on price or quality, but on visibility. Entry barriers rise silently. Markets appear competitive on the surface, while becoming increasingly concentrated underneath.

For consumers, choice remains formally intact. No one is forced to buy. Yet choices are filtered, ranked, nudged, and framed before they ever appear. What feels like freedom is often a carefully designed path.

This raises a profound democratic question.

If citizens' preferences are continuously shaped by opaque systems optimised for profit, can markets still be said to reflect collective will? Or do they increasingly reflect the objectives of those who design and control the algorithms?

AI-driven persuasion also affects politics, culture, and public discourse. The same tools used to sell products can be used to sell ideas, identities, and fears. When persuasion becomes personalised, shared reality weakens. People no longer respond to common messages, but to tailored narratives that reinforce existing beliefs.

This fragments society.

From the perspective of *Better Together*, this is a critical turning point. Markets and democracies both depend on trust, transparency, and shared understanding. When influence becomes invisible and asymmetric, those foundations erode.

None of this implies that AI must be rejected. Like all technologies, its effects depend on governance.

AI can be used to support better choices. It can highlight sustainable options, reduce waste, personalise learning, or help consumers compare products honestly. But this requires rules. Transparency about targeting. Limits on manipulation. Accountability for outcomes.

Democratic societies face a choice.

They can treat AI-driven persuasion as a private optimisation problem, leaving firms free to extract value from attention and bias. Or they can treat it as a collective issue, recognising that autonomy, dignity, and trust are public goods that markets alone will not protect.

At the micro level, firms decide how far to push behavioural insights. At the macro level, societies decide where persuasion ends and manipulation begins.

This is not a technical question. It is a moral and political one.

And it brings us back to the central theme of this book. Markets work best when individual initiative is aligned with collective well-being. AI makes misalignment easier. Governance makes alignment possible.

Understanding AI-driven persuasion is therefore not optional. It is essential for anyone who wants to participate responsibly in modern markets, whether as a consumer, entrepreneur, manager, or citizen.

Because when algorithms learn how to influence us better than we understand ourselves, protecting freedom requires more than choice. It requires awareness, institutions, and shared responsibility.

Further Reading and Exploration

AI, persuasion, and behavioural targeting

- Zuboff, S., *The Age of Surveillance Capitalism*
- Varian, H., "Artificial Intelligence, Economics, and Industrial Organisation"

Behavioural manipulation and ethics

- Akerlof, G. and Shiller, R., *Phishing for Phools*
- Sunstein, C., *Too Much Information*

Markets, democracy, and digital power

- Khan, L. M., “Amazon’s Antitrust Paradox”
- Acemoglu, D. and Johnson, S., *Power and Progress*

Regulation and governance

- OECD, *AI, Data Governance and Privacy*
- EU Commission, *Digital Markets Act and Digital Services Act*

56.

IT ALL COMES DOWN TO PRICE

There is a story that captures just how powerful, and sometimes dangerous, pricing can be.

A man decided to sell a simple product on Amazon. It was practical, affordable, and easy to ship. He spent time preparing the listing, choosing the right photos, writing a clear description, and setting a price he believed was fair. Then he waited.

Nothing happened.

No orders. No clicks. No reviews. It was as if the product did not exist.

He checked the page repeatedly. He adjusted the description. He refreshed the images. Still nothing. The product was lost in the noise. Invisible.

Someone suggested lowering the price. In fact, they suggested something more radical. Make it free. Just for a short time. The idea was simple. People would try it, leave reviews, and the algorithm would notice. Visibility would follow. Once the product had momentum, the price could be raised again.

He tried it.

He changed the price to zero and saved the settings. Then he went to bed.

The next morning, everything was gone.

Every unit of inventory had been claimed overnight. Not one sale had generated revenue. The price change had not gone live immediately. For hours, the product remained invisible. Then, sometime during the night, it appeared. And when it did, people did what people always do. They took what was free.

By the time he noticed, it was too late.

He later described it as the most expensive lesson he never meant to learn.

This story is not about incompetence. It is about how price functions as a signal.

Price tells people whether something exists, whether it matters, whether it is trustworthy, and whether it is worth attention. It is not simply a number. It is information, psychology, and power combined.

In theory, price reflects cost and demand. In practice, price shapes perception. Too high, and people walk away. Too low, and they become suspicious. Free does not mean generous. It often means worthless, risky, or temporary.

This is why pricing decisions sit at the centre of microeconomics. They connect production to consumption. They translate internal cost structures into external signals. And they quietly organise who gets access and who does not.

Price also disciplines behaviour. For firms, it determines revenue, survival, and strategy. For consumers,

it determines affordability, substitution, and choice. But price does something else as well. It communicates values.

A firm that prices aggressively low may win market share, but it may also squeeze suppliers and workers. A firm that prices high may signal quality, but also exclusion. A firm that constantly discounts may train customers to wait, eroding trust in its own products.

None of these outcomes are neutral.

In markets where products are identical, price becomes the main battlefield. In markets where products differ, price interacts with identity, reputation, and story. In digital markets, price can be adjusted instantly, personalised, or hidden behind subscriptions and bundles. What looks simple becomes complex very quickly.

Pricing also reflects power. Firms with market power can charge more, not because costs are higher, but because alternatives are limited. Firms without power must accept prices set by others, even when those prices barely cover costs. This asymmetry shapes who survives and who disappears.

From a democratic perspective, this matters. Prices influence access to housing, healthcare, education, energy, and mobility. When pricing is left entirely to market power, inequality widens. When pricing is regulated without care, shortages can appear. The balance is delicate.

This is why price cannot be treated as a purely technical outcome. It is a social institution. It reflects rules, norms, competition, and enforcement. It is shaped by policy, not just preference.

Understanding price means understanding incentives. It means recognising that behind every number is a decision, and behind every decision is a set of priorities. Short-term profit or long-term trust. Volume or quality. Inclusion or exclusion.

In the sections that follow, we will look more closely at how people respond to price changes, why some prices provoke strong reactions while others barely register, and how firms use pricing strategies to influence behaviour.

Because if there is one thing markets reveal again and again, it is this. Price is never just what something costs. It is what it means.

Further Reading and Exploration

Price as signal and strategy

- **Michael Spence**, “Job Market Signaling”
- **Avinash Dixit**, *The Making of Economic Policy*

Behavioural responses to price

- **Daniel Kahneman and Amos Tversky**, *Prospect Theory*
- **Richard Thaler**, *Misbehaving*

Power, access, and pricing

- **Joseph E. Stiglitz**, *People, Power, and Profits*
- **Ha-Joon Chang**, *Economics: The User's Guide*

57.

PRICING AS STRATEGY: FROM LAUNCH TO MATURITY

By now, it should be clear that price is not simply a response to costs or demand. It is a decision. And like all important decisions, it is made with a purpose.

Firms do not choose prices once and forget about them. They design pricing strategies that evolve over time, responding to uncertainty, competition, learning, and power. What makes sense at the beginning of a product's life may be disastrous later on. What feels ethical in one context may feel exploitative in another. Pricing is dynamic, not static.

To understand how firms use price strategically, it helps to think about the life of a product.

Pricing at launch: gaining entry or signalling value

When a new product enters the market, uncertainty is everywhere. Firms do not yet know how consumers will respond. Consumers do not yet know whether the product is trustworthy or valuable. Price becomes one of the first signals exchanged between them.

One common approach is penetration pricing. The firm sets a low initial price to attract users quickly, build visibility, and gain market share. This strategy is common in digital platforms, subscription services, and network-based products, where value increases as more people join. A low price reduces hesitation. It invites experimentation.

Penetration pricing can feel inclusive. It lowers barriers. It allows access. But it also carries risks. Consumers may anchor their expectations around the initial low price. Later increases can feel like betrayal rather than adjustment. Firms may also struggle to raise prices once habits form, especially if competitors copy the model.

A very different approach is price skimming. Here, the firm launches with a high price, targeting early adopters who value novelty, performance, or status. Over time, prices fall as the product becomes more familiar and competition increases. This strategy is common in technology, pharmaceuticals, and electronics.

Skimming allows firms to recover research and development costs and signal quality. But it can also restrict access, at least initially. Life-saving drugs, for example, often enter the market at prices far beyond what many can afford. This raises uncomfortable questions about fairness, especially when innovation builds on publicly funded research.

Already, we see that pricing strategy is not just about revenue. It shapes who gets access first, who waits, and who may be excluded entirely.

Premium pricing: when price becomes identity

Some firms do not aim to be affordable at all. They pursue premium pricing, where high prices are part of the product itself. Luxury goods, high-end services, and elite brands use price to signal exclusivity, craftsmanship, and status.

In these cases, raising prices can sometimes increase demand. The product becomes desirable precisely because it is expensive. Price acts as a filter, selecting not just customers, but identity.

Premium pricing can support quality, durability, and skilled labour. It can allow firms to slow production, reduce waste, and invest in better materials. But it can also reinforce social divisions. When essential goods adopt premium pricing logic, inequality deepens.

The key question is not whether premium pricing exists, but where it is applied. Charging more for handcrafted shoes is different from charging more for electricity or housing. Strategy becomes ethical once price intersects with necessity.

Growth and maturity: defending position

As products gain popularity and competitors enter, pricing strategies shift. Firms may lower prices to defend market share, bundle products to lock in customers, or introduce multiple versions to capture different segments.

At this stage, price is often used defensively. Firms watch rivals closely. A small price cut by one firm may trigger responses from others. In concentrated markets, prices may move together, not because of explicit coordination, but because firms learn what reactions to expect.

Some firms go further and use **limit pricing**. This means setting a price low enough to discourage potential entrants from joining the market, but not necessarily so low that the firm makes losses. The aim is strategic deterrence. An established firm may accept thinner profit margins in the short run to protect its position in the long run. The message to outsiders is simple: entering this market will not be easy or profitable.

Limit pricing is especially relevant in oligopolistic industries, where a few large firms already dominate and where new entrants face high costs, uncertainty, or retaliation. A powerful incumbent may use price not just to respond to competition, but to prevent competition from emerging in the first place.

This is where strategy meets power. Firms with strong brands, deep pockets, or loyal customers can sustain such tactics more easily than smaller rivals. Firms without these advantages are often forced to compete aggressively or stay out altogether. Over time, weaker players exit or never enter. Markets consolidate.

From a societal perspective, this process can be double-edged. Lower prices may seem beneficial to

consumers in the short run. But if those prices are designed to keep rivals out, the long-run result may be less competition, less innovation, and more concentrated power. Pricing strategy becomes a mechanism through which markets concentrate.

Decline, reinvention, or extraction

Eventually, many products reach saturation or decline. At this point, firms face another strategic choice. Do they lower prices to clear inventory? Do they reinvent the product? Or do they extract as much value as possible before exit?

Aggressive discounting can attract bargain hunters but damage brand reputation. Planned obsolescence can maintain sales but increase waste. Subscription traps and hidden fees can boost short-term profits but erode trust.

These late-stage strategies reveal a firm's priorities. Is the goal to exit responsibly, or to extract value regardless of consequence? Again, price is the tool through which this choice is expressed.

Strategy, responsibility, and the bigger picture

Across all stages, one insight stands out. Pricing strategies are not neutral. They reward certain behaviours and punish others. They shape access, influence inequality, and determine how costs and benefits are distributed.

In a narrow sense, firms are expected to maximise profit. But in a broader sense, they operate within societies that care about fairness, sustainability, and dignity. Pricing strategies that ignore these concerns may succeed briefly, but they often generate backlash, regulation, or collapse.

This is where *Better Together* offers a different lens. Pricing is not just a way to win markets. It is a way to participate in them responsibly. Firms that think beyond immediate margins often build stronger relationships, more resilient models, and greater trust.

Understanding pricing strategy, then, is not about memorising labels. It is about recognising that every price carries a message. About value. About inclusion. About what kind of economy we are choosing to build.

Further Reading and Exploration

Pricing strategy and market structure

Varian, H., *Intermediate Microeconomics* (selected chapters on pricing and strategy)

Shapiro, C. and Varian, H., *Information Rules*

Innovation, access, and ethics

Mazzucato, M., *The Value of Everything*

Stiglitz, J. E., *People, Power, and Profits*

Power, inequality, and markets

Piketty, T., *Capital and Ideology*

Chang, H.-J., *23 Things They Don't Tell You About Capitalism*

Critical perspectives

Polanyi, K., *The Great Transformation*

Sen, A., *Development as Freedom*

58.

PRICE, PLACE, AND THE PEOPLE YOU'RE SPEAKING TO

Pricing never exists in a vacuum. The same number can feel fair in one place and offensive in another. A price that signals quality in one culture can signal exploitation in another. What people are willing to pay, and how they feel about paying it, depends not only on income, but on norms, expectations, and shared understandings.

This is why price is always contextual.

Consider something simple. In some countries, bargaining is expected. Asking for a discount is part of the interaction. It is not rude, it is normal. In other places, the price on the tag is final. Asking for a lower price feels awkward, even disrespectful. The economic transaction is the same, but the social meaning is different.

Firms that ignore this often fail.

A pricing strategy that works perfectly in one market can collapse in another, not because costs or demand have changed, but because trust has been misjudged. People may suspect low prices hide poor quality. They may see high prices as arrogance. They may interpret discounts as desperation rather than generosity.

Geography matters too. A price that feels reasonable in a city with high wages and dense markets may be impossible in a rural area or a lower-income region. Firms operating across borders must constantly translate prices, not just into currencies, but into local realities.

This is why global companies rarely charge exactly the same price everywhere. Transport costs matter, but so do norms, purchasing power, and expectations of fairness. Uniform pricing can look principled, but it can also be exclusionary. Flexible pricing can look adaptive, but it can also feel discriminatory if handled poorly.

Trust sits at the centre of this balance.

When consumers trust firms, they accept variation. When trust is low, even small differences feel unjust. This is why transparency matters. Explaining why prices differ, what costs are involved, and what values guide decisions can reduce resentment and build legitimacy.

Digital markets complicate this further. Online platforms can detect location instantly. Prices can change by region, by time, even by device. What once required human judgement is now automated. From the firm's perspective, this is efficiency. From the consumer's perspective, it can feel opaque and unfair.

Again, the issue is not technology itself, but governance. When price variation is hidden, people feel manipulated. When it is explained, people feel respected. The difference lies in how power is exercised.

Pricing also reflects who firms imagine their customers to be. Are they designing prices for insiders or outsiders? For loyal communities or anonymous clicks? For long-term relationships or one-off extraction?

These choices shape markets quietly but powerfully.

From the perspective of *Better Together*, pricing across places is not just about maximising revenue. It is about recognising diversity without exploiting it. It is about adapting without fragmenting trust. It is about operating in many contexts while remaining accountable to shared principles.

In democratic societies, this is not left entirely to firms. Consumer protection rules, competition authorities, and transparency requirements exist precisely because place-based pricing can slip into abuse. Institutions step in where asymmetries become too large.

Understanding price, then, requires more than understanding numbers. It requires understanding people. Their expectations. Their histories. Their sense of fairness.

A price that ignores context may still sell, but it rarely lasts. A price that respects place builds something stronger than demand. It builds legitimacy.

And legitimacy is what allows markets to function not just efficiently, but sustainably.

Further Reading and Exploration

Culture, norms, and economic behaviour

- Sen, A., *Development as Freedom*
- Akerlof, G. and Kranton, R., *Identity Economics*

Global markets and price variation

- Rodrik, D., *The Globalization Paradox*
- Chang, H.-J., *Bad Samaritans*

Trust, fairness, and institutions

- Ostrom, E., *Governing the Commons*
- North, D. C., *Understanding the Process of Economic Change*

59.

IT ALL DEPENDS ON THE MARKET

By now, one thing should be clear. There is no single “right” price, no universal strategy, and no neutral rule that applies everywhere. Every decision about price, output, advertising, or wages only makes sense once we ask a deeper question.

What kind of market are you operating in?

Everything depends on that answer.

If you are the only seller of a product, something genuinely unique, protected by innovation, law, or natural advantage, you operate in a monopoly position. You do not have to look sideways to see what others are charging. There are no close substitutes. You set the price and decide how much to produce. Your main constraint is demand itself. If the price is too high, people may walk away entirely. But you are not forced to match anyone.

This position brings power, and power brings responsibility. Monopoly pricing can support innovation and long-term investment. It can also restrict access, inflate prices, and exclude those who cannot pay. This is why societies place limits on monopoly power, through patents that expire, regulation of natural monopolies, and competition law. Monopoly is not banned because it exists, but because unchecked power threatens fairness and trust.

At the opposite extreme lies perfect competition. Here, firms sell identical products. No one has influence. Price is given by the market. You can sell as much as you like, but only at that price. If you try to charge more, customers disappear. If you charge less, you earn nothing extra.

This world is unforgiving. Firms survive by controlling costs, improving efficiency, and operating at scale. Profits are thin. Many firms earn little more than a normal return, just enough to stay in business. Consumers benefit from low prices, but workers and suppliers often feel the pressure. When competition is intense and margins are tight, cost-cutting becomes a necessity rather than a choice.

Most real markets sit between these extremes.

In monopolistic competition, firms sell similar but not identical products. Restaurants, cafés, clothing brands, independent software tools, and personal services live here. Each firm tries to stand out. A slightly different recipe. A better atmosphere. A stronger story. This differentiation gives some pricing power, but it is fragile.

If profits appear, others enter. New competitors copy features, styles, or ideas. Entry is relatively easy. Over time, excess profits are competed away. What remains is constant pressure to adapt. Creativity is rewarded, but

stability is rare. For many people, this is the everyday experience of capitalism. Freedom to try, but no guarantee of security.

Then there is oligopoly, where a small number of large firms dominate the market. Airlines, energy suppliers, supermarkets, mobile phone networks. Here, firms cannot ignore one another. Every decision is strategic.

Cut prices too aggressively, and rivals may retaliate. Raise prices, and others may follow. Innovation becomes a signal. Investment becomes a message. Firms learn to anticipate reactions. Over time, markets can settle into quiet patterns where competition exists, but only within limits.

This is where power becomes most visible. Oligopolies shape standards, influence regulation, and control access. Consumers still have choice, but it is constrained. Prices often move together. Entry barriers rise. Without oversight, these markets can drift toward coordination that benefits firms more than society.

Across all these market structures, the same lesson repeats. Firm behaviour is shaped by the environment in which it takes place. Strategies that look aggressive in one market look passive in another. Pricing that seems fair in one structure looks exploitative in another.

This is why microeconomics cannot be separated from institutions.

Market structures are not accidents. They are shaped by law, policy, technology, and history. Decisions about patents, mergers, trade, regulation, and transparency determine how markets evolve. In democratic societies, these decisions are collective choices, not natural outcomes.

Seen through the lens of *Better Together*, markets are not arenas where individuals simply compete. They are systems that coordinate behaviour. When designed well, they balance innovation with access, efficiency with dignity, competition with cooperation. When designed poorly, they concentrate power and erode trust.

Understanding what kind of market you are in is therefore not just a business skill. It is a civic one. Entrepreneurs, managers, and policymakers all shape markets through their decisions. Recognising structure helps avoid naïve thinking. It reminds us that outcomes reflect rules, not just intentions.

In the end, it really does all depend on the market. But markets themselves depend on us.

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Institutions and market design

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60.

WHAT IF EVERY MICRO DECISION CARED ABOUT THE PLANET?

So far, we have talked about prices, markets, strategy, and competition. These can feel like business decisions, internal and technical. But none of them stop at the firm's door. Every micro decision leaves a footprint.

What to produce.

How to produce it.

Where materials come from.

How workers are treated.

What happens when the product is used, and when it is thrown away.

Each choice may look small. Together, they shape supply chains, landscapes, working lives, and the environment we all depend on.

For a long time, economics treated these consequences as external. Pollution, resource depletion, climate damage, and biodiversity loss were described as “side effects”, costs imposed on others rather than part of the firm's calculation. If firms maximised profit and consumers maximised satisfaction, the system was assumed to work overall.

Reality tells a different story.

When every firm cuts costs by polluting a river, the river dies.

When every business designs products for rapid replacement, waste explodes.

When every supplier is squeezed to the lowest possible price, working conditions deteriorate.

No single decision causes collapse. Collapse emerges from coordination failure.

This is why sustainability cannot be reduced to individual virtue or consumer choice. Asking people to “buy green” while rewarding firms that pollute is not a solution. Markets shape behaviour through incentives. If prices do not reflect environmental and social costs, damage accumulates silently.

This is where microeconomics meets responsibility.

A firm choosing recyclable materials may face higher costs today. A firm investing in cleaner production may sacrifice short-term profit. A firm paying fair wages may appear less competitive. In isolation, these decisions look risky. When many firms act together, they become the new norm.

The problem is timing. Early movers bear costs before benefits are shared. Late movers free-ride. This is why collective rules matter.

Environmental standards, labour laws, transparency requirements, and carbon pricing are not anti-market

tools. They are coordination mechanisms. They align private incentives with collective survival. They ensure that responsible behaviour is not punished.

Some firms already build sustainability into their core strategy. Not as marketing, but as design.

There are companies turning plastic waste into construction materials. Others design products for repair rather than replacement. Some choose slower growth to protect ecosystems and workers. These firms do not reject profit. They redefine it. Long-term resilience replaces short-term extraction.

This shift also changes how success is measured. Not only in revenue, but in durability. Not only in scale, but in impact. Not only in growth, but in trust.

From the perspective of *Better Together*, sustainability is not an optional add-on. It is a test of whether markets can serve society rather than undermine it. Micro decisions either reinforce destructive patterns or begin to change them.

Democratic societies play a central role here. Through debate, regulation, and collective choice, they decide which costs are acceptable and which are not. Free speech allows environmental harm to be exposed. Rule of law ensures standards apply to all, not just the compliant. Accountability prevents power from escaping responsibility.

Without these institutions, sustainability becomes a branding exercise. With them, it becomes a shared project.

This is the deeper message of microeconomics in this book. Individual choice matters, but it matters most when embedded in systems that allow people and the planet to thrive together. The question is not whether firms should care about the environment. The question is whether societies design markets so that caring makes sense.

Because there is no business without a planet.
And no prosperity on a collapsing foundation.

Further Reading and Exploration

Markets, environment, and coordination

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Power, regulation, and responsibility

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61.

THE SECRET CONVERSATIONS OF COMPANIES

Imagine a small British town with a quiet high street. A post office. A bakery. A Greggs. And two cafés facing each other across the road. From the outside, they look ordinary. Inside, something more subtle is happening.

Every morning, before the doors open, both café owners are already thinking about each other. Should they raise prices? Keep them the same? Introduce a loyalty card? Extend opening hours? None of these decisions is made in isolation. Each one depends on what the other is expected to do.

This is the essence of strategic interaction.

In some markets, firms behave like strangers passing in the night. In others, they behave like chess players locked in an ongoing game. Oligopoly belongs to the second category. When only a few firms dominate a market, every move matters.

Game theory gives us a way of understanding these situations. It does not assume that firms are aggressive or malicious. It assumes something simpler. That each firm is trying to do the best it can, given what it believes others will do.

Return to the two cafés. Both have a choice. Keep prices high or cut prices. If one cuts while the other does not, it may attract more customers. But if both cut prices, profits collapse. Each café faces the same dilemma. The individually tempting move leads to a collectively worse outcome.

This is the classic prisoner's dilemma. No one wants to destroy profits. Yet rational behaviour can still lead there.

The picture changes when interaction is repeated. These cafés do not meet once. They meet every day. Over time, patterns form. Owners learn that aggressive price cuts trigger retaliation. Stability begins to look attractive. Without ever speaking, the cafés settle into an unspoken understanding. Prices stabilise. Each focuses on its niche. One emphasises atmosphere. The other emphasises speed.

This is tacit coordination. It is not a secret meeting or a signed agreement. It is learning through experience.

Such behaviour appears across the economy. Supermarkets watch each other's promotions closely. Airlines match fares within hours. Petrol stations across the street often display almost identical prices. Each firm knows that deviation will provoke response.

These "conversations" happen through actions, not words.

From the firm's perspective, this is survival. From society's perspective, it raises questions. When coordination reduces destructive competition, it can bring stability. When it limits choice or keeps prices high, it can harm consumers.

This is why institutions matter.

Competition authorities exist precisely because strategic interaction can drift from healthy rivalry into quiet collusion. The line is not always clear. Firms may never speak. They may never intend to break the law. Yet outcomes can still resemble coordination.

Democratic oversight is not about punishing success. It is about preventing power from becoming invisible.

Game theory also explains why new entrants can be disruptive. When a new café opens and behaves unpredictably, perhaps offering extreme discounts or free coffee, the existing balance collapses. The old players cannot predict responses. The game resets.

This is what happened when discount airlines entered aviation markets, or when low-cost supermarkets challenged established chains. These firms did not just offer cheaper prices. They changed expectations.

Strategic uncertainty returned.

Game theory also highlights the role of commitment. When a firm invests heavily in capacity, technology, or branding, it sends a signal. “We are serious. We will not back down easily.” These commitments shape rivals’ decisions. Sometimes firms invest not to increase efficiency, but to influence behaviour.

Power enters quietly here. Firms with deep pockets can afford strategies that others cannot. They can endure losses longer. They can threaten retaliation credibly. Smaller firms often exit, not because they are inefficient, but because they cannot survive the game.

This is where markets intersect with democracy again. Without rules, strategic games favour the strongest. With rules, they can reward innovation rather than endurance.

Game theory does not tell us what firms should do. It helps us understand why they do what they do. It shows how rational behaviour can produce outcomes that no one explicitly chose. It explains why cooperation sometimes emerges, and why conflict sometimes persists.

Most importantly, it reminds us that markets are social systems. They rely on expectations, trust, and shared rules. When those rules are transparent and enforced, competition can be dynamic without becoming destructive. When they are weak, power concentrates.

The secret conversations of companies are always happening. The question is not whether firms interact strategically. The question is whether societies choose to listen, regulate, and guide those interactions toward outcomes that benefit many rather than a few.

That choice is collective.

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62.

DETROIT, 1914: THE HEADACHE THAT BECAME A THEORY

In 1914, something strange was happening at the Ford Motor Company in Detroit.

Henry Ford was paying his workers more than almost anyone else in the industry. He had introduced the famous five-dollar day, roughly double the prevailing wage. Newspapers celebrated it. Reformers praised it. Rivals criticised it as madness.

And yet, inside the factory, Ford had a problem.

Workers were leaving.

Not occasionally. Constantly.

The work was repetitive, exhausting, and psychologically draining. Standing on an assembly line all day, tightening the same bolt over and over again, was not what most people imagined when they thought of a good job. Even with higher pay, many workers quit after a few weeks or months. Absenteeism was high. Productivity suffered. Training costs exploded.

Ford had raised wages, but the headache remained.

This was not a moral story at first. It was a practical one. High turnover was expensive. Each worker who left had to be replaced. Each replacement had to be trained. The assembly line only worked smoothly if workers stayed, learned, and coordinated with one another.

So Ford did something that looked irrational from the perspective of standard economics.

He paid even more.

Not because he was generous. Not because he was philanthropic. But because it made business sense.

Higher wages reduced turnover. Workers stayed longer. Productivity rose. Defects fell. Coordination improved. The factory became more stable. What looked like a cost increase turned out to be a cost saving.

This was the beginning of what later became known as **efficiency wage theory**.

The core idea is simple but powerful. Sometimes, paying workers more than the minimum necessary is not wasteful. It is efficient. Higher wages can increase effort, loyalty, health, morale, and cooperation. They can reduce monitoring costs and improve quality. They can make work sustainable rather than extractive.

Efficiency wages challenge a basic assumption of traditional microeconomics. The assumption that wages are just another cost to be minimised.

In reality, wages shape behaviour.

Workers are not machines. They respond to how they are treated. They compare their pay to others. They

care about dignity, security, and respect. When wages fall below what feels fair, motivation collapses. When wages support a decent life, effort often rises.

This insight matters far beyond Detroit.

It helps explain why some firms invest in people while others burn through them. Why some workplaces feel stable and cooperative while others feel fragile and hostile. Why short-term cost cutting can undermine long-term performance.

It also explains why labour markets cannot be understood without institutions.

If one firm pays higher wages in an environment where others do not, it may struggle to compete. If many firms raise wages together, productivity gains can be shared. Coordination matters. Without it, responsible firms risk being punished.

This is where democratic systems enter again. Minimum wages, labour standards, collective bargaining, and social insurance are not distortions of the labour market. They are coordination devices. They allow firms to compete on quality and innovation rather than on how little they can pay.

Efficiency wage theory also forces us to rethink unemployment. If firms pay wages above the market-clearing level, unemployment may persist. But that unemployment is not simply a failure. It can be part of a system that maintains effort, quality, and trust.

This does not mean unemployment is desirable. It means that labour markets reflect trade-offs between efficiency, dignity, and stability. Pretending otherwise hides the real choices societies face.

The story of Detroit in 1914 reminds us of something central to *Better Together*. Markets work best when they recognise human limits and social needs. Treating people well is not just ethical. It is often economically rational.

The headache Ford faced was not solved by squeezing workers harder. It was solved by redesigning incentives so that individual effort and collective productivity moved together.

That lesson still matters.

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Firms, coordination, and productivity

- Mazzucato, M., *The Entrepreneurial State*
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63.

THE HIDDEN PSYCHOLOGY BEHIND EVERYDAY DECISIONS

Economic theory often begins with a clean assumption. Individuals know what they want. They understand prices. They weigh costs and benefits. They choose what is best for them. Markets, in turn, translate these individual choices into outcomes that reflect preferences and scarcity.

But real life does not work like this.

Every day, people make economic decisions while distracted, tired, rushed, uncertain, and emotionally influenced. They buy things they did not plan to buy. They delay decisions they know they should make. They overreact to small losses and underreact to long-term risks. They follow habits, social norms, and default options more than careful calculation.

Behavioural economics begins with a simple observation. Humans are not perfectly rational. They are **boundedly rational**. Their decisions are shaped by context, framing, emotion, and cognitive shortcuts known as heuristics.

These shortcuts are not signs of stupidity. They are survival tools. In a complex world, the brain looks for patterns and rules of thumb. Most of the time, these work well enough. But in modern markets, they can be exploited.

Consider something as ordinary as advertising.

A product is presented as “20 percent off”. Rarely do people ask what the original price was, or whether the discount is real. The number itself triggers a response. It feels like a gain. The decision becomes emotional rather than analytical.

Now think about “limited time offers”. The clock on the screen creates urgency. Even if the product will still be available tomorrow, the fear of missing out pushes people to act now. The cost of delay feels like a loss.

Loss aversion sits at the centre of this behaviour. People feel losses more intensely than gains of the same size. Losing ten pounds hurts more than gaining ten pounds pleases. As a result, people are often willing to take risks to avoid losses, even when those risks are irrational.

This is why subscription models work so effectively. Free trials feel safe. Cancelling later feels like giving something up. Once people feel ownership, even temporary ownership, they resist letting go. The decision to cancel becomes emotionally costly.

The same logic applies to defaults. When pension contributions are automatic, participation rises dramatically. When people must actively opt in, many never do. Not because they do not care, but because inertia is powerful.

Behavioural economics forces us to rethink responsibility.

If firms know that people are loss averse, easily distracted, and sensitive to framing, what should they be allowed to do with that knowledge? Is it acceptable to design pricing, advertising, and digital interfaces that quietly push people toward decisions they would not make under calm reflection?

This question matters deeply for democracy.

Markets do not exist outside society. When economic systems reward manipulation rather than transparency, trust erodes. When individuals feel constantly nudged, pressured, or tricked, they disengage. Cynicism grows. Participation weakens.

This is where *Better Together* draws a clear line.

Behavioural insights can be used in two ways. They can be used to extract value, exploit weakness, and lock people into harmful patterns. Or they can be used to support better outcomes, help people overcome short-term bias, and align individual choices with long-term wellbeing.

Public policy already uses behavioural tools. Organ donation defaults. Energy efficiency labels. Transparent pricing rules. Cooling-off periods for contracts. These are not restrictions on freedom. They are attempts to make choice environments fairer.

At the firm level, the same principle applies. Advertising can inform or manipulate. Pricing can clarify or confuse. Technology can empower or control.

Behavioural economics does not argue that people are incapable of choice. It argues that **choice architecture matters**. And because it matters, it cannot be treated as neutral.

Once again, micro decisions accumulate.

A single misleading advertisement seems harmless. Millions of them reshape consumption patterns. A single dark-pattern interface feels trivial. Entire platforms built on them redefine behaviour.

Understanding behavioural economics is not about learning how to manipulate people. It is about learning how markets actually work when humans, not idealised agents, make decisions.

And it is about recognising that economic freedom without transparency is fragile. Democracy depends not only on the right to choose, but on the ability to choose meaningfully.

Further Reading and Exploration

Behavioural economics foundations

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Choice architecture and nudging

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Markets, manipulation, and power

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Democracy, autonomy, and institutions

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64.

THINKING FAST IN A COMPLICATED WORLD

Economics often imagines decision makers as calm and calculating. They know what they want. They compare options. They choose what maximises their benefit.

But most real decisions do not happen like that.

They happen in supermarkets, on phones, late at night, under time pressure, surrounded by noise, notifications, and uncertainty. People rarely optimise. They cope.

This is where behavioural economics begins.

Rather than assuming perfect rationality, behavioural economics starts from a more honest place. Human beings have limited attention, limited time, and limited cognitive capacity. We cannot process all available information, even when it is technically accessible. Instead, we rely on **heuristics**, simple rules of thumb that help us make decisions quickly.

Heuristics are not flaws. They are survival tools.

If every choice required full optimisation, everyday life would grind to a halt. Choosing a meal, a route to work, or a product online would become exhausting. So the brain shortcuts.

Sometimes these shortcuts work remarkably well. For example, investors who spread their money equally across different assets often perform as well as, or better than, those following complex optimisation models. Simplicity can outperform sophistication.

But heuristics also create predictable patterns of error.

People judge likelihood based on stories rather than statistics. They confuse what feels representative with what is actually probable. They overestimate rare risks and underestimate slow ones. They mistake confidence for competence.

One famous illustration involves a fictional woman named Linda. When told a story that fits a familiar stereotype, many people judge a more detailed description to be more likely than a simpler one, even though this is mathematically impossible. The story feels right, so it overrides logic.

These are not individual quirks. They are systematic tendencies. And once they are understood, they can be anticipated.

That insight changed economics forever.

Because once behaviour is predictable, it becomes steerable.

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65.

HOW MARKETING LEARNT TO SPEAK TO THE HUMAN MIND

Marketing is often presented as communication. Firms tell consumers what exists. Consumers decide.

Behavioural economics shows this is incomplete.

Modern marketing does not simply provide information. It designs **choice environments**. It decides what you see first, what feels normal, what feels urgent, and what feels risky to ignore.

Consider framing.

Two offers can be economically identical yet feel completely different depending on how they are presented. Saving two hundred lives feels reassuring. Losing four hundred feels terrifying. Even though the outcome is the same, people respond in opposite ways.

This asymmetry is driven by **loss aversion**.

Losses feel roughly twice as painful as gains feel pleasurable. As a result, people become risk averse when facing gains, but risk seeking when facing losses. They will gamble to avoid a loss they would never accept to achieve a gain.

Marketers understand this instinctively.

Time limited offers, scarcity messages, and “only two left” prompts all work by shifting people into the domain of losses. You may not know whether you want the product, but you know you do not want to lose the opportunity.

Reference points matter too.

A price is never evaluated in isolation. It is judged relative to something else. A previous price. A suggested retail price. A “premium” option placed nearby.

This is why the **decoy effect** works. Introduce a clearly inferior or overpriced option, and suddenly the target option feels like a bargain. Nothing about the product changed. Only the frame did.

Choice overload plays a similar role. Too many options do not empower people. They exhaust them. Faced with complexity, people freeze, delay, or defer to recommendations. This creates opportunities for upselling, guidance, and influence.

Even ownership can be simulated.

When a product is “recommended for you” or “saved to your list,” people begin to feel a sense of attachment. Giving it up feels like a loss. This is known as the **endowment effect**, and it makes disengagement psychologically costly.

These strategies are not fringe tactics. They are central to how modern markets operate.

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66.

WHEN INFLUENCE BECOMES MANIPULATION

At this point, an uncomfortable question emerges.

If firms understand how people think, where is the line between persuasion and manipulation?

Behavioural economics does not answer this automatically. It forces us to confront it.

On one side of the debate are those who argue that influence is unavoidable. Every choice environment nudges behaviour in some direction. There is no neutral design. From this perspective, the only question is whether nudges are used responsibly.

On the other side are those who worry about autonomy. If consumers are systematically steered toward decisions they later regret, or that primarily benefit sellers at their expense, something important has been lost.

This debate has moved beyond academia.

Regulators increasingly recognise that behavioural exploitation can cause real harm. In the UK, authorities now scrutinise online choice architecture. Firms are expected to act in the genuine interests of consumers, not merely comply with formal disclosure rules. Similar debates are unfolding across Europe and the United States.

Public backlash matters too.

Consumers do not like feeling tricked. When manipulation becomes visible, trust collapses. Reputation suffers. Platforms built on behavioural exploitation face growing resistance.

There is also a deeper democratic concern.

If economic systems reward those who best exploit human weakness, power will shift toward those actors. Over time, this shapes not only consumption, but public discourse, political engagement, and social norms.

Behavioural economics, then, is not just about selling more. It is about **how societies organise influence**.

Used carefully, behavioural insights can help people make better decisions. Automatic pension enrolment increases savings. Clear energy labels reduce waste. Transparent pricing reduces confusion.

Used carelessly, the same tools can undermine autonomy, deepen inequality, and erode trust.

This is why behavioural economics fits naturally into the *Better Together* argument.

Markets work best when individuals are respected as citizens, not treated as targets. Influence without accountability is fragile. Freedom without transparency is hollow.

Understanding how minds work gives us power. The question is what we choose to do with it.

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67.

WHEN MARKETS CLEAR BUT SOCIETIES FAIL

In most economics textbooks, the story reaches a reassuring moment. Supply meets demand. Price settles. The market clears. At that point, the model declares victory. The outcome is labelled efficient. No surplus goods, no unmet demand, no obvious waste. Everyone who wants to trade at the market price can do so.

It sounds tidy. It sounds comforting. It sounds like the end of the problem.

But in real life, it is often only the beginning.

A market can clear while rivers become polluted. A labour market can clear while workers remain exhausted, insecure, or poor. A housing market can clear while entire generations are locked out of decent living conditions. A digital market can clear while power concentrates in the hands of a few firms that quietly shape what billions of people see, buy, and believe.

The key mistake is to confuse **market equilibrium** with **social success**.

In the textbook world, equilibrium is efficient because of a very specific definition of efficiency. It means that, given existing preferences, technologies, and resources, the market allocates goods in a way where no one can be made better off without making someone else worse off. Economists call this Pareto efficiency.

But notice what this definition does not ask.

It does not ask whether preferences were shaped by manipulation or desperation.

It does not ask whether resources were distributed fairly to begin with.

It does not ask whether production damages the environment.

It does not ask whether power is concentrated.

It does not ask whether today's efficiency destroys tomorrow's possibilities.

The market only answers the question it is designed to answer. It matches willingness to pay with willingness to sell. Nothing more.

That is not a flaw in the market. It is simply a limit.

Efficiency is conditional, not universal

The idea that markets produce efficient outcomes relies on a set of conditions that are rarely met in practice. There must be many buyers and sellers. No single actor should have power over prices. Information must be transparent. Costs and benefits must fall entirely on the people involved in the transaction. Preferences must be stable and well informed.

Once any of these conditions fail, the link between market equilibrium and social wellbeing breaks.

Take pollution. A factory produces goods that people want. The market clears. The firm earns a profit.

Consumers enjoy low prices. But the smoke enters the air. The waste flows into the river. The costs are carried by others, often those with little power or voice. The market price does not reflect these damages, so the equilibrium level of production is too high. The market clears, yet society loses.

Or take education. Left entirely to the market, access depends on ability to pay. The market clears at a price that excludes many. But education creates benefits that extend far beyond the individual student. More innovation, better health outcomes, stronger democratic participation. When these spillovers are ignored, the market produces too little education, even though the equilibrium is technically efficient.

In both cases, the problem is not that markets fail to clear. It is that they clear **without accounting for what matters**.

Power distorts equilibrium

Another quiet assumption behind textbook efficiency is the absence of power.

In reality, power is everywhere.

Large firms influence prices, wages, standards, and even regulation. Digital platforms control access to markets and information. Employers in concentrated labour markets can set wages below productivity. Landowners in tight housing markets can extract rents without improving quality.

These outcomes are not accidents. They are equilibria produced under unequal bargaining power.

A labour market may clear at a low wage not because the work is unproductive, but because workers lack alternatives. A housing market may clear at unaffordable rents not because homes are expensive to build, but because supply is constrained by planning rules, speculation, or land ownership patterns. A digital advertising market may clear at low prices for users' data not because privacy is worthless, but because users are not truly able to opt out.

Once power enters the picture, equilibrium becomes a reflection of who has leverage, not of what is socially desirable.

Behavioural limits break the efficiency story

Even if markets were competitive and power were evenly distributed, the efficiency story would still struggle.

People are not perfect optimisers. They procrastinate. They underestimate risks. They follow defaults. They respond to framing. They are influenced by advertising and social pressure.

These patterns are not random. They are systematic. And they can be exploited.

When people underestimate the long-term cost of debt, credit markets clear at levels that fuel financial instability. When consumers ignore future energy costs, inefficient appliances dominate the market. When users click “agree” without reading terms, digital markets clear under rules that favour firms, not individuals.

Once again, the market clears. But the outcome is fragile, unequal, or harmful.

Behavioural economics does not say that people are irrational. It says that **markets must be designed for humans as they are**, not as models assume them to be.

Externalities accumulate into crises

One of the most important lessons of microeconomics is that small effects add up.

A single plastic bottle is trivial. Billions reshape oceans.

One extra flight seems harmless. Millions alter the climate.

One unpaid internship feels manageable. An entire generation faces insecurity.

Markets treat each transaction as isolated. Climate change, public health, inequality, and financial crises reveal what happens when those transactions interact.

Externalities are not side issues. They are the bridge between micro decisions and macro outcomes.

When firms are rewarded for shifting costs onto others, they will do so. When consumers are shielded from the true cost of their consumption, they will consume more. When no institution coordinates long-term risks, short-term incentives dominate.

Market failure, in this sense, is not a bug. It is a predictable outcome of incentive structures.

Rethinking government intervention

In traditional textbooks, government intervention appears as an exception. A correction. Something justified only when markets fail.

This framing is misleading.

Markets do not exist before the state. They exist because of it.

Property rights, contract enforcement, competition law, labour standards, environmental regulation, consumer protection, financial oversight, infrastructure, education systems. All of these shape how markets function long before any “intervention” occurs.

The real question is not whether governments should intervene. It is **how markets should be designed, whose interests they serve, and who has a voice in setting the rules.**

Seen this way, democratic governance is not an obstacle to markets. It is their foundation.

Where the rule of law is weak, markets become predatory. Where regulation is captured, markets serve narrow interests. Where transparency is absent, trust collapses. Where participation is limited, inequality deepens.

Good institutions do not replace markets. They make markets work for society rather than against it.

From micro failure to macro instability

This is where the micro story connects directly to the macro world.

Persistent inequality is not a shock. It is the outcome of labour markets, tax systems, and power structures. Financial crises are not accidents. They emerge from incentives in credit markets, risk pricing, and regulation. Environmental collapse is not unexpected. It follows from treating nature as a free input.

When micro decisions are rewarded for speed, scale, and extraction, macro instability follows.

This is why the idea that “markets are efficient” cannot be the final word. Efficiency without context is empty. It tells us nothing about sustainability, fairness, or resilience.

The core lesson

Markets are powerful tools. They coordinate information, incentivise effort, and enable exchange. But they do not carry moral direction. They do not protect future generations. They do not defend democracy. They do not correct power imbalances on their own.

Those tasks belong to institutions, norms, and collective decision making.

In *Better Together*, the goal is not to reject markets, but to situate them. To understand where they work, where they fail, and why their outcomes depend on the rules under which they operate.

A market can clear and still fail society.

Recognising that truth is not anti economic. It is the first step toward an economics that takes responsibility seriously.

Further Reading and Exploration

Market failure and institutions

- Stiglitz, J., *The Price of Inequality*
- Sen, A., *Development as Freedom*

Power, inequality, and political economy

- Piketty, T., *Capital and Ideology*
- Acemoglu, D. and Robinson, J., *Why Nations Fail*

Environmental and social externalities

- Raworth, K., *Doughnut Economics*
- Daly, H., *Steady-State Economics*

Behavioural limits and policy design

- Akerlof, G. and Shiller, R., *Phishing for Phools*
- Thaler, R. and Sunstein, C., *Nudge*

Markets, democracy, and rule of law

- Polanyi, K., *The Great Transformation*
- Rodrik, D., *The Globalization Paradox*

68.

HOW FIRMS GAIN POWER WITHOUT LOOKING LIKE MONOPOLIES

When people hear the word monopoly, they often imagine something obvious. A single firm. No competitors. High prices. Poor service. An abuse so visible that it almost announces itself.

But this picture no longer fits much of the modern economy.

Today, many of the most powerful firms do not look like monopolies at all. Prices may be low. Products may appear abundant. Choice may even feel overwhelming. Yet beneath the surface, power quietly concentrates.

This kind of power is harder to see, harder to measure, and harder to regulate. But it is no less real.

Power through differentiation, not exclusion

In textbook models, monopoly power often comes from exclusion. Others are legally or physically prevented from entering the market. In reality, power is more often built through **differentiation**.

Two cafés sell coffee. Two trainers look similar. Two streaming services offer films. On paper, competition exists. In practice, consumers become attached to one option and stop comparing.

This attachment is not accidental. Firms invest heavily in identity, atmosphere, story, and emotion. They differentiate not just the product, but the experience of choosing it. Over time, customers no longer ask which option is cheaper or better. They ask which one feels like “theirs”.

Once loyalty sets in, price sensitivity falls. Competitors can exist, but they struggle to break through habits and perceptions. The firm gains market power without ever becoming the only seller.

This is why monopolistic competition is not weak competition. It is competition reshaped around branding rather than price.

Marketing as market construction

In standard theory, marketing is often treated as information. Firms tell consumers what exists. Consumers decide.

In reality, marketing does far more than inform. It **constructs preferences**.

Advertising does not simply respond to demand. It shapes what people desire, what they notice, what they associate with quality, success, or belonging. It creates mental shortcuts. Logos become trust. Familiarity becomes safety.

This has two consequences.

First, firms with large marketing budgets gain an advantage that has little to do with product quality. New entrants may be cheaper, greener, or fairer, yet remain invisible. Attention becomes a barrier to entry.

Second, markets become less contestable over time. Even if switching costs are low in theory, psychological switching costs are high. Changing brands feels risky. Staying feels comfortable.

The market still clears. Prices still adjust. But competition weakens.

Scale, scope, and the quiet power of size

Some advantages only appear once firms reach a certain scale.

Large firms can spread fixed costs over millions of units. They can invest in logistics, data systems, research, and automation that smaller firms cannot afford. They can operate at lower average costs and still earn profits.

In large markets, this can look like efficiency. Prices fall. Consumers benefit in the short run.

But scale also creates dependency.

Suppliers become reliant on large buyers. Workers become replaceable within vast systems. Smaller rivals find it impossible to match prices without sacrificing wages or standards. Over time, the market tilts.

Scope matters too. Firms that operate across multiple markets can cross subsidise. Losses in one area are covered by profits in another. This allows them to undercut competitors selectively, absorb shocks, and wait others out.

Again, no monopoly is declared. Competition technically exists. Yet power accumulates.

Data and network effects

In digital markets, power grows even faster.

Platforms improve as more people use them. More users generate more data. More data improves algorithms. Better algorithms attract more users. The cycle reinforces itself.

This is known as a network effect. It creates a winner takes most dynamic without explicit exclusion.

Once a platform becomes dominant, leaving it becomes costly, even if alternatives exist. Friends, clients, content, and history are tied to the network. The product is no longer just a service. It is an ecosystem.

Prices may remain low. Some services may even appear free. But control over data, attention, and access gives firms extraordinary influence.

They shape which businesses are visible. Which voices are amplified. Which behaviours are rewarded.

Market power here is not exercised through price. It is exercised through architecture.

Legal and institutional reinforcement

Markets are also shaped by law.

Intellectual property rights protect innovation, but they also protect rents. Patents, copyrights, and trademarks can extend far beyond their original purpose. They can lock in dominance rather than encourage competition.

Regulation can also be uneven. Large firms often have the resources to navigate complex rules, influence their design, or comply in ways smaller firms cannot. What looks like neutral regulation can quietly favour incumbents.

This is not always corruption. Often it is structural. Policymakers consult those who are already visible and organised. Smaller voices are absent.

Once again, power grows without spectacle.

Why power often hides behind low prices

One reason market power escapes attention is that it does not always raise prices.

Firms may keep prices low to expand market share, gather data, or eliminate rivals. Consumers feel they are winning. Choice appears plentiful. Convenience increases.

But dependence deepens.

Over time, firms gain influence over suppliers, workers, standards, and even public debate. When prices eventually rise, alternatives are weak or gone. Exit becomes costly.

Low prices today can be the path to high power tomorrow.

Why this matters beyond markets

Market power does not stop at the checkout.

It influences wages, working conditions, and job security. It shapes what information people see. It affects which businesses survive and which ideas spread. It reaches into politics through lobbying, campaign finance, and agenda setting.

When economic power concentrates, democratic power is strained.

This does not require bad actors. It emerges from systems that reward scale, attention, and control without sufficient checks.

The micro to macro connection

Every step in this process begins with micro decisions.

A firm chooses to differentiate rather than compete on price.

A consumer chooses familiarity over comparison.

An advertiser chooses persuasion over information.

A platform chooses growth over restraint.

Each choice is rational in isolation. Together, they reshape markets and societies.

This is the core lesson of this part of the book.

Microeconomics is not small. It is foundational. It determines who gains power, who bears risk, and whose voices matter.

Understanding how firms gain power without looking like monopolies is essential if we want markets that support freedom, innovation, and shared prosperity rather than undermine them.

Further Reading and Exploration

Market power and competition

- Khan, L., “Amazon’s Antitrust Paradox”
- Stiglitz, J., *People, Power, and Profits*

Branding, marketing, and persuasion

- Akerlof, G. and Shiller, R., *Phishing for Phools*

- Zuboff, S., *The Age of Surveillance Capitalism*

Scale, platforms, and data

- Varian, H. and Shapiro, C., *Information Rules*
- Srnicek, N., *Platform Capitalism*

Institutions and democracy

- Polanyi, K., *The Great Transformation*
- Acemoglu, D. and Robinson, J., *Why Nations Fail*

69.

CLOSING TRANSITION: FROM MICRO CHOICES TO MACRO OUTCOMES

We began this part of the book with the individual. With small decisions that felt personal, local, and limited in scope. What to buy. How much to charge. Whether to cut costs. How to motivate workers. How to advertise. How to stand out. How to grow.

Along the way, something important became clear.

None of these decisions stays small.

When millions of consumers respond to prices shaped by psychology, markets shift. When firms pursue scale, differentiation, and efficiency under competitive pressure, power concentrates. When wages are treated only as costs, work becomes insecure. When environmental damage is priced at zero, it accumulates silently. When markets reward short-term gain, long-term risks are ignored.

At each step, no one needs to act maliciously. Most people are doing what seems reasonable in the moment. Firms respond to incentives. Consumers respond to signals. Managers optimise within the rules they are given.

Yet taken together, these micro decisions produce outcomes that no one explicitly voted for.

Rising inequality.

Financial instability.

Environmental breakdown.

Fragile supply chains.

Political frustration and loss of trust.

This is the central lesson of microeconomics when taken seriously. Markets do not float above society. They are embedded within institutions, laws, norms, and power structures. Prices coordinate behaviour, but they do not decide values. Efficiency can coexist with injustice. Growth can coexist with exclusion. Innovation can coexist with domination.

At this point, the natural question arises.

If these outcomes are not accidents, but the predictable result of how our economic systems are organised, then what happens when they scale up? What happens when micro incentives interact across entire economies? Across countries? Across generations?

This is where macroeconomics begins.

Macroeconomics does not replace microeconomics. It reveals its consequences. It shows how individual choices, firm strategies, and market structures aggregate into growth patterns, employment outcomes,

inflation, crises, and environmental limits. It explains why some societies manage prosperity and stability, while others oscillate between boom and collapse.

Most importantly, macroeconomics brings politics back into view.

Because once we move beyond isolated markets, we must ask who sets the rules, who benefits from them, and who bears the risks when systems fail. We must ask how monetary systems are designed, how governments respond to crises, how inequality feeds back into economic performance, and how global interdependence reshapes national choices.

The move from micro to macro is not a change of topic. It is a change of scale.

The same questions follow us forward. About fairness. About sustainability. About dignity. About freedom. About responsibility.

So as we step back from individual decisions and look at the economy as a whole, keep one idea in mind.

Macroeconomic outcomes are not forces of nature. They are the result of countless micro choices operating within specific institutional and political frameworks. If those frameworks change, outcomes change too.

Understanding that connection is essential if we want economies that work not just efficiently, but together.

With that, we now turn from markets and choices to economies and systems.

FEEDBACK AND COLLABORATION

The author welcomes feedback, discussion, and opportunities for collaboration related to the themes explored in this book.

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