



LEAP

OF  
THE

# FUTURE

Why the world is going  
to turn out better  
than we think



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## **Fear of the Future**

Why the world is going to turn out better than we think

Editor: Elias Rosell

Graphic design: Ivan Panov | Epique studio

Proofread by: Sophia Kleinsasser

Printed by: Spektar

ISBN: 978-2-9602333-3-9

With special thanks to:

Tessa Bries

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Rue d'Idalie 11-13, boîte 6

1050 Ixelles, Brussels (BE)

Published by the European Liberal Forum asbl with the support of Fores. Co-funded by the European Parliament. Neither the European Parliament nor the European Liberal Forum asbl are responsible for the content of this publication, or for any use that may be made of it. The views expressed herein are those of the author(s) alone. These views do not necessarily reflect those of the European Parliament and/or the European Liberal Forum asbl.

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# List of Abbreviations

PPP	Purchasing power parity
GDP	Gross domestic product
GER	Gross enrolment ratio
ICT	Information and communication technology
ECJ	European Court of Justice
SME	Small and medium-sized enterprise
R&I	Research and innovation
R&D	Research and development
EIC	European Innovation Council
ECJ	European Court of Justice
ETS	European Emissions Trading Scheme
IPCC	Intergovernmental Panel on Climate Change
HFC	Hydrofluorocarbon
PPM	Parts per million
CCS	Carbon capture and sequestration
CARB	California Air Resources Board
ZEV	Zero-emission vehicle
LEV	Low-emission vehicle
ULEV	Ultra-low-emission vehicle
SULEV	Super ultra-low-emission vehicle
NEV	New-energy vehicle
IISD	International Institute for Sustainable Development
IMF	International Monetary Foundation
GW	Gigawatt
CFC	Chlorofluorocarbon
DIH	Digital Innovation Hub
NIT	Negative income tax
UBI	Universal basic income
CBI	Citizens' basic income
ETUI	European Trade Union Institute
IPBES	Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services
SDG	United Nations Sustainable Development Goal

About

# The European Liberal Forum

The European Liberal Forum (ELF) is the official political foundation of the European Liberal Party, the ALDE Party. Together with 46 member organisations, we work all over Europe to bring new ideas into the political debate, to provide a platform for discussion, and to empower citizens to make their voices heard.

ELF was founded in 2007 to strengthen the liberal and democrat movement in Europe. Our work is guided by liberal ideals and a belief in the principle of freedom. We stand for a future-oriented Europe that offers opportunities for every citizen.

ELF is engaged on all political levels, from the local to the European. We bring together a diverse network of national foundations, think tanks and other experts. At the same time, we are also close to, but independent from, the ALDE Party and other Liberal actors in Europe. In this role, our forum serves as a space for an open and informed exchange of views between a wide range of different actors.



About

## Authors



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Kristijan Kotarski is an assistant professor in the Faculty of Political Science, University of Zagreb, Croatia. His research interests include international political economy, economic policy and the EU. He is head of the faculty's Centre for European Studies and also serves professionally as a director for the University of Zagreb's specialist degree, 'Adaptation to the EU: project management, EU funds and EU programmes'.



### **Mette Kahlin McVeigh & Mattias Goldmann**

Mette Kahlin McVeigh is the climate programme director at the Swedish green and liberal think tank, Fores. Mette was central to the development of the Swedish climate act and has over 15 years' experience of developing and leading policy and public affairs campaigns in the EU, Sweden and the UK—inside and outside of government. Fores is an independent think tank dedicated to furthering entrepreneurship and sustainable development through liberal solutions to meet the challenges and possibilities brought about by globalisation and global warming. Mattias Goldmann has been named Sweden's most influential person on sustainability issues and was knighted by the French government for his work on climate. He is the former CEO of Fores.





### **Dominik Kirchdorfer**

Dominik Kirchdorfer is an Austrian and Polish writer and social entrepreneur. His work focuses on active citizenship and digital innovation. He co-founded the ‘think-and do-tank’, 89 Initiative, at the London School of Economics’ European Institute and currently serves as the founder and president of the European Future Forum. Dominik is also editor-in-chief of the online magazine *Euro Babble*, managing editor of *Italics Magazine* and has previously worked as editorial coordinator for the Eureka Network.



### **Mathias Sundin**

Mathias Sundin is the co-founder and executive chairman of the Warp Institute Foundation, a former member of the Swedish parliament and a former deputy mayor. He has spoken at TEDx events and as a keynote speaker internationally. Sundin is also the author of two books.



### **Šárka Prát**

Šárka Prát is the director of the Institute for Politics and Society. In this position, she is responsible for managing a team and implementing projects to ensure the continued development of the think tank. She holds a PhD, a degree in engineering and an MBA from the University of Economics in Prague.

# Foreword

People walking in unbearably hot climates, in search of the last few jobs that have not yet been taken by robots owned by the super-rich... This is the image of the future you get from listening to current discussions and the media.

It seems that the future has never had such a bad reputation as it does right now. Little seems to be left of the excitement and trust we used to hold for the future: where our grandparents saw flying cars, we now see doomsday scenarios—even in the present age of unprecedented wealth, progress and technology. This contradiction is why we have put together this publication.

We believe that the future needs to be defended, both against real threats like climate change and against pessimism. Throughout history, the future has shown us that it can earn our trust. It has faced very serious threats but has often surprised us with fantastic technology and social progress. As Mathias Sundin writes in this publication, there is no reason to think that human progress will just... stop.

On the contrary, given that we are becoming greater in number and better educated, it is reasonable to expect that we will be able to come up with new and better solutions to the problems we face. The world is not getting worse; it is getting more complex. Information is faster and people have to make sense of it. Mankind has made more progress over the last 100 years than in the first 100,000 of its existence. Yet this also implies change on an unprecedented level. Information and change lead to more complexity, which opens the door to those who sell fear for their own gain, making people insecure.

The great liberal philosopher and politician, Lord Ralf Dahrendorf, examined this question over 20 years ago. In 1997 he examined globalisation and its social

consequences. On the one hand, he sees new chances and hope for millions of people, the unifying power of trade and exchange. But he also predicts the rise of a new regionalism that seeks to retreat into ever more closed environments, out of fear of an increasingly complex global economic world—a mass retreat that seeks salvation in nation states, regions and religious communities. His remedy? Openness, debate and courage: the cornerstones of a free society.

With this publication we want to remind people about how much better the world has become over the past few decades. It is often said that we should learn from our mistakes. This may be true, but it is at least as important to learn from the progress that has already been made. This publication uses a discussion of current problems as its starting point and offers solutions that could contribute to a better future—as well as give us fewer reasons to be worried about it.

The first chapter, '**Understanding progress and inequality against the backdrop of globalisation**' by Kristijan Kotarski, gives both an overview of the progress the world has seen in recent decades and explains the forces behind it. Kotarski also addresses fears about global inequality and provides suggestions for an even better form of globalisation.

The second chapter, '**A brighter future without fear of inequalities in Europe**' by Dominik Kirchdorfer, is a lively and thorough review of the many different forms of inequalities specifically in Europe. He distinguishes between non-problematic and problematic inequality and makes recommendations for a Europe in which everyone has equal chances.

The third chapter, '**Combating climate change the liberal way**' by Mette Kahlin McVeigh and Mattias Goldmann, tells us why liberal principles and market economics are not the problem but rather the solution to the climate issue. The chapter provides hopeful examples of the green transition that is already underway and gives suggestions on how it can be further accelerated.

The fourth chapter, '**Liberal remedies to European unemployment**' by Šárka Prát, gives a comprehensive review of what affects employment, provides examples from around Europe and makes suggestions on how unemployment, especially unemployment among young people, can be reduced.

The fifth chapter, '**Why do we have a pessimistic view of the world's development?**' by Mathias Sundin, shows how little we actually know

about the world's development, how the media and our psychology can increase our ignorance and why we need a positive vision for humanity. We want people, especially the next generation, to believe that a better tomorrow is possible and that we are actually on our way there. However, this is not something that can be taken for granted. We must remain open to technology and change; we must not fall for the seemingly easy solutions of those who would paint the world in black and white.

This book would not have been possible without our editor, Elias Rosell, our authors, peer reviewers and our designer, Ivan Panov.

**Daniel Kaddik**

Executive Director

# Understanding progress and inequality against the backdrop of globalisation

Kristijan Kotarski

## The complex relationship between progress and inequality

The world has improved, especially over the last three decades—as the forces of globalisation have taken the reins in various areas such as trade, finance, education, technology and migration. We live longer, healthier, wealthier, freer, more educated and more comfortable lives than ever before. However, there are millions of people still living in abject poverty and despair wrought by illness, struggle and death. Such is the complex tale of the relationship between the forces of progress and inequality.

Inequality often arises as a consequence of progress.<sup>1</sup> Not everybody gains freedom from destitution, obtains access to modern amenities or receives the opportunity to live a more meaningful life at the same time. In a sense, inequality can both improve and impede progress. The specific outcome depends on whether it serves as an invisible guide to empowerment for all those suffering

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<sup>1</sup> Deaton, A. (2013)

from economic impoverishment or it protects the standing of those who want to kick away the ladder of progress for those left behind. Yes, inequality could cause serious harm if left unattended, but only insofar as when it represents unfair inequality, which denotes the lack of both freedom from poverty and equality of opportunity.<sup>2</sup>

This distinction basically boils down to disentangling “circumstance” and “effort” as determinants of an individual’s income. Circumstantial factors are those outside the control of the individual, such as race, gender and parental wealth, while effort denotes those factors under individual control which can in turn affect income—like work ethics or educational attainment, once an individual has been given the opportunity to learn and has realised a personal desire to excel.

The fraction of variation in income which can be attributed to circumstance is further conceptualised as “inequality of opportunity” or unfair inequality. On the other hand, freedom from poverty is attained when individuals’ earnings fall under the threshold of 60 per cent of the country-specific median equivalised disposable household income.<sup>3</sup> Nobody could reasonably object to the pursuit of freedom from poverty and equality of opportunity. One could also differentiate between “good” and “bad” inequality, analogous to the distinction between good and bad cholesterol: good inequality creates incentives for growth, as good cholesterol is protective against heart disease by removing plaque from the arteries.

Let’s take technological development as an example. The existing experience teaches us that technological breakthroughs help the overwhelming majority of people by expanding the range of their capabilities and freedoms. The very process of cutting-edge growth, or growth along the technological and innovation frontier (as opposed to catch-up growth, achieved by the adoption of existing technologies which shrink the inequality gap), creates inequality that is analogous to good cholesterol. On the other hand, inequality which arises as a consequence of rent-seeking activities that only redistribute the size of the existing cake instead of enlarging it—together with monopolies

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<sup>2</sup> Hufe, P. et al. (2018)

<sup>3</sup> Equivalised disposable income is the total income of a household after tax, social transfers and other deductions—i.e., the amount that is available for spending or saving—divided by the number of household members converted into equalised adults.

and certain privileges showered only upon the politically well-connected—definitely weaken the fabric of society.<sup>4</sup> This is equivalent to the bad variant of cholesterol, which puts a person at higher risk of heart disease by clogging up the arteries.

This distinction demonstrates that the relationship between economic progress and inequality is not linear and is in conflict most of the time. Everything depends on the particular context shaped by institutions: whether they are open, inclusive and depersonalised and whether their antidotes prevail. For example, Oxfam’s credo is to confront the inequality that keeps people trapped in poverty, which might do more harm than good because the fight against poverty should always come first.<sup>5</sup> Excessive focus on inequality, regardless of its roots, might easily undercut progress for all if it leads to growth-stunting policies. Exactly this confusion between inequality and poverty comes straight out of the “lump” fallacy, which views wealth as a finite resource instead of something created in a positive-sum game.

When all is said and done, equality is not a fundamental component of well-being unless its absence comes with mass impoverishment.<sup>6</sup> One should also not conflate inequality with unfairness, which is among the most misunderstood issues in the social sciences. A study by a group of Yale University psychologists elaborates that when fairness and equality clash, people prefer fair inequality over unfair equality.<sup>7</sup> In the “erasers-for-room-cleaning” studies, children were told that Dan and Mark cleaned up their room and were to be rewarded with erasers. However, there were five erasers, so an even split was impossible. The children overwhelmingly reported that the experimenters should throw away the fifth eraser rather than create an unequal division. Nevertheless, when told that Dan did more work than Mark, the children were quite comfortable with giving three erasers to Dan and two to Mark. These children were fine with inequality, so long as they considered it to be fair. We could easily claim the same for adults, as evidenced in Norton and Ariely’s (2001) study of ideal income distribution in the US.<sup>8</sup> Participants claimed that, in a

4 Rent-seeking is an attempt to obtain economic rent by manipulating the social or political environment in which economic activities occur, instead of generating new wealth, e.g., attempts by various businesses to interfere in free market entry and exit.

5 Oxfam is an international NGO focusing on the eradication of global poverty, disaster relief and sustainability.

6 Pinker, S. (2018)

7 Starman, C., Sheskin, M. and Bloom, P. (2017)

8 Norton, M. I. and Ariely, D. (2011)



perfect society, individuals in the top 20 per cent should have more than three times as much money as individuals in the bottom 20 per cent. The majority understands that unequal abilities, effort and moral deservingness imply that a fair distribution in society would always be unequal and, as long as there is a belief in social mobility, inequality will be tolerated.<sup>9</sup>

However, the present-day narratives, especially those produced and supported by left-wing media outlets, think tanks and scientists, have focused excessively on the vices related to income and wealth inequality in a small sample of Anglo-Saxon societies. A case in point is a 2009 book, *The Spirit Level: Why More Equal Societies Almost Always do Better*, by British epidemiologists Richard Wilkinson and Kate Pickett.<sup>10</sup> The central thesis of the book is that inequality has a pernicious effect on societies: eroding trust, increasing anxiety, causing illness and encouraging excessive consumption. The authors' basic claim is that an individual's happiness depends on their relative position in comparison to other members of society as a reference group, whereby income inequality breeds status anxiety. They also attribute a reduction in other variables' values (such as physical health, mental health, drug abuse, education, imprisonment, obesity, social mobility and violence) to inequality. No matter how appealing their results appear, especially to those on the left of the political spectrum, one should note that negative outcomes attributed to inequality in the study are not sufficiently controlled for by other variables, such as income level and poverty.<sup>11</sup> In other words, dire consequences normally attributed to inequality, such as a large prison populations or high rates of violence, might be far better explained by different levels of income and poverty or by poorly functioning political institutions that disrespect basic human rights. Once again, one should delicately differentiate between good and bad inequality.

Simple and crude redistribution cannot help us succeed in fighting global poverty and raising living standards. The combined wealth of the world's 2,153

9 In small groups, people tend to prefer equality. But when asked about ideal distribution of income or wealth for their country, they support unequal distribution. All of this happens because people want to prevent opportunistic behaviour and punish cheaters, rather than because of some innate craving for egalitarianism. Members of small groups try to ensure that nobody becomes too powerful, so weaker members build coalitions and spontaneously generate equality.

10 Wilkinson, R. and Pickett, K. (2009)

11 Tellingly, these effects are more prevalent within unequal societies, but only because they are more common among poor people in poor societies. Moreover, it appears that the authors of the book focused on a sample which is too narrow for any broad-based conclusion to be made from its findings.

billionaires is \$8.7 trillion.<sup>12</sup> If divided among all individuals around the world, each would only receive a paltry sum of \$1,160. Arguably, the destiny of the world's poor depends more upon sustainable and inclusive economic growth led by managed globalisation than the rate rich countries choose to tax their wealthiest citizens. We need to be wary of this excessive proclivity for redistribution as a single solution to the world's problems. Lifting millions of people out of poverty is not akin to an engineering problem, such as fixing a broken machine.

Nobel Laureate Angus Deaton calculated that Africa's median growth per capita (real purchasing power parity or PPP) in the period between 1960 and 2010 was the lowest for five-year intervals when median per-capita foreign aid was at its highest. Hence, poverty is not a result of a lack of resources but primarily of poor institutions, poor government and a lack of freedom.<sup>13</sup> Honest governments, competitive and open markets, independent judiciaries and well-defined and protected property rights are indispensable ingredients in the recipe for growth. Only between the alternative poles of anarchy and tyranny can liberal democracies flourish.<sup>14</sup> Hence, the state is required to protect people from subjugation at the hands of others in society, but the state can also become an instrument of violence and repression, both of which negatively affect growth prospects.

Falling prey to technocratic hubris and the simple notion of redistribution blinds us from seeing that a lack of respect for freedom—not only on the part of governments in the developed and the developing world, but also on the part of the donors and agencies administering aid—works as a key obstacle to shared progress. Economic and political freedoms serve as means for empowerment. Regardless of the dire symptoms of unfair inequality in some societies, this state of affairs should not be equated with general patterns and the direction of progress across the globe. It is exactly this pessimistic outlook, narrowly focused on vaguely conceived inequality, which has unwittingly overshadowed the vast improvement of humanity. Indeed, the world has embarked on a great

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<sup>12</sup> Forbes (2019)

<sup>13</sup> These arguments are cleverly explored in William Easterly's book *The Tyranny of Experts: Economists, Dictators, and the Forgotten Rights of the Poor* and Amartya Sen's masterful *Development as Freedom*. We should also point to destructive policies such as massive agricultural subsidies and tariffs in the developed world, which predominantly favour the entities who wield the greatest political clout.

<sup>14</sup> Acemoglu, D. and Robinson, J.A. (2019)

historical journey of extreme poverty reduction, especially after the fall of the Berlin Wall at the hands of the free-spirited citizens of East and West Germany in 1989. What has changed for the better since this watershed moment, if anything? A detailed account of the progress achieved worldwide is the subject of our next section.

## How far have we progressed over the last three decades?

The first thing we have to look for when analysing the forces of progress is the data on global poverty. In spite of adding another two billion to the Earth's population since 1990, the poverty headcount ratio has consistently fallen at \$5.50, \$3.20 and \$1.90 a day.<sup>15</sup> Those estimates are expressed in international dollars using 2011's PPP conversion rates, as national incomes need to be converted into an "international currency" that buys the same amount of goods in every country across the globe. This means that the below figures account for different price levels in different countries, as well as for inflation. Simply put, since the price is much lower in poorer countries than in richer ones, a dollar in New Delhi will get you much further than a dollar in Stockholm. This metric allows for a very straightforward interpretation: globally, there are fewer and fewer people who live below all three measurements of global poverty (see Figure 1.1). Today, less than 10 per cent of the world's population lives in extreme poverty, with less than \$1.90 per day. Their absolute number has fallen from 1.9 billion in 1990 to about 736 million in 2015, despite the increased population.<sup>16</sup> Counting the share of people living below some internationally agreed-upon line is intuitive, but such a method fails to capture the intensity of poverty. Not all individuals with income levels slightly below the poverty line are as poor as individuals with incomes far below the poverty line. Bearing this in mind, an index measuring the intensity of poverty has therefore been developed: the

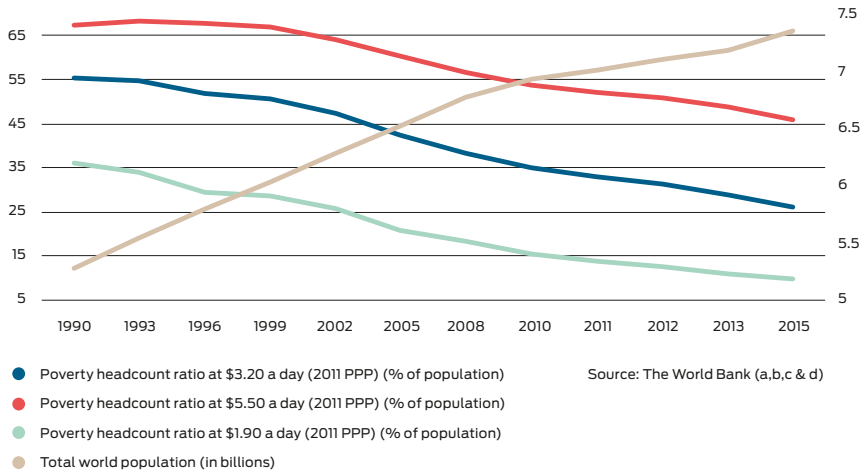
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<sup>15</sup> Poverty headcount is the percentage of the population living below varying poverty lines. Economists calculate this shortfall from the poverty line for every single household and individual. Aggregate figures are produced by adding shortfalls across the entire population in per capita terms. This measure depicts the mean shortfall from the poverty line. In a final step, it is divided by the value of the poverty line in order to produce the fraction of the poverty line that is missing to escape poverty.

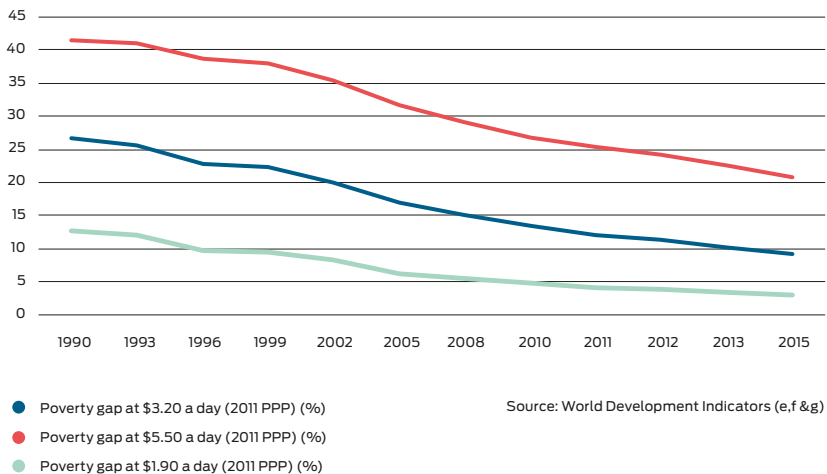
<sup>16</sup> Our World in Data (2019a)

poverty gap index. Since 1990, the global poverty gap also fell from \$442 billion to \$160.85 billion in 2013 (Our World in Data). If judged by measures of both poverty headcount and poverty intensity, there is much cause for optimism based on our previous track record (see Figure 1.2).

**Figure 1.1 Global poverty**



**Figure 1.2 Global poverty gap**



The systemic eradication of poverty, propelled by impressive growth rates and only briefly interrupted by the global financial crisis in 2009, has also had a favourable impact on increasing total global life expectancy at birth (see Figures 1.3 and 1.4).<sup>17</sup> Gross domestic product (GDP) growth not only reduces poverty and life expectancy but also has a favourable impact on 52 indicators which make up a relatively new and unique measure of progress called the social progress index. Professor Michael Porter of Harvard University defines it as: ‘the capacity of a society to meet the basic human needs of its citizens, establish the building blocks that allow citizens and communities to enhance and sustain the quality of their lives, and create the conditions for all individuals to reach their full potential’.<sup>18</sup> If one plots more than 145 countries on a scatter diagram, where the x-axis represents GDP and the y-axis covers the social progress index, composed of 52 indicators of well-being, we can observe that it is next to impossible to significantly raise social progress without per capita GDP in PPP terms reaching \$15,000. Yes, there is variance in terms of how well countries convert their GDP levels into social progress, and there is also the law of diminishing returns, postulating that each additional unit of GDP growth generates less and less well-being. However, it remains certain that without a positive growth environment and rising GDP levels across the globe, there would be no big improvements—especially for those at the bottom of the socio-economic ladder. GDP is not destiny, but only when the basic material fulfilments of life have been satisfied. However, there is still much room to grow globally, and GDP should not be revoked as a means of understanding progress, but it needs to be complemented with additional measures of progress.

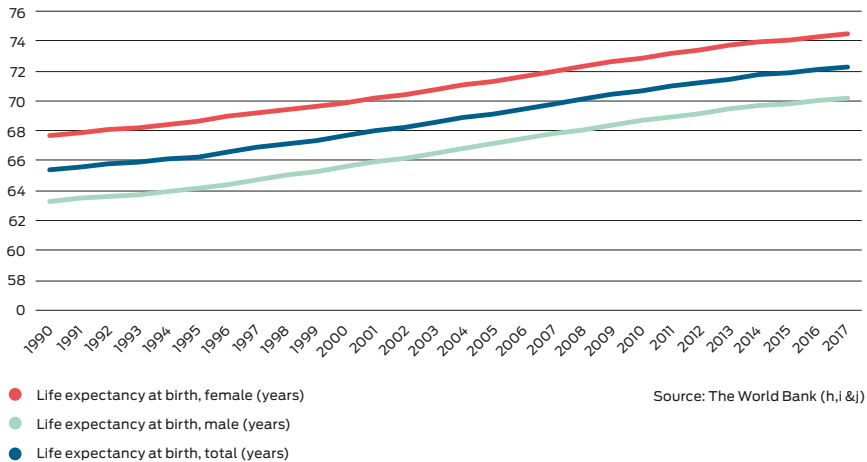
Not only has there been an overall increase in global life expectancy at birth, but we have also witnessed a gradual reduction in the global inequality of life expectancy at birth. This measure reflects the difference in overall health that has been narrowing since the early 1990s. These patterns are affected by wars, violence and disease. If a person is born in a country with a life expectancy of 70, they can expect to live until 70. Figure 1.4 shows that the greatest progress has been achieved within low-income countries, due to improved access to health

<sup>17</sup> ‘Life expectancy at birth’ refers to the average number of years a newborn is expected to live if mortality patterns at the time of its birth remain constant.

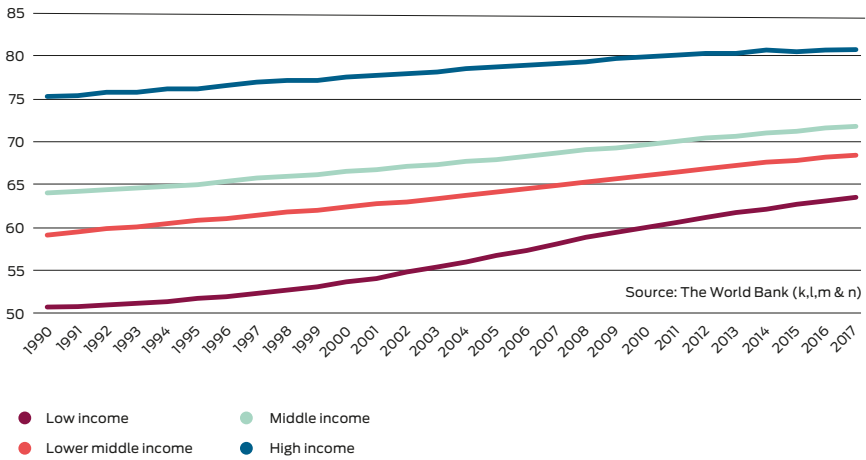
<sup>18</sup> Porter, M. (2015)

care, immunisation, safe drinking water and sewage. It is also important to consider the reduced number of violent deaths over the last couple of decades. Regardless of the existence of many fragile states, as evidenced by The Fund for Peace's 'Fragile State Index', there is a marked decline in the number of worldwide battle deaths per 100,000 people, encompassing all sorts of conflict. This is brilliantly captured in Steven Pinker's 2011 book, *The Better Angels of Our Nature*, and expanded further in a companion book, *Enlightenment Now: The Case for Reason, Science, Humanism and Progress*.<sup>19</sup> Empathy, morality, self-control and reason have gradually superseded (but not totally eliminated) predatory violence, revenge, sadism and various ideologies that legitimise violence. In sum, the average 1990 gap in life expectancy between low and high-income countries amounted to 24.6 years, a number which narrowed to 17.3 in 2017. All of this should not invoke a sense of complacency on the part of governments, international organisations, corporations, the media or civil society. In spite of impressive results, there is a still long journey ahead in tackling poverty and health inequality. Still, we should collectively take pride in our achievements and confidently keep the pace of progress in the years to come.

**Figure 1.3 Global life expectancy**



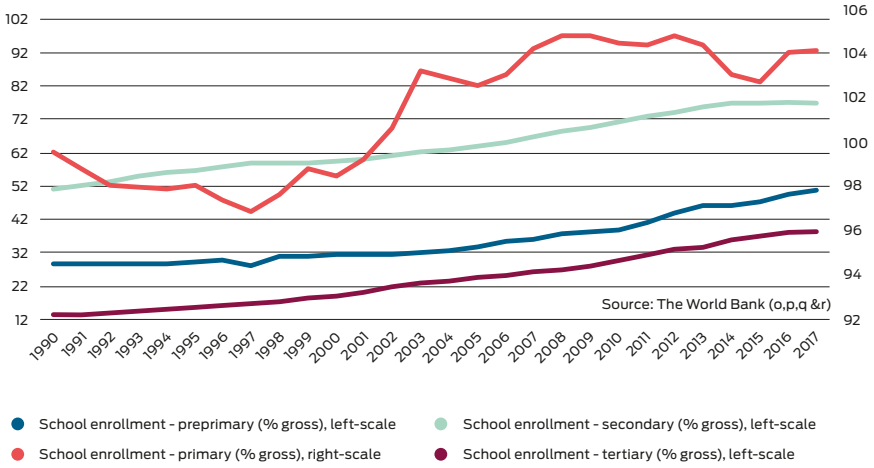
<sup>19</sup> Pinker, S. (2011); Pinker, S. (2018)

**Figure 1.4 Global health inequality – life expectancy at birth (total)**

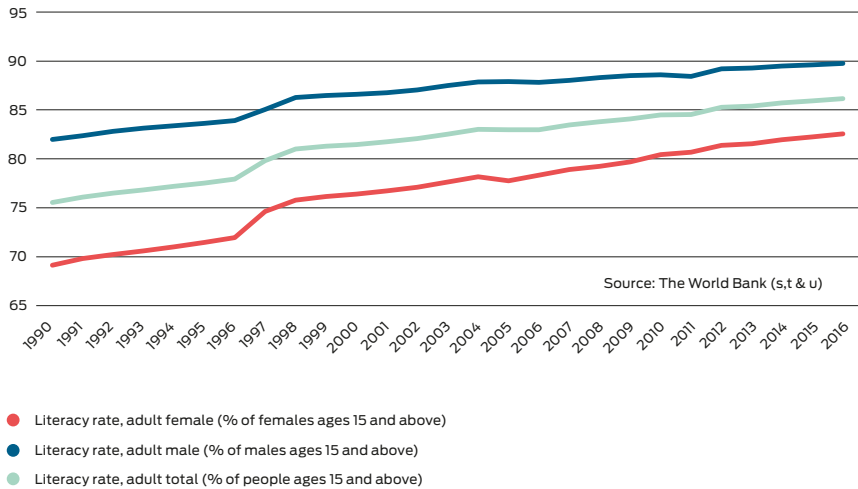
Besides having played a crucial role in global poverty reduction as measured only in monetary terms, global economic growth also coincided with and enabled higher educational attainment, as well as the satisfaction of basic necessities. Educational attainment has increased markedly since 1990 (Figure 1.5). Pre-primary, primary, secondary and tertiary education gross enrolment ratios (GER) have all gone up. GER is a statistical measure used in the education sector to determine the number of students enrolled in school at several different grade levels.<sup>20</sup> The same can be said about the global literacy rate of the total male and female population over the age of 15. The greatest sense of empowerment has been felt among women in developing countries, where the gap between the male and female literacy rate has been steadily closing (Figure 1.6). Furthermore, access to basic modern life necessities, such as electricity, potable water and Internet, has steadily climbed upward, with Internet usage simply skyrocketing (Figure 1.7).

<sup>20</sup> The GER can be over 100 per cent, as it includes students who may be older or younger than the official age group. For instance, the GER includes students who are repeating a grade, those who enrolled later and are older than their classmates and those who have advanced quickly and are younger than their classmates. This allows for the total enrolment to exceed the population that corresponds to that level of education.

**Figure 1.5 Global school enrolment – % gross**

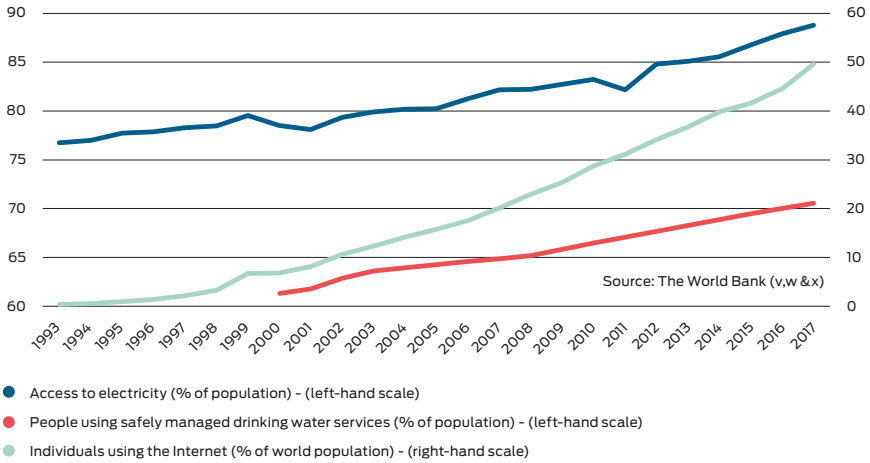


**Figure 1.6 Global adult literacy rate**





**Figure 1.7 Global access to electricity, safe water and Internet**

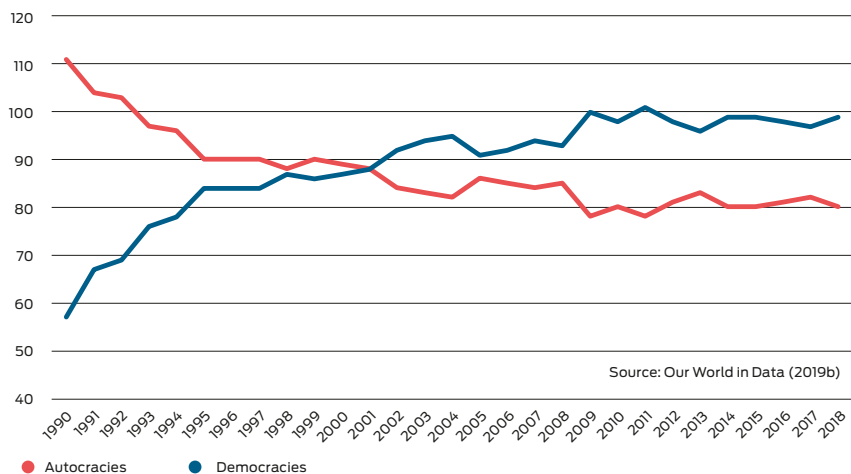


Over the last three decades, we can also observe a constant rise in the number of democracies versus the number of autocracies. The spread of democracy came in several important waves—with the most recent one triggered by the breakdown of communism. More importantly, the rising number of democracies has been followed by a rapid increase in the absolute number of people living in countries with democratic regimes, as well as their bigger share as a percentage of the world’s population (Figures 1.8 and 1.9). For a simple historical comparison, one should note that in the early 1800s only 1 per cent of the world’s population lived in democracies. Why is economic growth and poverty alleviation so important to democracy? Economic growth and the progress generated by it make the world safer for democracy. Once sustainable and prosperous democratic regimes are established, they are less likely to fight each other, according to democratic peace theory. In strong democracies, people tend to be wary of engaging in and escalating conflict, since the stakes are higher and potential losses operate as a powerful deterrent.

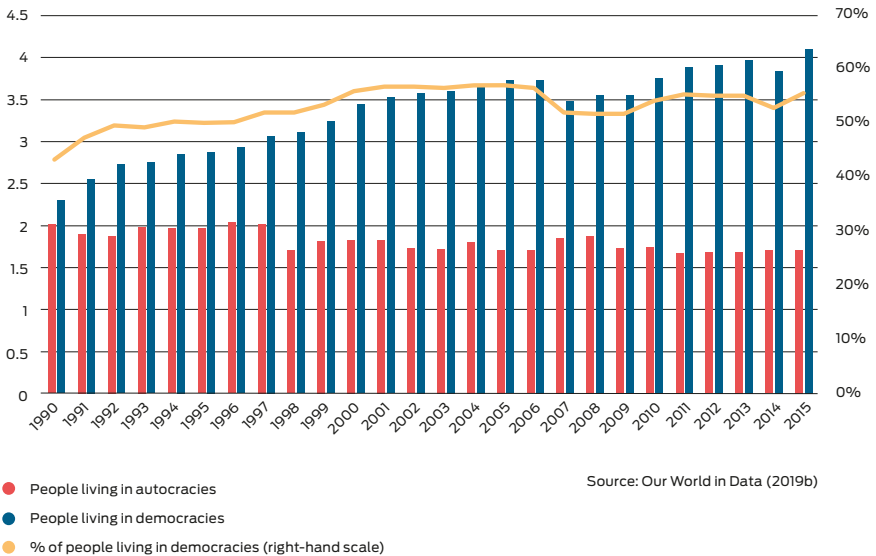
This link has been meticulously explained by renowned political scientist Adam Przeworski and his colleagues. Democracies are unlikely to be established in poor countries; they are more likely to emerge in countries at middle-income levels. On the other hand, democracy is less likely to succeed

if a dictatorship exists in a country with a high level of per-capita income. If democracy reaches and stabilises an income threshold of \$6,055, it is fairly safe from a reversal to autocracy. At the same time, more than 40 democracies in poorer countries have collapsed since 1946. This leads us to the conclusion that affluent democracies can survive wars, riots and political scandals. Among the factors affecting the survival of democracy—such as education, income distribution, political institutions and power relations—income plays the dominant role. And the rate of growth is not what matters the most; the level of income sustains democracy.<sup>21</sup> Greater overall wealth and democracy have had a beneficial role in keeping authoritarian impulses at bay and promoting democratic governance. Nonetheless, they do not protect us from man-made disasters. Despite the recent crisis of confidence in certain established democracies and democratic backsliding in countries such as Turkey and Brazil, there are still many reasons for optimism. Although democracies possess certain built-in flaws, such as inclinations to populism, and despite the existence of alternatives, such as the new model of digital authoritarianism in China, democratic forms of government still exhibit superiority.

**Figure 1.8 Number of autocracies vs. democracies worldwide**



21 Przeworski, A. et al. (2000)

**Figure 1.9 People living in democracies vs. people living in autocracies (billions)**

All of the numbers and figures presented so far corroborate research findings by World Bank economists that growth is good for the world's poor. Based on a sample of 118 countries over four decades, they conclude that the incomes of the bottom 20 per cent and the bottom 40 per cent generally rise in equal proportion with mean incomes as economic growth proceeds. They postulate that most of the variation in income growth in the poorest quintile reflects growth in average incomes, rather than changes in the share of incomes accrued among the poorest quintile.<sup>22</sup> No matter what critics might say, economic growth remains the best pro-poor policy in the eyes of policy-makers globally.

Nevertheless, one might wonder how feasible and ethical this approach is, now that the problems of global warming and climate change are beginning to receive more media coverage. Yes, climate change will be a very dangerous problem if we maintain a “business as usual” approach. Many radical voices air the critique that capitalism is simply incompatible with effective climate action

22 Dollar, Kleineberg and Kraay (2014)

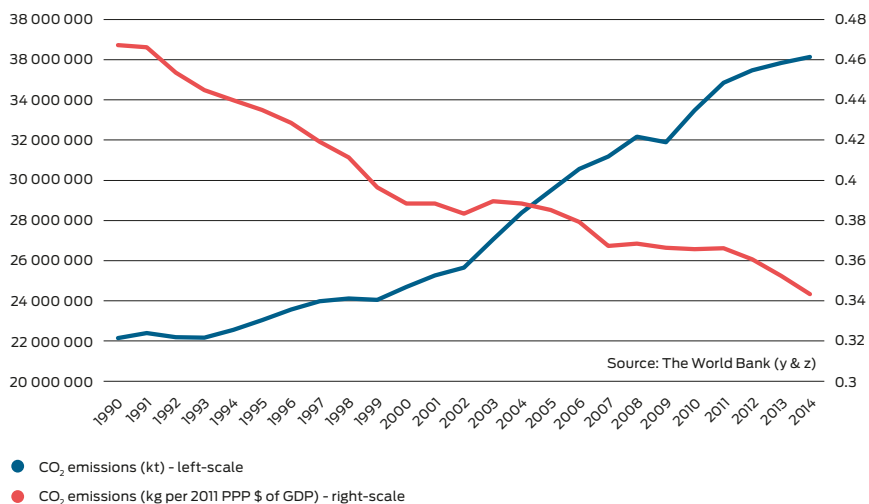
and advocate swift anti-growth and decarbonisation actions. But capitalism is malleable, and it is possible to reinvent it. Decentralised market mechanisms such as carbon pricing, tougher regulations and incentivising the research and development of cost-efficient alternative fuels are all possible. After all, CO<sub>2</sub> emissions measured in kg per unit of GDP, measured in 2011 PPP dollars, have been reduced by a third since 1990. What remains unresolved is the impact of a total increase in CO<sub>2</sub> emissions globally. Figure 1.10 shows that CO<sub>2</sub> emission spiked by more than 72 per cent over the same period. Addressing a problem of this magnitude requires a combination of public policy and private competition. Hence, developing countries do not need to sacrifice growth and suffer from climate injustice. Clear targets on the part of committed policy-makers can transform rational self-interest from a potentially catastrophic force into a powerful driver of beneficial change.<sup>23</sup> In recent times, the EU has set the example, showing that economic growth and CO<sub>2</sub> reductions can coexist while having lowered its CO<sub>2</sub> emissions by more than 20 per cent since 1990. We also need to invoke a steady decline in emissions of other air pollutants, such as sulphur and nitrogen oxides. In the end, the EU is a normative power and the biggest trading bloc in the world, so it can shape policy choices related to the environment via trade agreements with the rest of the world. The devastating impact of climate change can be mitigated and the well-being of poor people can be ensured. Hence, the right approach lies with “light green” environmentalists who develop and invest in new technologies. They also create policy solutions conducive to businesses that are eager to solve the complex issues of climate change. After all, capitalism is a complex-adaptive and problem-solving system. As opposed to that scenario, the “cure” offered by “dark green” environmentalism, which is imbued by far-left anti-capitalism, is worse than the disease itself—this agenda is inimical to lifting millions of people from destitution.<sup>24</sup> Besides, increased prosperity enhances the resilience of societies worldwide and enables them to better cope with environmental stresses. You can read more about climate policy in the chapter ‘Combating climate change the liberal way’.

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<sup>23</sup> Turner (2019)

<sup>24</sup> Lomborg (2019a); Lomborg (2019b); Jebesen Moore (2019)

**Figure 1.10 Total carbon dioxide emissions and carbon dioxide intensity of growth globally**



After considering the data and taking the whole world as a reference point, we can easily conclude that we have finally managed to start winning the fight against global poverty while also improving the state of global distribution of income—as demonstrated in the fourth part of this chapter. Great divergence is not the tale of our times anymore: in a remarkable twist of historical events, convened by the steady rise of economic and political freedoms across the world, the story of great convergence has taken its place.

## Why do we fail to see good things happening?

Cultural historian Arthur Herman said ‘virtually every culture, past or present, has believed that men and women are not up to the standards of their parents and forebears’.<sup>25</sup> Our generation is no exception, despite living in an ever-more interconnected world. Unfortunately, the unique trajectory of progress is

<sup>25</sup> Herman (1997)

hard to grasp for the majority of people worldwide due to various psychological mechanisms at work—most prominently and precisely explained by the late Swedish physician Hans Rosling and Harvard psychologist Steven Pinker. This comes as stark contrast to personal attitudes and beliefs about people’s own futures, which are generally positive. Several studies have concluded that humans are mostly local optimists and national pessimists; this has been inferred many times from the discrepancies between individuals’ personal outlook and their assessment of the health of the national economy. What are the key instincts that keep us from realising that we live in a golden age?

For starters, the generalisation instinct makes us think in binary categories of rich vs. poor, good vs. evil, while totally neglecting the rich spectrum of experience in the middle. Negativity creates unnecessary pessimism because humans have a tendency to notice the bad more than the good. As former hunter-gatherers, we are evolutionarily programmed to be alert in order to avoid potential dangers, like a pack of wolves, even if this means missing out on the spectacle of a sunrise. Mass media can further aggravate this tendency by focusing only on bad news and neglecting gradual improvements over time due to the over-coverage of periodic dips in generally positive trends.

This kind of reasoning establishes the apparent equivalence between temporary bad experiences and more permanent trends. Then there are the deeply ingrained fear and size instincts which distort the accurate risk calculation of a given event. People tend to exaggerate the advent of scary events by a wide margin. Generalisation and destiny instincts also add to our psychological baggage. Being too focused on the present could seriously distract us from long-term goals. Making generalisations is one of the best-known examples of heuristics, or shortcuts in decision making. Exactly this kind of mechanism on the part of the “automatic brain” saves the mental energy of our “deliberate brain”. A good example can be made by referring to the availability heuristic, which bends our thinking towards information that springs to mind quickly.<sup>26</sup> Our brains treat this kind of information as more significant and probable, which leads us to an erroneous estimate of the probability for similar things to happen in the future. Unsurprisingly, the human brain loves virtue-signalling and being part of a

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<sup>26</sup> Kahnemann (2011)

larger “tribe”. Hence, the instincts mentioned above fulfil important psychological needs that are quite separate from any desire to find a solution.

Human beings fall prey to cognitive biases that constitute systematic deviation from rational judgement. All of the above instincts have an unconscious and perverse impact on our daily life, exacerbated by clickbait media and social networking. Such narratives are good from a commercial standpoint that thrives on sensational and emotional soundbites, but they are toxic to nuanced and detailed policy analysis. Swedish economic historian Johan Norberg put it succinctly: ‘Part of our problem is one of success. As we get richer, our tolerance for global poverty diminishes. So, we get angrier about injustices. Charities quite rightly wish to raise funds, so they draw our attention to the plight of the world’s poorest’.<sup>27</sup> Nonetheless, we are not necessarily doomed by the instincts described above. *Factfulness*, an extraordinary book written by the Rosling family, offers us effective rules of thumb geared at addressing these instincts.<sup>28</sup> Making small incremental steps in designing policy solutions, resisting the blame game, expanding policy toolkits, calculating risks appropriately, and questioning the categories into which we divide our complex world are just some of the solutions to our “wicked problems”, such as poverty, climate change and violence. Solving wicked problems is tricky, because they support the dearly held values of policy-makers themselves. However, they are not insurmountable if a shared narrative is being created, serving as a middle ground between extremes. You can read more about this in the chapter ‘Why do we have a pessimistic view of the world’s development?’

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<sup>27</sup> Norberg (2016)

<sup>28</sup> Rosling, H.; Rosling, O. and Rosling Rönnlund, A. (2018)

## What is the major force behind all this progress and its relationship with income inequality?

Globalisation represents a complex and multi-layered phenomenon. There are plenty of definitions of globalisation, but most of them take into account increased openness to trade, migration and capital flows, citizens of different countries communicating with each other and exchanging ideas and governments working together in multiple fora to tackle political problems of global reach.<sup>29</sup> It is extremely difficult to measure globalisation. In spite of this difficulty, the KOF Swiss Economic Institute has developed a unique empirical measure of globalisation. The KOF globalisation index encompasses the economic, social and political dimensions of globalisation. Globalisation in the economic, social and political fields has been on the rise since the 1970s, and it saw a tremendous boost in the wake of the Cold War (see Figure 1.11). In a time-span of only three decades, globalisation has decisively contributed to staggering economic improvement worldwide. Starting in 1990, the average global GDP per capita amounted to \$7,185 (measured in constant 2010 US dollars), while in 2016 it climbed to \$10,468 (see Figure 1.12). Remarkably, the trend in income growth mimics the KOF globalisation index scores during the whole period for which both datasets exist. In 1990, the KOF globalisation index had a value of 43.93, while in 2016 (the last year for which the calculation is available) it shot up to 61.7.<sup>30</sup> This causal link—leading to higher medium-term growth rates through economic openness—was demonstrated on a sample of 137 countries enjoying economic growth. Economic, social and political globalisation are positively associated with economic growth, especially in developing countries, due to enhanced economic and information flows. When we compare the opening up of economies since 1990 and pair this with economic performance, we can also conclude that more globalised regions fared economically better. A case in point is the fate of Sub-Saharan Africa and East Asia. World KOF globalisation index values and the corresponding values for Sub-Saharan

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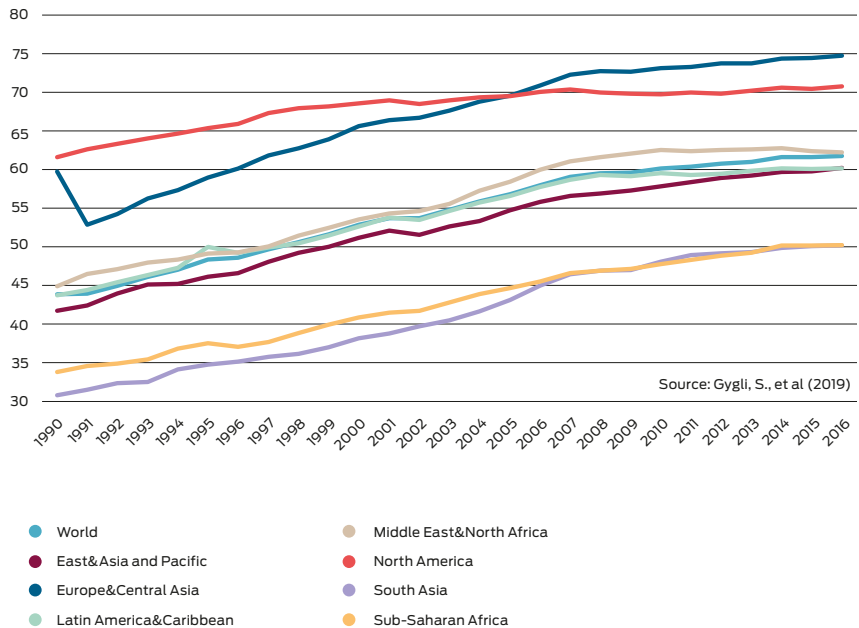
29 Gygli, S. et al. (2019)

30 If we use simple linear regression as an analytical tool and regress world income per capita (in 2010 constant USD) on the KOF Globalization Index, we can conclude that 95.5 per cent of the variation in value of the dependent variable (world income per capita) could be explained by the independent variable (the KOF Globalization Index).

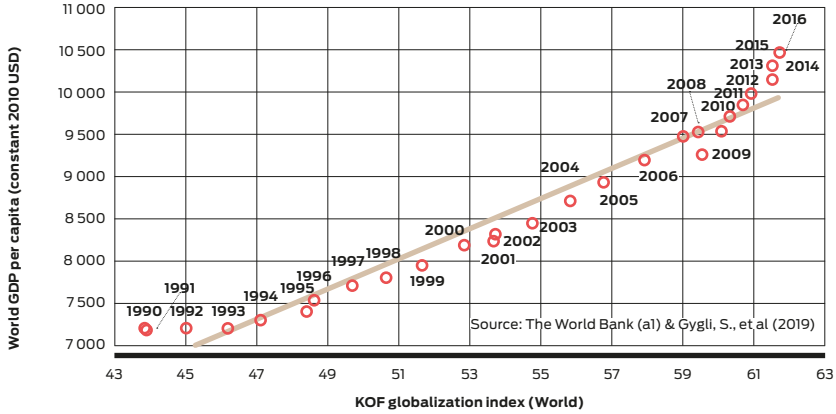


Africa and East Asia and the Pacific regions have gone in opposite directions: while East Asia and the Pacific narrowed its relatively small gap with the world, Sub-Saharan Africa experienced an increase in this distance—regardless of the fact that both experienced rising absolute levels of globalisation. Simply put, Sub-Saharan Africa has not run fast enough. This contrast is even starker if we focus our attention on the regions’ economic performance. The rapid take-off of Asia (excluding the Middle East) overshadows meagre performance across Sub-Saharan Africa (see Figure 1.13). During the same period, North America and Europe kept their absolute advantage due to higher initial baselines (Figure 1.14). However, there has been a global process of relative convergence with economies at the frontier, especially in Asia.

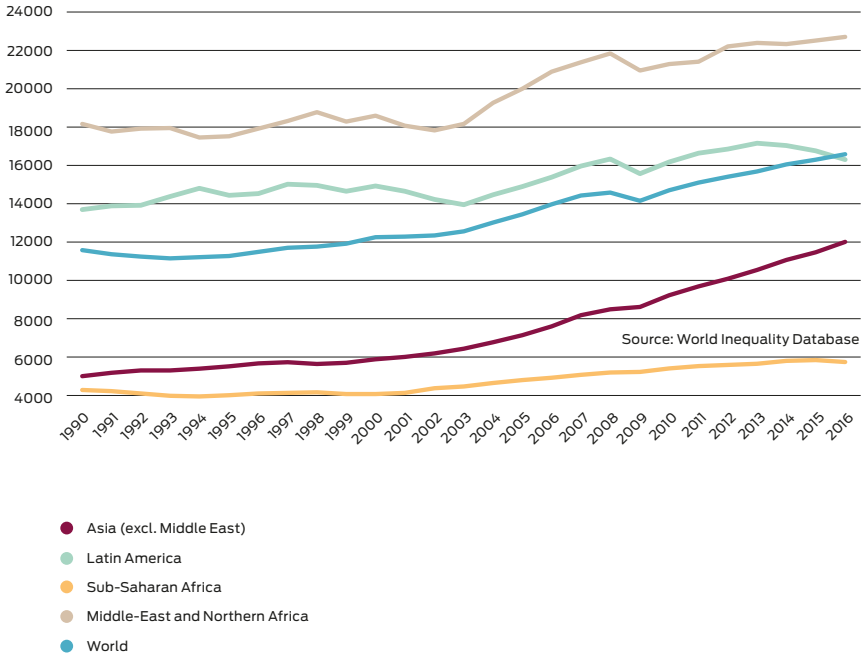
**Figure 1.11 KOF globalisation index**



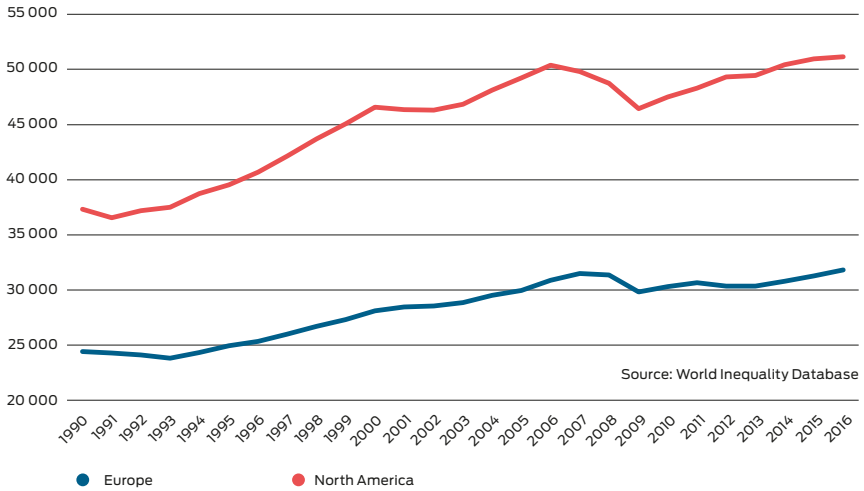
**Figure 1.12 Openness to globalisation and economic growth**



**Figure 1.13 Total national income per capita in 2018 (constant EUR ppp)**



**Figure 1.14 Total national income per capita in 2018 (constant EUR ppp)**



Not only have we grown collectively, but we have also created a more equal distribution of income on a global scale. From the advent of the Industrial Revolution until the end of the Cold War, one can trace an era of great divergence between early industrialisers and the rest of the world—notwithstanding the remarkable progress made by Japan and Asia since World War II. Globalisation only accelerated in the early 1990s when the information and communication technology (ICT) revolution radically lowered the cost of moving ideas. This launched globalisation’s next phase, which economist Richard Baldwin labels the ‘second unbundling’.<sup>31</sup> This phase enabled the creation of global value chains spanning rich and poor countries alike. The existence of the original North-South divide, created by the ‘first unbundling’ that produced lower trade costs but also kept communication costs high, has been conducive to the coordination of complex activities at a distance, once the communication costs fell abruptly.

A new dataset on inequality, compiled by the Bruegel think tank, presents a standard economic inequality metric called the Gini coefficient for the world as a whole. The Gini coefficient is the most common measure of inequality. It ranges theoretically from 0, when everyone has exactly the same income, to 100

<sup>31</sup> Baldwin, R. (2016)

(or 1), when a single individual receives all the income of a society. According to this measure, global inequality decreased by 9.6 Gini points, from about 66.9 in 1988 to 57.3 in 2016.<sup>32&33</sup> Solely looking at the convergence of mean incomes across the globe, one would have observed an 11.2 point decline; this was offset, however, by rising domestic inequality in big countries such as the US, China, Russia and the UK as well as by relative population growth in poorer countries. Even after taking into account measures of income inequality that are more intuitive than the Gini coefficient—e.g., a measure which tries to assess how much pre-tax income ends up in the hands of the top 1 per cent, the top 10 per cent, the bottom 50 per cent and the middle 40 per cent of a population—we can come up with a very similar conclusion.

If we rely on data provided by the World Inequality Database, we can trace the overall distribution of income within six geographical entities and the world as a whole (Figures 1.15–1.18). Globally, the share of the bottom 50 per cent has slightly increased since 1990, while the share of the middle 40 per cent experienced a major drop between 1988 and the early 2000s, when it staged a significant recovery up to 2016. On the other hand, there is an inverse relationship between the income share of the world’s top 1 per cent and top 10 per cent and the share of the middle 40 per cent for both periods in question.

These numbers and trends do not invalidate the existence of opposite cases, such as the widening income gaps in North America and Europe. However, Europe has been much more successful in preventing rising income concentration at the top. This comes as no surprise, since in European countries there is a bigger difference between market and net income inequality, whereby net inequality is measured *after* taxes and social transfers. It is widely understood that the latter form of inequality is lower in Europe, but there is less awareness of the fact that market income inequalities (pre-tax and before social transfers) in Europe are similar to those in the US.

Reasonable levels of redistribution in the context of accountable, transparent and effective political institutions can definitely reconcile the goal of

32 Darvas, Z. (2018)

33 One important reason behind the misperception of how well the world is doing in terms of fighting against poverty by means of economic growth is the blurred picture produced by looking only at country-by-country growth diffusion instead of taking into account the growth weighted by a country’s population. The story of poverty reduction has been most affected by what is happening in China and India.

vibrant and innovative economies with that of higher social cohesion. Sweden and Finland are among the world's top 10 innovative economies, according to the Bloomberg innovation index, irrespective of their strong preference towards redistribution. Despite the fact that some parts of the world (such as the US) have grown their economies while concentrating income at the top, Figure 1.20 shows that, globally, there is no pronounced trade-off between growth and inequality, as postulated by the economist Arthur Okun in his 1975 book *Equality and Efficiency: The Big Tradeoff*. If viewed through the prism of the 'second unbundling' from the early 2000s, global growth has gone hand-in-hand with lower levels of income inequality.

When it comes to wealth inequality, we have much less reliable data, especially if a detailed global calculation and comparison is desired. There is a huge gap between those who possess wealth and those who don't. The World Inequality Report for 2018 shows that the share of the top 1 per cent of wealth owners in China, Europe and the US increased from 28 per cent in 1980 to 33 per cent today, while the bottom 75 per cent population's share has hovered around 10 per cent.<sup>34&35</sup> Nevertheless, this trend is only modestly present in the UK and France, while the largest wealth concentrations can be found in China and the US.

By the same token, wealth inequality is not as important as income inequality for estimating the true well-being of an individual. Nowadays, wealth composition primarily reflects asset prices, especially the prices of stocks and real estate. Big swings in the wealth of the world's top billionaires don't usually represent changes in the amount of real, physical resources they command, and it doesn't prove that they are 'monopolizing progress'.<sup>36</sup> This says far more about the presence of irrational expectations on the part of investors than about changes in economic fundamentals of the existing business model, such as a firm's growth potential.

Oxfam studies regularly overhype wealth concentration estimates, applying dubious assumptions of how to measure wealth and the corresponding distinc-

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34 Alvarado, F. et al. (2018)

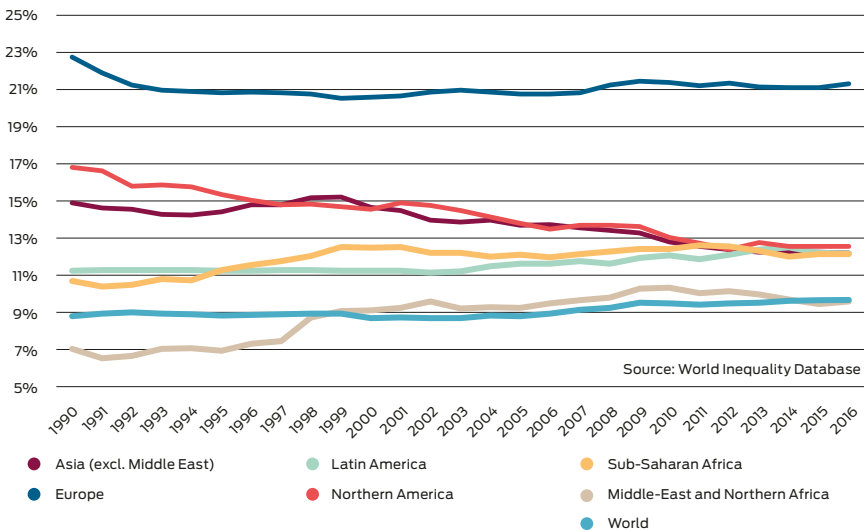
35 'The rich get richer and the poor get poorer' is an often-repeated mantra that evokes the inevitability of Marx's law of increasing poverty. However, total wealth today is vastly greater than it was at the beginning of the 20th century, so if the poorer 70 per cent of the population own the same proportion then as now, they are far richer today.

36 Smith, A. (2019)

tion between rich and poor. Somebody holding a mortgage debt after buying a luxury condo in Miami will be considered poorer than a farmer in Malawi, which is absurd.<sup>37</sup> Wealth inequality in advanced economies may indeed have deleterious consequences for political and financial stability, but there are myriad ways to mitigate those consequences. On the other hand, if we look at the bigger picture, then we have far more reason to hope. Too much focus on wealth inequality distracts policy-makers and citizens from the fact that global economic growth has actually reduced global income inequality.

There is no ironclad law between equality and growth, which are apparently locked in a zero-sum game. Our calculation (Figure 1.19) demonstrates that the right dose of incentives fostered by higher initial levels of inequality on the one hand, as well as innovation, knowledge dissemination, technology diffusion and healthy competition opened up by globalisation, on the other, have brought about income convergence and increased the value of wealth for all. All of this is not the result of some irresistible force at work but rather the consequence of human choices in the domain of political economy. We will delve into this important issue in the next section.

**Figure 1.15 Bottom 50 per cent share of pre-tax income**



<sup>37</sup> Assumptions like this one distort the overall picture, since the wealth shift would reflect a debt change instead of a swing in value of real asset holdings. Furthermore, it is simply wrong to calculate wealth distribution by using market exchange rates between the US dollars and local currencies. Currency market gyrations largely mislead real estimates.

Figure 1.16 Middle 40 per cent share of pre-tax income

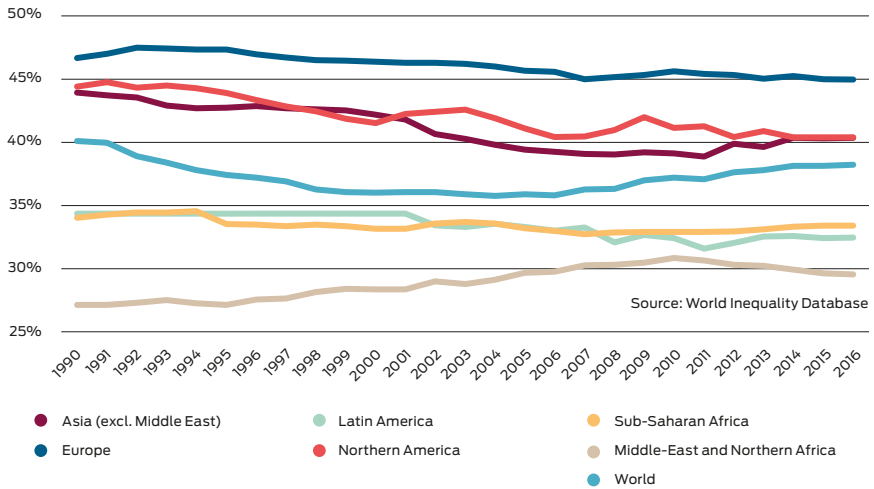
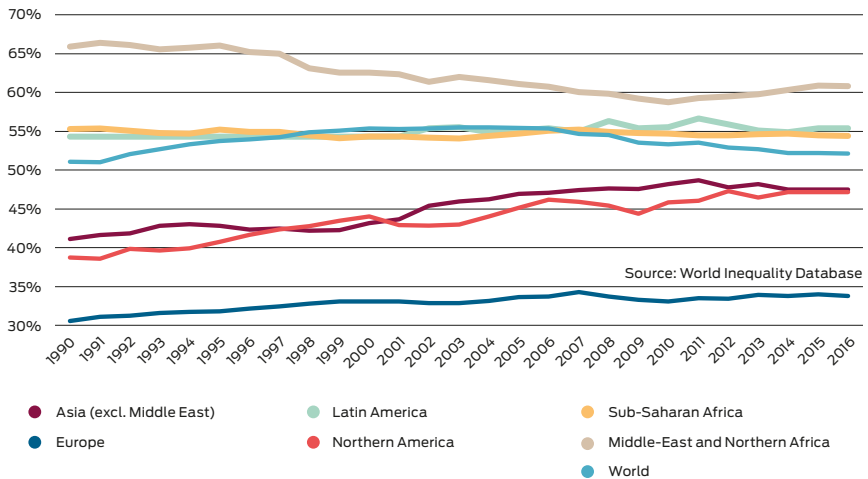
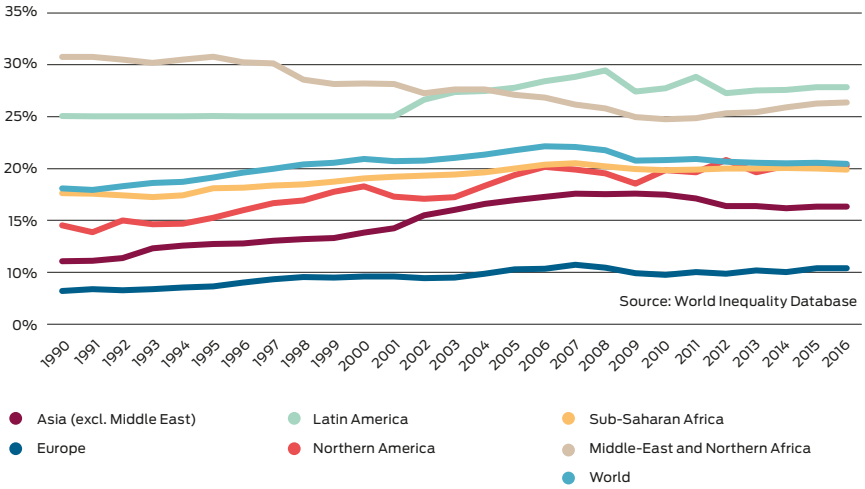


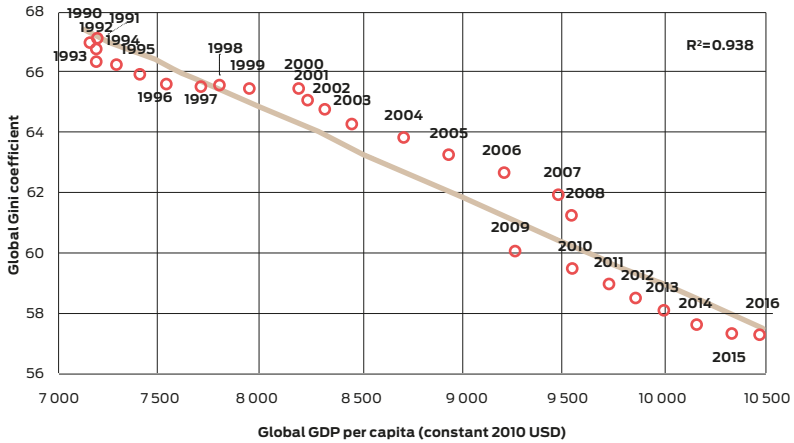
Figure 1.17 Top 10 per cent share of pre-tax income



**Figure 1.18 Top 1 per cent share of pre-tax income**



**Figure 1.19 Global inequality vs. global growth**



Source: Bruegel (2018); World Bank (bi)



## What went wrong with globalisation, and how can we address its fault lines?

How did globalisation's image as a force pushing forward the vision of an interconnected, prosperous and open world become so tarnished and discredited? Regrettably, public discourse and media accounts lump a lot of divergent forces into a single notion called globalisation. However, not all of them deserve equal treatment when trying to explain unpleasant outcomes such as job losses, mortgage defaults or a growing sense of insecurity. Equally, not all of them can take the same amount of credit for the remarkable progress we discussed in the first part of this chapter. For instance, product market liberalisation and deregulation come under the header of microeconomics. Destabilising international capital flows and self-defeating fiscal austerity in the eurozone are part of macroeconomics. Lower transport costs and new labour-saving technologies fall under the rubric of exogenous structural change.<sup>38</sup> Globalisation is not some irresistible force of nature that cannot be shaped, and there is scant evidence that it requires reductions in social spending, the slashing of corporate governance regulations or the cutting of certain categories of taxes such as estate or inheritance tax.<sup>39</sup> Merging together all three components (microeconomic reforms, aimed at creating efficient market structures; macroeconomic policy-making; and external changes in the domain of transport and technology) and collectively referring to them as globalisation only causes confusion because it makes the choice a binary one: either you are for it or against it. This is totally counterproductive, since political forces are able to use this confusion to advocate for the reversal of this process of opening up. The rising popularity of such groups might throw the baby of liberal international economic order out with the bathwater of bad macroeconomic policy. Essentially, the lack of a credible defence of liberal economic policies and institutions such as the WTO or the EU, as well as the silent acceptance of bad macroeconomic decisions like poorly coordinated fiscal policies among eurozone members, opens the door for populists to falsely claim that liberal policies are at the root of the problem.

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<sup>38</sup> Velasco, A. (2016)

<sup>39</sup> Tilford, S. (2017)

Since the early 2000s, there has been a considerable surge in populism across the globe, and it has accelerated again following the global financial crisis of 2008 and 2009. Among a sample of 20 countries with at least one populist party, such parties' voting shares more than doubled between the early 2000s and the mid-2010s.<sup>40</sup> Interestingly, a backlash against globalisation has occurred in the domains of trade, technology and migration but not in financial integration. Why is this so? In the domain of tangible or real integration, one can easily identify so-called perpetrators and victims, which is not so convenient in the case of financial integration.<sup>41</sup> The narrative constructed when discussing trade and similar issues can be very salient and conducive to political mobilisation along the lines of “us” vs. “them”. Foreign migrants, foreign goods and foreign technology possess the air of tangibility, and one can exclusively attribute negative outcomes to them—whether merited or not. Economic anxiety and distributional struggles, amplified by globalisation, definitely create a basis for the so-called “demand side” of populism. However, the relative availability of societal cleavages and narratives peddled by populist politicians also channel existing grievances, and this constitutes the “supply side” of populism.<sup>42</sup>

On the other hand, “hot money flows”, which is the core tenet of expanding financial globalisation and is empirically related to greater incidences of financial crises over time, is a less politically divisive issue.<sup>43</sup> There are several potential answers to this puzzle. First, these flows frequently encompass the very money invested by average citizens into asset management institutions, pension funds and insurance companies, and crisis perpetrators are not readily identifiable. Second, they are more impersonal in nature as opposed to easily identifiable targets such as banks. Even in this case, it is very difficult to disentangle the real culprit behind a crisis, since one needs two sides for reckless lending and borrowing to take place. Therefore, political constituencies across the world do a poor job of demanding that their political representatives find better financial architecture to regulate destabilising transnational capital flows. If we add to this the fact that elites in several western countries have

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40 Rodrik, D. (2018)

41 Subramanian, A. (2018)

42 Rodrik, D. (2019)

43 There are several important factors that link foreign capital inflows not only with increased probability of crises but also with increased income inequality in the crises' aftermath (Ghosh et al., 2016; Fourceri and Loungani, 2015).

discredited themselves not only by permitting financial excesses, but also by failing to fairly allocate the ensuing losses according to free market principles, then we can far better understand the murky undercurrents undermining liberal democracy and the market economy. Unfortunately, this puts the world on track for a much less beneficial kind of globalisation while real sources of progress are undercut.

Contrary to the anti-globalisation proselytising of the political left and right, we can undertake corrective actions to compensate the losers of globalisation and provide the necessary social glue holding our societies and states together. Global plutocracy and waves of populism are not in our destiny. Those on the left should be aware that aggressive attempts to eliminate inequality may prove to be expensive and pointless. Additional measures which divert resources from those with more human capital to those with less, bypassing the criteria of achievement and merit, undermine dynamism. In the long run, preferential treatment of underperformers may be worse than inequality itself. Innovation and growth are indispensable for funding programmes that come more broadly or narrowly under the banner of the welfare state and which are so cherished by those left of the political centre. One should primarily view bad inequality as the main enemy, not inequality per se. On the other hand, those sitting on the right should realise how important it is to carefully manage social safety nets that diminish the sense of economic insecurity. Major government programmes such as education and healthcare are not necessarily beasts that need to be starved, but do require proper functioning with efficient and fair provision.<sup>44</sup> Paying reasonable taxes and donating money to properly designed and evaluated programmes is something we all have to do in order to keep the achievements of an enlightened society. Evolving social norms should support that policy course.

Well-designed liberal and centrist solutions can reconcile the market economy's vicissitudes through social cohesion. Nordic countries are the best example of how to tackle this false dilemma: efficient spending on education and social transfers. For instance, all EU member states have been exposed to

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44 Mueller, J.Z. (2013)

direct or indirect pressures for reforms which are related to globalisation and liberalisation, but some of them fare much better due to smart policy solutions. Policy-makers and citizens should remember three important lessons to keep the wheels of globalisation turning. First, the notion of a market lumps together markets for goods, labour and capital. We have learned so far that the market for potatoes is not the same as the market for loans or capital transactions. More regulation in the latter domain does not preclude more deregulation in the former, which is indeed necessary for continued dynamism and progress. Product and labour market liberation, as well as rising openness to trade, have brought about tremendous progress; overly strict regulation is not necessary to achieve more egalitarian outcomes. Hence, a decrease in global inequality and a sharp increase in within-country inequalities are not inevitable outcomes. Second, it is important to be Keynesian during both parts of the business cycle. One cannot spend incessantly, regardless of the underlying macroeconomic conditions. However, this does not lessen the need for better international fiscal coordination between debtor and creditor countries to distribute the burden of adjustment more fairly, as exemplified by the recent eurozone crisis. Third, progressive ends are not the same as blunt and statist means to those ends. Addressing the existing problems with the heavy hand of the state can serve to aggravate them. In some cases, we need a more market-based solution, while in others we need more enlightened state interventions. However, the two are inseparable, as explained earlier in our discussion on climate change.

Of course, we should not forget that globalisation sometimes comes with its downsides, as already explained when warning of the dangers of excessive capital mobility and the ensuing debt-pollution created by too much financial deregulation.<sup>45</sup> We should always be aware that financial globalisation can be a mixed blessing. However, there are two more issues that need to be addressed via the means of international cooperation—because they act as fiscal termites to the healthy functioning of the welfare state in the long run.<sup>46</sup> First, there is evidence that globalisation makes it harder to raise the taxes needed to pro-

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<sup>45</sup> One should differentiate between debt created for producing new goods and services and debt created only for the purpose of buying existing goods and services, such as real estate.

<sup>46</sup> 'Fiscal termites' refers to several globalisation-related processes which lead to the erosion of nation-states' capacity to raise taxes (e.g., offshore financial centres, electronic money, intracompany trade, derivatives and hedge funds or the difficulty of levying taxes on financial capital).

vide public goods. Unbridled tax competition among nation states leads to the undesirable erosion of corporate tax revenues, which hampers the maintenance of public sectors at economically efficient levels. Ultimately, it drives market concentration and monopolisation because it tilts the playing field in favour of incumbent multinational corporations and against smaller potential competitors.<sup>47</sup> In that regard, EU member states should spearhead new efforts for taxing multinationals according to where they generate their cash-flow or add value. Furthermore, tackling tax havens by pushing for global agreements on transparency in financial transfers would also help. Second, some policy-makers in the west have underestimated the effect of unfettered migration on the weakening of the nation-state's capacity to ensure growth with equity. President Macron's recent statement that it is necessary to distinguish between deserving asylum-seekers fleeing war from economic migrants in order to stop voters running into the arms of far-right populists is an important realisation that the process needs to be well managed. More than 750 million people worldwide would migrate if they could. It is also sane to assume that developed countries lack the necessary absorptive capacity to handle such a large flow.<sup>48</sup> Recent recommendations by renowned economists such as Branko Milanović and Dani Rodrik try to reconcile both the risks of unfettered migration with the moral imperative to help the global poor. They suggest that migration be changed so that it is much more akin to temporary labour without automatic access to citizenship and the entire gamut of welfare benefits.<sup>49</sup> Both issues can be successfully dealt with via means of effective international cooperation so that the momentum of globalisation can be sustained without jeopardising the very progress it creates.

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47 Tilford, S. (2018)

48 Esipova, N. et al. (2018); Collier, P. (2013)

49 Rodrik, D. (2018); Milanović, B. (2016)

## Conclusion

Capitalism that thrives under the conditions of globalisation is liberation. It unlocks human beings' immense ingenuity. Indeed, this progress has been immense. Educational attainment, literacy, global life expectancy and access to basic life necessities such as water, electricity and the Internet have all gone up. Democracy has spread vigorously, while incidences of violence are at historical lows. The same downward trend can be also traced in data on global income inequality and global poverty. At the same time, this innovative spirit sometimes creates new forms of exploitation which privilege a tiny minority at the expense of the common good. Negative externalities like global warming through CO<sub>2</sub> emissions or increased financial instability are good examples.<sup>50</sup> The good news is that we are not doomed to this outcome. Branko Milanović's latest book *Capitalism, Alone* presents a powerful message.<sup>51</sup> We are all capitalists now, and the system has triumphed because it works. It has its flaws, but we have to work to improve it, as the system is malleable. For instance, mitigating the adverse effects of global warming could be effectively achieved by creating a race to the top instead of a dangerous race to the bottom—without compromising the capitalist growth potential so essential in our collective fight against global poverty. Setting higher standards by passing laws mandating energy-efficient and carbon-neutral buildings and cars, developing social norms which reward sustainable thinking and creating property rights are all available policy tools.<sup>52</sup> Furthermore, America's Business Roundtable's recent decision to affirm a multi-stakeholder model in contrast to shareholder primacy is only one of the steps needed to prevent excesses on the part of a flawed and dysfunctional corporate governance model. Instead of only putting emphasis on the principle of shareholder value and short-term financial indicators, corporate managers ought to take into consideration the wider societal impact of their

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50 A negative externality is any difference between the private cost of an action or decision by producers and consumers, as first and second parties to a particular transaction, and the wider social cost. Hence, a negative externality is anything that causes an indirect cost to third-party individuals and constitutes a reduction of social welfare, e.g., communities in the Indian Ocean adversely affected by rising sea levels—something which has not occurred by their own volition, but rather as a consequence of other parties' transactions, somewhere else.

51 Milanović, B. (2019)

52 One example of creating property rights is to grant certain rights or individual quotas of CO<sub>2</sub> emissions to various business entities with a credible and significant long-term decrease in its overall CO<sub>2</sub> emissions quota. That way, one can establish a tradable allowances market, which enables less efficient businesses to buy CO<sub>2</sub> emissions quotas from more efficient businesses without sacrificing jobs or growth in the short term, while ensuring decarbonisation in the long term.

decisions (e.g., on consumers, workers, suppliers and citizens). We can also beef up instruments against cronyism, with the goals of taxing and shaming excessive lobbying that is equivalent to an arms race with accompanying inefficient outcomes.<sup>53</sup> Even Milton Friedman articulated the goal of maximising shareholder value under the assumption that the ‘basic rules of the game are off limits to firms’.<sup>54</sup> In their excellent book, *Winner-Take-All-Politics*, political scientists Jacob S. Hacker and Paul Pierson (2010) argue that, contrary to conventional wisdom, the dramatic increase in inequality of income in the US since 1978 is not the inevitable result of increased competition from globalisation but is the work of political forces.<sup>55</sup> Those at the very top dramatically cut their taxes, unduly deregulated the financial industry and kept corporate governance lax. This should open our eyes to avoid mistaking pro-business attitudes with pro-market ones. In contrast to Piketty (2014), who argues that inequality inexorably widens under capitalism, Milanović (2016) sees it moving in waves or cycles under the impact of what he describes as benign and malign forces. Not all forces that bring about greater equality are malign forces akin to the four horsemen of the apocalypse.<sup>56&57</sup>

In this chapter we have shown that income and wealth inequality are complex phenomena and that they are not contrary to progress and globalisation. Only constant vigilance by well-informed and freedom-loving citizens worldwide can ensure the right balance between dynamism and decency in capitalist societies, as well as between global and local concerns. Capitalism and the free market economy are indispensable elements in generating prosperity, but fairness and meritocracy are the key to their continued legitimacy. Hence, creating a well-articulated and broad common narrative which recognises our past achievements, current problems and future solutions is essential for continued dialogue and progress towards effective solutions. In times of rising signs

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53 Contrary to what University of Chicago Professor Gary Becker claimed (that competition among lobbies leads to efficient outcomes), this can only be true if two assumptions are validated: first, that lobbying only provides information and does not aim at influencing outcomes; and second, that different interest groups should have equal capacity to organise and finance their lobbying activities. In reality, this is almost impossible.

54 Zingales, L. (2016)

55 Hacker, J.S. and Pierson, P. (2010)

56 Piketty, T. (2014); Milanović, B. (2016)

57 In his recent book, *The Great Leveler*, Walter Scheidel explains why inequality is unlikely to decline anytime soon. Scheidel attributes inequality reduction primarily to the “four horsemen”: mass-mobilisation warfare, transformative revolutions, state collapse and catastrophic plagues.

of economic de-globalisation, it is all the more important to remind the general public and policy-makers of how globalisation and capitalism have shaped our world for the better, bringing about shared prosperity and peace. A world of future cooperation, mutual trust and constant improvement is needed for ensuring inclusive and sustainable growth. Let's embrace it and work for the benefit of not only ourselves but also our posterity.



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# A brighter future without fear of inequalities in Europe

Dominik Kirchdorfer

## Equality vs. equity

Inequality is a powerful word. It carries so many connotations and hidden meanings that it is one of the most effective buzzwords in any politician's lexicon. In fact, it is so complex an issue that we are spending not one but two chapters on it, and as you read this book, you will see that it connects with many other issues near and dear to our hearts.

What exactly does inequality mean? There are many forms of inequality and a multitude of perspectives for us to look at. For example, we can see economic inequality between continents, nations, industries, genders, education levels, etc. But we can also look at inequality in civil rights, such as the right to same-sex marriage or abortion—or even something as simple as having the right to vote or to be legally represented.

When we hear the sentence “inequality is on the rise”, we immediately think that it is a bad thing. After all, everyone is born equally before the law. That is

the main principle we believe in and base our democratic societies on. But full equality in all societal aspects is not desirable for any of us.

The idea of communism was to make everyone the same. But uniform clothing was the least of people's worries: when you eliminate economic competition to achieve full equality, you take away people's incentives to innovate, or even to be productive at all. History has shown us that the result is a lack of quality and diversity in the products at people's disposal.

My grandmother, who was a Polish doctor, regularly travelled across the Soviet Union to trade goods with people in other countries because no one country had the same products. She would come back home to my mother and her brothers with exciting new foods, such as oranges or chocolate bars, which she had traded for the eggs and other items she had taken with her on her journeys.

Of course, travelling between countries was not something everyone could do in the USSR. Being a doctor, my grandmother had special rights not afforded to other citizens. After all, some people must be in charge and some people's contributions to society are so valuable that they warrant special rights. So much for full equality...

The USSR was flawed to begin with. It disregarded human nature. We may be born equally before the law, but we are not all equal and neither do we try to be. We each have our strengths and weaknesses, things we love and hate. That is what makes us individuals. Full equality is a fantasy that becomes a nightmare when one dares to follow the dream to its conclusion. That is why liberals choose to put equality first only in matters of the law; or, in other words, when it pertains to your rights as a citizen.

In that regard, things have been getting better recently. The European Court of Justice (ECJ) ruled in the summer of 2018 that same-sex married couples who were legally married in another EU member state must be allowed residency permits in EU countries, even if those countries forbid same-sex marriage.

Over the last decade, we have seen a wave of European countries legalise same-sex marriage. Sweden and Norway legalised it in 2009, followed by Iceland and Portugal in 2010, Denmark in 2012, France in 2013, the UK (except for

Northern Ireland) in 2014, Ireland and Luxembourg in 2015 and Finland, Malta and Germany in 2017. In Austria, political parties had faced a deadlock on the issue for a long time until, finally, the Austrian supreme court ruled that the country was discriminating against homosexual citizens' rights and legalised same-sex marriage in 2019. Several other countries are now undergoing the arduous process of legalising same-sex marriage, and many will likely also do so within the next few years.

Of course, it is not all sunshine and rainbows. In fact, we have witnessed the rise of a great number of populists, each shouting that they have an easy answer to every problem we are facing while silently working to destabilise our democracies and removing our precious civil rights. Before we can deal with that issue, we must first have a look at the market.

In matters of the economy, equality is not unimportant, but it must come after our most sacred value: freedom. The core principle guiding liberal policies is that every person must be free to do as they choose, so long as their actions do not impede the freedom of another person. In his magnum opus, *The Wealth of Nations*, the father of free market economics, Adam Smith, wrote:

*Such regulations may, no doubt, be considered as in some respect a violation of natural liberty. But those exertions of the natural liberty of a few individuals, which might endanger the security of the whole society, are, and ought to be, restrained by the laws of all governments; of the most free, as well as for the most despotic. The obligation of building party walls, in order to prevent the communication of fire, is a violation of natural liberty, exactly of the same kind with the regulations of the banking trade which are here proposed.<sup>58</sup>*

In other words, we regulate where too much freedom for one person would disadvantage or harm other people. The art of liberal politics is to strike the right balance between individual freedoms and regulatory safeguards.

Freedom is also a guarantor of civic rights; hence, we value it higher than equality. Where equality is important is in access to opportunities. If a person

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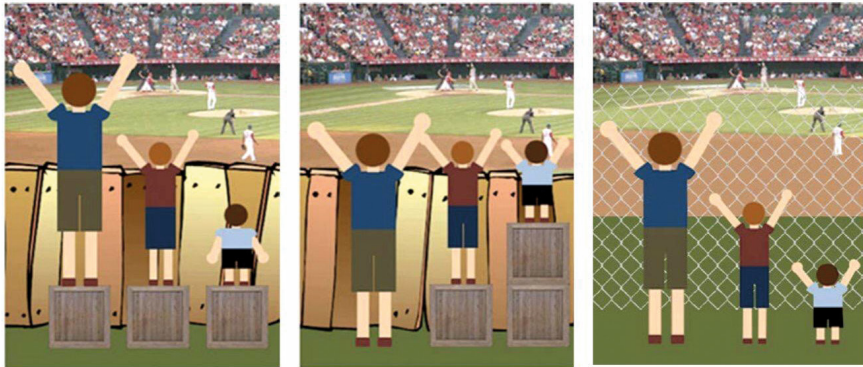
<sup>58</sup> Smith, A. (2005)

is barred from participating in a part of society, be it the market, politics or education, they are both unequal and unfree. Liberals pay great attention to issues where those two values overlap.

So, when you hear someone say, “inequality is rising”, you should ask two questions: first, what kind of inequality; and second, is this a bad thing?

The second question is the main topic of this chapter. As I previously alluded to, there are many different forms of inequalities. Unfortunately, the media tends to mix them up to paint a negative picture. When liberals talk about equality, we always talk about equality of access and equality of opportunities, also known as equity.

**Figure 2.1 Equality vs. equity**



In the first image is assumed that everyone will benefit from the same support. They are being treated equally

In the second image, individuals are given different supports to make it possible for them to have equal access to the game. They are being treated equitably.

In the third image, all three can see the game without any supports or accommodations because the cause of inequity was addressed. The systemic barrier has been removed

Equity is about fairness. It means that we treat people as our equals, but don't expect everyone's actions or access to be equal. People are individuals that have unique strengths and weaknesses. That is only natural, and there is no reason to pretend otherwise. We don't expect a person with a disability to perform exactly the same way as someone without the same impairment. But we try to create equity between them, so that disabilities do not exclude people from society.

First, we get rid of outdated ideas and systems centred around equality and replace them with new ones centred around equity. The second step is systemic change, to ensure equity from the start. The latter is more difficult to implement, which is why we often resort to compromises and patchwork fixes, as depicted in the second panel of Figure 2.1. Ultimately, however, every liberal wants to see all barriers to equity removed.

One perfect example of equity versus equality is universal basic income. The concept of basic income foresees that every citizen of a country automatically receives the same amount of basic income every month from the state. This would streamline all social expenses of the state, diminish administrative burdens and free up funds that are currently tied up in unnecessary administration. But universal basic income, by all accounts, is uneconomical: it doesn't incentivise people to work, and it is also wasteful because it pays rich people just as much as it pays poor people. That is not fair.

The Austrian liberal party, NEOS, has presented an alternative solution that adheres to the principle of equity: negative income tax. This is based on the concept of universal basic income, but when someone goes to work and earns money, they still receive a part of that basic income—just a reduced amount. People continue to receive the benefit at a reduced rate until they reach a certain amount, at which point the basic income would no longer have a measurable impact on their life or their motivation to keep working.

This concept helps to alleviate poverty and lessen the burden on the middle class (both employees and employers), thereby also increasing consumption. It motivates people to work while lessening the administrative burden on the state. Everyone wins. That is equity, as well as a great liberal policy that addresses people's fears of inequality.

The truth is that fears of rising inequalities are often nothing more than fears of loss of individual freedom and equity. You are not afraid of the rich getting richer. You are afraid of staying poor as the rich get richer. You are not afraid of migrants coming to your country and getting jobs. You are afraid that you won't be able to find one. Fears about inequalities are never more than externalised fears of your own inequity. It is easier to believe that someone else is taking something away from you, and that you can punish them for it, than to identify and deal with the issues that prevent you from living a free and equitable life.

Now that we have understood this and looked at some definitions, let us dig deeper into the contemporary issues associated with inequality, and look at how liberal thinking and policies can improve the situation.

## Fear of economic inequalities

The World Inequality Report 2018<sup>59</sup> finds that income inequality has only moderately increased in Europe over the last three decades. The economic think tank Bruegel found that between 1994 and 2008, the Gini coefficient<sup>60</sup> actually steadily decreased. The main reason for this is that 'people in poorer regions of the EU increased their income relative to richer regions.'<sup>61</sup> The economic crisis of 2008, however, managed to blur the long-term picture.

If you find yourself concerned about the rich getting richer, the picture painted by the World Inequality Report 2018 is not all that bleak, either. From 1980 until 2016, the national income share of the top 10 per cent in Europe moved from around 32 per cent to 37 per cent. That means the other 90 per cent earned 63 per cent. While some might argue that this disparity is still great, it is in no way comparable to the hysterical narrative we are often sold in the media. You might think the top 1 per cent keeps getting richer, but their income shares

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59 World Inequality Index (2018)

60 The Gini coefficient measures the inequality among values of a frequency distribution (for example, levels of income). A Gini coefficient is a statistical measure of dispersion. A Gini coefficient of zero expresses perfect equality, where all values are the same (e.g., everyone has the same income). A Gini coefficient of 1 (or 100 per cent) expresses maximal inequality among values (e.g., for a large number of people, where only one person has all the income or consumption and all others have none, the Gini coefficient will be very nearly one).

61 Bruegel (2016)

in Europe rose from 10 per cent in 1980 to 12 per cent in 2016. For comparison, the bottom 50 per cent changed from 21 per cent in 1980 to 19 per cent in 2016. Not only is this a small decrease, it is somewhat misleading. The decline started in the 1980s and went all the way down to 17 per cent in 1995. Since then, the income share of the bottom 50 per cent in Europe has slowly but steadily increased. Since all the other income groups are slowly growing their share, it stands to reason that the income share of the middle class, i.e., the 40 per cent in between the bottom 50 per cent and the top 10 per cent, has decreased. This is something that liberals are trying to address with tax reforms. This group tends to bear the brunt of the state's taxation, while the top 10 per cent tends to find ways to avoid paying their fair share. The consequence is that the top 10 per cent will inevitably become richer while the rest are forced to stay behind. That is why liberals believe in closing tax loopholes and forcing multinational companies to pay taxes where they make their earnings.

The World Inequality Report 2018 allows one important conclusion for this chapter to be drawn. The EU is the world's top performer in mitigating the effects of income inequality, which in turn diminishes wealth inequality. The report projects that if the rest of the world were to adopt Europe's policy frameworks, global economic inequalities could be reduced by 2050. While it is true that global income inequality is falling, certain countries around the world are implementing illiberal policies that will lead to an increase in global income inequalities. The report concludes that if all countries were to follow the EU's inequality trend, global income inequality between the top 1 per cent and bottom 50 per cent would be reduced; but if every country were to follow its own individual trend, the same margin in 2050 is predicted to rise.

What is it about the EU that makes us so much more adept at managing income inequality? The report offers the following suggestions, some of which are inherently liberal policies:

**Progressive taxation:** ensuring everyone pays their fair share and preventing aggressive bargaining for pay rises. On this note, I must add that liberal tax reforms are still necessary to alleviate the bottlenecking of stagnating salaries. I will elaborate on this later.

**New tools to combat tax evasion and money laundering:** for example, a global financial register. We need to fight tax evasion on a global scale. Introducing tools such as a Europe-wide financial transaction tax will only compound the tax evasion issue. We need to create transparency over financial assets worldwide, and give authorities the tools they need to combat tax evasion effectively. The only reason tax havens exist is that we allow them to exist. The technology to keep track of asset movements and crack down on illegal and criminal transactions is there—we should use it.

**Education:** since the 1700s, liberals have been saying that access to education is the key to decreasing inequality and empowering people. This is often misinterpreted. Access to education does not mean free education. In Austria, the socialist government scrapped tuition fees to help with social mobility. To this day, those statistics have not improved, and the reason is simple: education is inherited from one's parents. The social pressure for a working-class student to get a job after secondary education is enormous. If they want to get an education against their parent's wishes, they will have to move out of their parent's home and get a job to sustain themselves while studying.

**Invest and pay back your debts:** governments need to proactively invest in education, health, environmental protection and research and innovation to both grow the economy and reduce inequalities. However, one can only invest when one has money to spend. A lot of rich economies are now in considerable debt, and we must actively reduce that debt if we want to get to a point where we can use our growth surplus to spend money on the things we sorely need.

The education system is rigged in a way that allows students who complete their studies in three or four years to study completely for free. Those who struggle to finish on time are forced to pay tuition fees from their fifth year onward. Scholarships are rare and small, and students that are forced to fend for themselves get trampled by the system. On top of that, the quality of services is continuously



decreasing, due to ever-smaller budgets for higher education.

A liberal reform would reintroduce tuition fees, but make them payable after the completion of studies, and only then if the student finds a job that pays over a certain threshold. In other words, if the degree helps you attain a higher salary, you are asked to give a little back for it. That money could be used to fill university budgets, or to create a new simplified scholarship pot for students from less affluent backgrounds who might otherwise be forced to work and study for many years. This way, we ensure that everyone has access to higher education, and no one is unfairly burdened.

The report also offers another important fact: Europe has a strong middle class. While other countries tend to have very rich and very poor people, Europe's income is distributed quite fairly. The Institut der Deutschen Wirtschaft published a study in 2018 about net income in Europe<sup>62</sup> and found that, on average, people in Europe earn a very similar net salary and there are few poor and rich people. In fact, the only reason why the European average looks worse than the German statistic in Figure 2.1, besides a generally lower level of income in southern countries, is because of high concentrations of poor and low-income citizens in certain European countries.

Those countries are Greece, Bulgaria, Romania, Estonia, Croatia, Latvia, Lithuania, Spain and Portugal. The rest of Europe has effectively limited low-income households (i.e., earning less than 60 per cent of the median income) to well below 20 per cent of the population. Notice that the countries representing the most low-income households correspond to new EU member states and/or countries that were hit especially hard by the financial crisis of 2008. In other words, these countries have more people with low incomes either because they are recovering from the crisis, or because they have not been part of the EU long enough to catch up economically and create a strong middle class.

The Baltic countries joined the EU in 2004, and they have grown quite quickly since then. However, they are quite small and face other issues—primarily in the composition of their labour force and the flexibility of their markets, something the EU has very little influence over.

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62 Institut der Deutschen Wirtschaft (2018)

On the other hand, Poland, which joined the EU at the same time, has managed to use the additional investment and growth of its economy since joining the EU both to transform its market and to invest heavily in infrastructure (including in rural areas), which has benefitted its population immensely. Polish citizens have also utilised their freedom of movement in the EU to study and gain work experience abroad. While many feared a brain drain, statistics now show that many citizens are returning to their home countries and using their newly acquired know-how to build up the economy.

Poland performed so well that in September of this year, the global analytics firm FTSE Russell officially ranked it as a developed market—the first to have come from the post-Eastern bloc. The EU is not a golden ticket, but it does offer opportunities to its member states. It is up to them to use those opportunities to build a stronger economy; after all, they are free to govern themselves.

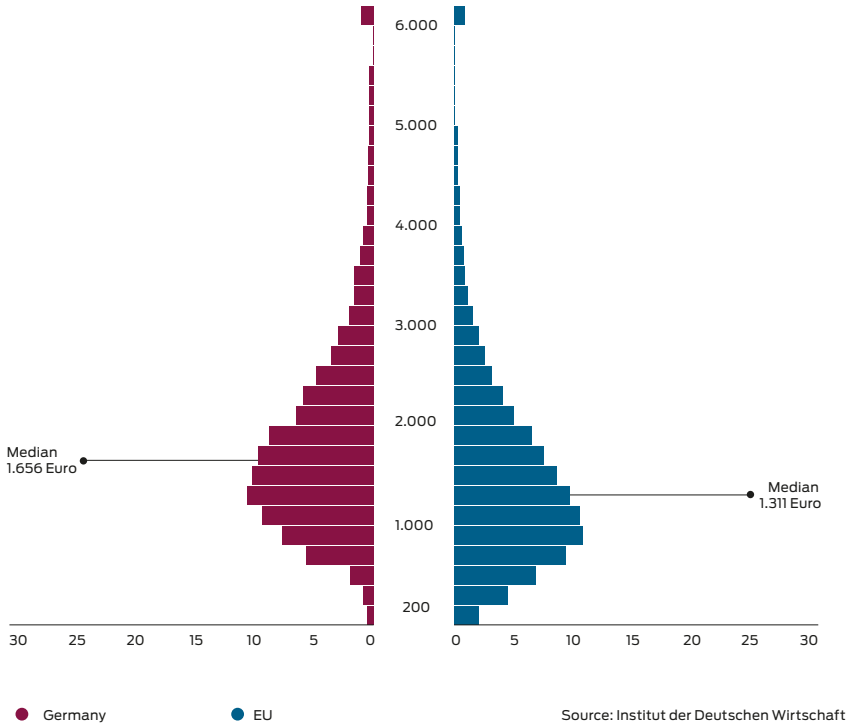
Unfortunately, the European middle classes are still under significant strain. As an employee, you are taxed more and more with every increase of your salary. In some countries, like Belgium, taxation reaches such extremes so quickly that your gross salary increases end up having barely any effect on your net salary, and you work primarily for the state's benefit. What makes this so severe is the speed at which you reach the salary bottleneck. The average worker in Belgium earns €3,489 per month, gross;<sup>63</sup> €3,000 gross equates to around €2,000 net. To reach €3,000 net, a worker needs to increase their gross salary to approximately €5,750. In other words, you have to earn almost 200 per cent of your original gross salary to get a 50 per cent increase in your net salary.

In practical terms, this means that employees get capped at a certain salary range, and neither the employer nor the employee has an incentive to increase that range. Instead, employers find other non-taxable alternatives to reward their employees (e.g., by paying their gas or electricity bills or by giving them a company car). Forty per cent of Belgian employees own a company car. Not only is this not particularly environmentally friendly, it also serves to bind employees to their employers. How can you switch employers when your employer essentially provides all the benefits and comforts you have in your life? This system seriously diminishes freedom of choice for employees.

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63 Statbel (2018)

**Figure 2.2 Net income distribution weighted by expenses in Germany and the EU**



And what about employers? They don't have it easy, either. In fact, employers in Belgium are incentivised by the state to do everything in their power to avoid employing people or raising their employees' salaries. As in all European countries, employers pay a bunch of hidden fees and taxes when they employ someone. This includes social security contributions and general employment taxes. An increase of €200 in an employee's salary can mean an increase in employer spending of up to €1,000: the employee receives between 20 and 30 per cent of what the employer pays because the rest is snatched away by the state.

This system helps to cover the state's social expenses, which primarily benefits low-income individuals. Progressive taxation also reduces income inequalities after tax because higher income individuals pay higher taxes and thus don't receive exponentially more than low-income individuals. At the same time, this system also ensures that the middle class, be it employees or employers, are squeezed for most of their worth and are essentially blocked from advancing financially.

What most people don't understand is that this inadvertently contributes to wealth inequalities. It all comes down to very basic maths: you may have heard people say, 'the first million is the hardest'. What they mean is that, when you start with €1, getting to 1 million means a wealth increase of 1,000,000 per cent. If you already have a million and get another, your wealth will have increased by only 50 per cent. Another million? A 25 per cent increase. So it continues, on and on—money makes money. The more money you have, the more you can invest, and the greater the return. Earnings from capital also happen to not be taxed much in most countries.

You might be asking yourself: what does this have to do with me? I don't have a million, and probably never will. To this I say: exactly. That is my point. We don't live in a vacuum. We live in a globalised world where rich people and companies already exist. They already have billions and they know how to keep them and increase their wealth. The average citizen hopes to be able to make rent for the next calendar month. That doesn't sound fair, does it?

A socialist would argue that we need to introduce massive wealth taxes to redistribute from the rich to the poor. I would counter that argument on two counts: one, just because someone managed to get rich, that doesn't mean they are a bad person and deserve to be punished. Chances are they worked hard, paid their taxes and then managed to get to a place where they no longer needed to work and were thus able to elude the system. According to Fidelity's Millionaire Outlook Survey, 86 per cent of millionaires made their own wealth and did not inherit it.<sup>64</sup> All this means is that the system we currently have is not working because the main tax burden lies on the working middle class. Either way, that does not give the state the right to control how much money one per-

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64 MillionaireFoundry (2019)

son has, nor to take ownership of their private property. My second counter would be to ask, what is the point of introducing wealth taxes, when the rich can already avoid those very same taxes? All a wealth tax does is ensure that rich people will move somewhere where they are not taxed.

A liberal proposal would be to lower the tax burden on employees and employers, while at the same time fighting to close tax loopholes and tax havens internationally. In a globalised world, with multinational actors that move across borders seamlessly to avoid taxes, a system that tries to regulate inequalities by taxing working people heavily on a national level is doomed to fail. While small and medium-sized enterprises (SMEs), employees and the self-employed alike are taxed into submission, the biggest tech giants are free to grow and amass wealth with little restraints. They need to pay taxes, not on what they already own, but on the products they sell and the profits they make in Europe.

Liberals don't see how the current system is fair, or how it is supposed to make the world more just. In this spirit, the European Commission has acted strongly against companies engaged in tax avoidance and undermining competition. Over the last five years, it has slapped one fine after another onto companies like Google, Amazon and Apple. This is not only because the Commission feels like serving some justice, but also because of concerns about competition.

As I alluded to during my brief look at communist history at the beginning of this chapter, a lack of competition can lead to a lack of quality and innovation. But it also means structural corruption and market manipulation. If you have no competitor, it is easy for you to manipulate the prices of your products and force the public to pay exorbitant sums for them. Suddenly, you find yourself in a shop with three different smartphones, all made by the same company and all costing more than you can afford, with barely any difference to them.

Monopolies kill markets and ensure that only the wealthy have access to the newest technologies. That is why liberals are ever vigilant when it comes to possible monopolies—we care about broad access to technology and innovations. We also want people to have the same chances to succeed and grow, both in terms of their self-fulfilment and also financially. Trying to become rich is not a crime. Stopping others from moving up the social and income ladder is, or at least it should be.

## Fear of social inequalities

One of the most common mistakes we make when legislating is to limit freedom in the name of equality. As, I've just discussed, our fears of inequality are really fears of being unfree. These fears can also create inequalities: through racist tendencies or gender discrimination, these real and tangible issues impact citizens' rights. Racial and gender discrimination are often institutionalised. In the past century, the most obvious cases have been the lack of voting rights for women and people of colour. But there are also more subtle issues, less obvious to those who do not experience the same kind of discrimination on a daily basis.

Even those who wear the title of “social justice warrior” with pride often mistakenly assume things based on appearances. For example, I am often told I have no authority to speak on the subject of racism due to the paleness my skin. But as a Pole, I had to endure a significant amount of racism in Austria and Germany when I was growing up. Verbal abuse like “half-blood” or “subhuman” were only the tip of the iceberg, and things often got physical. There are different kinds of racism, and it depends strongly on where you come from. We rely too much on stereotypes, rather than looking at the social and historical context that we live in.

Social justice must be unequivocally just. The contemporary definition is ‘the way in which human rights are manifested in the everyday lives of people at every level of society.’<sup>65</sup> It is not about picking and choosing which skin colour or gender has more to say. Feminism is not about establishing a matriarchy; it is about empowering women to have the same standing as men in society and about men being empowered to shed the stereotypes and prejudices that they have been forced to live with for centuries. You cannot have one without the other. Social justice is about changing our mindsets, and that requires everyone to be part of the conversation.

Too often we find ourselves in a situation where the words “social justice” are met with disgust by one group of people, who turn their backs on the issue, and with another group engulfing and radicalising the issues and movements around them—even actively trying to shut other people out:

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65 Just Comment (2000)

You are a man? You cannot talk about feminism.

You are white? You cannot talk about racism.

You are heterosexual? You cannot talk about homophobia.

This type of censorship is very dangerous for society. Liberals are against any kind of impediments to freedom out of principle. But there is more to it than that. Just because someone is not allowed to say or write something does not mean they do not think it. It may make you *feel* safer if people don't use racial slurs online, but if they still harbour resentments against, for instance, black people, then that is even worse. You can no longer identify them as racists, but they will continue to be racist, make black people's lives miserable and, in the worst cases, might come together and act in ways that are difficult for the authorities to see before they become openly violent.

Terrorist groups recruit in exactly this way. They identify people that have been marginalised and fuel those people's anxieties in secret until they give in, become one of them and cause unspeakable suffering to innocent people. This goes just as much for radicalised Muslims who feel excluded as it does for fascists. In both cases, they feel lonely, forgotten about and most likely hated. Isolation and prejudice go hand-in-hand, and both are strong factors that can lead to radicalisation.

The issue of social justice is not to be taken lightly. It is important to keep an open mind whenever one approaches an issue that falls into this category, no matter how much one has read and experienced. Social justice is not about personal prejudice; it is about the experiences of others. This is where the core principle of liberalism can once more help us to balance how we approach social justice.

There are two aspects of liberty: the negative and the positive, or *freedom from* external factors and *freedom to* do something.<sup>66</sup> Some argue that they are mutually exclusive and contesting ideals, but I find them to be quite complementary. The basis for liberal policies is always negative liberty. Everyone is free, so long as they don't interfere with another person's freedom. Positive liberty is a bit more complex. It posits that there are internal factors that prevent

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66 Berlin, I. (1969)

us from being free: for example, addiction. Prejudice can also be a factor. Proponents of positive liberty often argue that the state needs to actively interfere with people's lives and dictate its terms to them to ensure that they are truly free. But who is the state? And who decides what is the right thing to think or say? We are back to our original conundrum. Using positive freedom alone, we enable authoritarians to dictate their own ideas and beliefs to one another, all while tarnishing the good name of liberty. The American philosopher Gerald MacCallum overcame this issue by simplifying things. Instead of a philosophical contest between positive and negative liberties, he created one unified definition of liberty that satisfies all: a subject or agent, free from certain constraints or preventing conditions to do or become certain things.<sup>67</sup>

We can use another liberal thinker to help us even further. French liberal philosopher Jean-Jacques Rousseau also rightfully pointed out that we don't live in a vacuum but in a society. Ergo, we can only be as free as the society we live in. Thus, if we live in a self-determined society (read: democracy), we are as free from constraints as we can be. In other words, everything that prevents you from openly participating in society must be an impediment to you exercising your freedom. From this perspective, we can make clear policy decisions that remove institutional barriers and prevent the state from overstepping.

For example, let's have a look at gender quotas in a company. A quota of 50 per cent women forces us into a situation where, no matter what, we have to hire 50 per cent women. If we have more qualified men, we still have to hire women. Suddenly we are positively discriminating against women by giving them more opportunities than men. In other words, we are correcting one wrong with another. However, by using our newly established principle, we can come up with a better solution: a 30 per cent quota for men and a 30 per cent quota for women. This policy ensures that both men and women are represented in the company to a high extent, but at the same time it does not diminish the hiring manager's ability to choose the right people based on arbitrary factors. In other words, we can advance social justice because no party is discriminated against. We are neither favouring a gender, nor forcing any person or institution to make a specific decision.

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67 MacCallum, G.C., Jr. (1967)



At the same time, we must always be careful about how we determine representation. If we, for example, were to define five different genders, or suddenly introduce an ethnicity quota, we would not only be hard pressed to find the right people for a position, but we would end up discriminating against people because of arbitrary factors—the exact opposite of what we are trying to do. In other words, equitable quotas can be a useful tool to level the playing field in situations where we find societal bias; but, like every tool, they need to be used judiciously.

There are many more examples and more complex policies we could go over, but as we have so many issues to look at, I will now move on to the next one. The main policy recommendation for social justice is to always strive for maximum equity for everyone, but never to allow limitations to universal freedoms, such as freedom of speech, in the name of justice or equality.

## Fear of generational inequalities

The most often overlooked topic in any political debate is how young people feel and the challenges they face. That is something they have in common with the elderly, who are also often marginalised in political debate, though they are currently better catered for, as they represent the majority of voters in Europe. This dichotomy can lead to generational inequalities and conflicts.

A generation is an arbitrary social construct. Strictly speaking, a generation is 20 years, but since society is going through change more rapidly and children are born at later stages in parents' lives, the whole concept has become somewhat outdated. Nevertheless, it is important to look at generational inequalities. What makes a generation unique are the times in which they grew up. Our environment defines us and, to a great extent, determines who we grow up to be. As such, generations will always be different from one another and experience the world and its issues differently, based on that experience. In this, we can also find great inequalities. There is a reason why Gertrude Stein coined the term “the lost generation” for the people growing up in the 1920s,

after World War I. It was a generation without hope or direction. Baby boomers (1946–1964), on the other hand, grew up in a time of growing affluence and are generally associated with having experienced a privileged youth.

I am a member of Generation Y (born between 1977 and 1994), which at the time of writing is between 24 and 42 years old, making most of us young adults and beginning to reach middle age. Our generation, at least in western Europe, has faced some of the harshest generational inequalities. Our main fault was being born in between Generation X and Generation Z. While Generation X had it relatively easy on the job market, our generation faced incredible hardships during the global economic crisis (when I entered the labour market); and, while the economy has recovered, Generation Z has now entered the market. This puts a large percentage of us into the precarious position of having gone through a multitude of internships (often unpaid) and volunteering positions, being too old to compete with Generation Z for entry-level jobs, but too young and inexperienced for high-level jobs.

The worst part is that we are aware of what is happening to us. We have gotten used to being criticised and at times ridiculed in the media, and often enough label ourselves as “Generation Why?” This is an expression of our own perceived powerlessness, of which we have ample proof (see, for just one example, the Austrian referendum on conscription). One of the effects of this has been the simultaneous distrust in established norms and systems along with a strong passion for societal activism. That is what makes Generation Y truly special. Even though we were told we wouldn’t amount to anything or be able to change the world, we never gave up. Some of us rather went ahead and made a career out of it. Never in our history have there been more NGOs run by young people, more petitions, strikes, marches, acts of civil disobedience and professional advocacy campaigns. Millennials reinvented what civil society means. This has rubbed off on Generation Z, who have watched us struggle again and again and have decided to learn from our humble attempts to take on the world at large.

Whether it is the National School Walkout for gun control in the US or the Fridays for Future movement in Europe, Generation Z has had enough. While we started our activism days at university, they are launching their revolution

out of their high school classrooms. Who knows what Generation Alpha is going to do when they grow up? The oldest of this group are only seven years old but, at this rate, they might launch their first initiatives before the rest of their generation is even born. In the meantime, we millennials are happy to join in Generation Z's work because together we are finally starting to retake the demographic majority, which has thus far marginalised us and our issues.

Climate change, for instance, is one of the big global threats that we face today, and is responsible for great inequality because it hits different areas in different ways—resulting in poverty and destruction in ways that people cannot defend themselves against. Apart from global catastrophes like climate change, which is discussed in depth in the next chapter, young people are particularly afraid of a collapse of the economy and the social system attached to it.

We are the first generation that had to worry about whether or not we would one day be able to receive a pension while we were still in high school. In 2012, I joined the then-newly-founded liberal party, NEOS. One of the core topics that saw us elected to parliament in 2013 was our call for the restructuring of Austria's pension system—because it is not working. We have been using taxpayer money to finance a system that would have otherwise broken down ages ago. Tax contributions get higher and higher each year, and the state keeps taking out new loans to keep it going. It is unsustainable, and the aforementioned referendum on conscription, which was won because of the argument that the social system is unsustainable, started many discussions about the flawed and unsustainable nature of our social system at a time when kids born in the mid-1980s and 90s were leaving high school or attending university.

To give you an overview of just how bad things have become, let us have a look at the Austrian budget over the last 40 years. In 1980, social expenses were around €19 billion. Of those, around €11 billion were dedicated to pensions and elderly care. In 2000, those numbers had risen to €57 billion and €37 billion, respectively. In 2018, Austria spent €109 billion on social expenses. Of this, €77 billion went to pensions and elderly care. In the time it took our generation to grow up, Austrian social expenses increased by a factor of ten. Of course, we have to account for inflation, but even so, the rate at which we have needed to increase spending in order to sustain our social systems is alarming. That is why

NEOS has put forward several proposals for pension reform over the years.

The most basic reform proposal must start with a change in how we calculate pensions. Pensions are supposed to allow the elderly to ease into retirement and old age without running into financial problems. One way to avoid this is to adopt a flexible pension system that does not penalise old people for working. Today, old people have access to a breadth of technology and other outlets to start small businesses or occasional jobs that will not only increase how much money they have, but how happy they are, because they can stay connected to the world they live in. Too often we assume that pensioners just want to be left alone, but old people tend to be lonely and thus it is in their interest to keep working in some capacity to avoid the social isolation they often experience.

Another solution is to allow old people (who now live longer and healthier lives) to continue working for a longer time by raising the minimum age for pensions. In addition, we have capped regular employee pensions at certain amounts, but there are numerous special classes of pensions that don't have a limit. Some politicians and public servants, for instance, have pensions as large as €25,000 per month. At the same time, some people (particularly women) don't even qualify for minimum pensions because, for example, they stayed at home to take care of the children. This is also a valuable community service, and it should not exclude them from getting a pension. That is why we propose eliminating high pensions and allowing everyone access to a minimum pension. In fact, the easiest way would be to eliminate the pension system entirely and replace it with the NEOS citizens' income (negative income tax) I described earlier.

After all, young people also care about the elderly. What happens when our parents retire (as some already have) and we need to take care of them? How are we supposed to do that if we can't even take care of ourselves? Most millennials have only just begun to accumulate pension contributions and we fully understand that all pension systems in Europe are unsustainable and will likely collapse, sooner rather than later. That is why sustainability in our economy and our social systems is one of the top priorities for this generation. Millennials don't believe in a system of endless growth, but that doesn't mean we reject a market economy.

There is good news for Generation Y. We are on average the best educated generation, with the most freedoms, rights and choices ever available to humans. Only Generation Z can compete with us in those terms, but it has its own troubles. The disparity is not as large as we like to think, and their adoption of technology at an early stage of life can actually be a hindrance. Many important life skills are lost on Generation Z, including reading and writing abilities and an understanding of the underlying mechanics of the technologies they use on a daily basis. But things are looking up in other areas. We are getting more analytical, critical, creative and innovative. And we don't wait around for change anymore; we take the initiative. Despite derogatory comments from parents and older colleagues, we are genuinely becoming more connected and social.<sup>68</sup>

Young people need more self-determination. We don't need to be led or smothered. Our ability to access unlimited knowledge in the form of new technology allows us to grow up faster and make responsible decisions about the future. This is something that also emerged from the biggest ever study of both our generations, called Generation WHAT?

Young people in eastern Europe believe they will be better off than their parents (as they won't live in communist times), but most young people in the rest of Europe believe they will be worse off. Both groups also feel that their own hypothetical children will be better, or worse off respectively. Despite this, the great majority are cautiously optimistic about the future and confident they have more chances than other people of the same age they know. Two excerpts from Generation WHAT? help to explain this:

*Confidence, in other generations, is also the basis for optimism. If this is lacking, there is a clear tendency towards pessimism. There are many different reasons for this. Young people with a negative outlook, especially in Switzerland, Spain, the Netherlands and Belgium, feel that previous generations have a great deal of responsibility for the problems of today. The results show that they are especially critical of social injustice. This has a greater influence on a pessimistic outlook among young people in France than in other countries.*

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68 World Health Organisation (2016)

*Trust, fairness and support strengthen the confidence of the younger generation and therefore also of the future of Europe. The fundamental optimism of young people can be boosted and consolidated. To do this, it is essential to take younger people seriously and offer them prospects.<sup>69</sup>*

We need easier access to entrepreneurship. An increasing number of millennials are becoming entrepreneurs, generally because they long for an independent life, rather than simply to make a living.<sup>70</sup>

However, being an entrepreneur is not easy. The main obstacles to entrepreneurship are bureaucracy, lack of visibility and/or local funding and the immense risks we take on when we decide to go for it. On top of that, entrepreneurship sounds like something complicated and so difficult that it is unattainable. But that is far from the truth. Anybody can be an entrepreneur. It can be the local pub owner or the woman who runs the small bakery down the street where you get your fresh bread every week. It can be the retired man selling his stamp collection online. A business is a business, and it doesn't matter if it is big or small, local or international, for-profit or non-profit.

The biggest risk factor is the cost entrepreneurs have to cover from the day they register a company. In some instances, they even have to pay several thousand (€27,000 in Croatia;<sup>71</sup> €35,000 in Austria,<sup>72</sup> €50,000 in Italy<sup>73</sup>) to register it. If they are lucky, they can do this for free. In all cases, they are suddenly scrutinised heavily by financial institutions, who burden them with legal forms and pre-emptive taxes on money they have not yet earned. This not just the case for young entrepreneurs starting for-profit companies; it applies to self-employed people like artists and individual service providers too. The Generation WHAT? survey confirms that this is a big issue for young people:

*The results of the survey make a direct connection between a person's financial situation and their optimism. It's simply easier to develop ideas and plans when you're in a secure financial situation. However, the results*

69 Generation WHAT? (2019)

70 Virgin (2016)

71 CompanyFormationCroatia.com (2019)

72 WKO Grunderservice

73 Company Incorporation Italy (2019)

*also highlight the danger that young people consider their opportunities to be bad because of a lack of resources.*

Let us briefly address some of these issues and examine what we can do to secure a brighter future for everyone. The number of self-employed people is on the rise everywhere. In the UK, the number of self-employed workers has risen by 45 per cent since 2001, yet it seems nobody cares to represent them. Neither industrial nor worker unions care about them, and most state services remain closed to them. This has led to the emergence of WorkerTech; a private technology that helps self-employed people to gain the same benefits privately, one app at a time. Not only does this make self-employed workers significantly disadvantaged (and unequal), but with the rise in numbers, it may very well turn the tides in their favour eventually. By then, though, it may be too late for public systems to catch up, as the forgotten self-employed will have given up on those institutions in favour of WorkerTech, and may also refuse to pay into them if the private sector offers them better solutions.

As such, liberals are fighting for more recognition and support for self-employed workers and entrepreneurs. Not only is this important for the economy—it is all the more important for young people who want to live a self-determined life. This also requires a free and open society. For the lack of a better alternative, this means a democracy and a free market economy. Whenever I talk to people in green movements, they tell me we are running out of resources and we need to stop growing. We have separate chapters that will deal with that claim and with climate change, but I want to quickly address how we would restore trust in institutions and deal with the other concerns of young people.

Right now, we must continue growing under the current system, simply because everyone has debts and interest on those debts that we can't pay back. That is one of the reasons why liberals have long called for smarter accounting in public offices. The same political actors who are now calling for “de-growth” are the ones who have created massive amounts of public debt, on the shoulders of taxpayers, to finance their lavish pet projects. The Keynesian idea of borrowing and investing in infrastructure during a recession to stimulate growth is not inherently bad, but it must be followed through. If you borrow

money, you must pay it back when the economy has recovered. In reality, governments change quickly, and no one likes to make unpopular decisions, like raising taxes, when they can just continue to borrow money unchecked.

In other words, Liberals propose slimming down state expenditure, which is not to say that we want to destroy our social safety nets, as we are often accused of by the same people who first borrowed endlessly and are now calling for degrowth. No, we want to stop the excessive spending habits of states by streamlining overly bureaucratic processes, stopping unnecessary expenditures and removing duplications of systems wherever possible. For example, in Austria we have 21 different public health insurance companies, which should be put together to save taxpayer money and make things easier for citizens.

The freed-up resources should be used to clear our national debts, as suggested by the World Inequality Report earlier on. Interest rates may be low now, but they won't stay that way forever, and we cannot keep burdening citizens with new loans and more taxes. Balancing the economy will not happen overnight, and it will require us to finally stop borrowing money, but it will make our economy more sustainable and allow us to cease our reliance on growth cycles. Any other approach would be catastrophic for our citizens. Calls for systemic change often mean nothing more than the total collapse of the current system, which would cause chaos, mass poverty and, as such, inequalities.

Instead of destroying what we have already built, we propose building a brighter future by taking what we already have and making it more efficient and sustainable. This includes reforming education systems across Europe to create more equity among people—not only to better prepare the next generations for their entry into the market and entrepreneurship, but also to introduce lifelong learning, so that people can learn and adapt, no matter how old they grow or what challenges life throws at them. Finally, if we want to unburden our healthcare systems, we will need more workers paying into them. And those workers will not magically appear out of nowhere: they will have to come to our countries. So, let us talk about migration.



## Fear of inequalities arising from migration

As we have discussed earlier, we are spending more and more money on elderly people. This is only natural, as we have more old people than young people. In order to reduce this imbalance, we need to allow migrants to come to our countries, work and pay into our social systems. But this can lead to other particular issues that are, as we have determined already, of great concern to the youth of today.

First, we must distinguish between legal and illegal migration. Illegal migration has been the subject of countless books and pamphlets already, and is not the focus of this chapter. Suffice to say, the EU needs a strong border control force and a new system through which refugees can enter legally, without having to rely on dodgy private haulers and traffickers who profit from their misery. This system needs to predetermine where refugees are going to be sheltered, for what duration of time and how they are going to get there, using a European refugee service.

But let us talk about legal migration. The first challenge is how to enable legal migration and ensure that we get the right people to come to Europe. This is more difficult than one might assume because we need both highly qualified people and people that will take on the low-skill jobs our own local population no longer wishes to do. This dichotomy in itself makes migrants very unequal even among themselves. That is one of the reasons why highly skilled migrants are often referred to as “expats” (short for expatriates). The term comes from British colonial times and used to refer to white people who went to live in and build up the British colonies on the backs of the indigenous population. That this term is now readily accepted, while the word migrant is negatively connoted, says a lot about the influence of far-right populists on our political discourse.

The main impediment for highly skilled workers to come to EU countries remains to be bureaucratic prejudice. Most often, workers are faced with a language barrier, and local officials display little patience for people that don't speak their native tongue. Registration can be difficult and takes a long time. This is true for non-EU citizens as much as it is for EU citizens. To solve this

issue, a refreshed EU blue card<sup>74</sup> could be issued, but this would need to equate foreign workers with EU citizens, at least for the duration of their employment. At the same time, EU citizens must be treated equally with the national citizens of any EU member state. Only through equal treatment will the EU single market become more attractive for highly skilled workers from within and beyond the EU.

Some EU countries are already doing this very well, and they are attracting more highly skilled migrants as a result. Denmark, for example, offers a lot of services, including company registrations, both online and in English. It takes less than five minutes to set up your company and new bank account from the comfort of your laptop. It is no wonder that 59 per cent of their EU migrants are highly skilled and 32 per cent are medium-skilled.<sup>75</sup> High wages are a strong incentive, but the ease with which one can settle and integrate in the country is just as important.

Inequalities between the local population and migrants is one of the fundamental underlying issues of migration. Too often, we view integration as a process by which foreigners adapt to us. But that is not integration; it is assimilation. Integration requires reciprocity. In a small town in Belgium, called Mechelen, the liberal mayor Bart Somers has shown the world how to implement this. In Mechelen you will find 128 different nationalities all living together in a small town. Yet the town is clean, beautiful and thriving. Despite a huge Muslim population, not a single person from Mechelen was radicalised during the years in which the terrorist group Daesh attacked Europe. Bart Somers is regularly invited to consult with the UN and NATO, and was named World Mayor in 2016 in recognition of his integration efforts. Most recently, he has gone on to become Interior and Integration Minister and Deputy Minister President of Flanders. His secret? Treat everyone equally. ‘You enforce the rule of law. You are tough on everyone, but fair. You invest just as much money into the poorer neighbourhoods, as you do in the richer, to show them you don’t see them differently.’

Bart told me that Moroccans would choose to be sent to and buried in

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<sup>74</sup> European Parliament

<sup>75</sup> Accurity (2019)

Morocco after death, rather than Belgium, despite having lived in Belgium with their families all their lives. The reason was that Belgium had a law on how graves were supposed to be situated. Moroccans wanted to be buried facing Mecca. Bart changed this, and as a result Moroccans (and Muslims in general) feel like they are truly part of the local community. Their heritage and culture are appreciated and not seen as an obstacle. Bart also initiated neighbourhood programmes like “Big Brother”, which allows members of the community to organise themselves and look out for one another. Sports centres are connected with schools, and school places in mixed multicultural schools are subsidised, so that children learn from the best teachers in the most diverse environments.

The results speak for themselves. Multiculturalism and integration can work, but they have to be done right. That is the liberal stance on migration and integration. Of course, if we are hostile towards migrants, they will not feel welcome and will isolate themselves, which will only reinforce our hostility and lead to radicalisation. It is a vicious cycle and a slippery slope—one that populists are more than happy to exploit. But more on that later.

We also have to look at migration between EU countries, which is anything but equal, due to the difference in living standards in the different countries. Accurity’s EU Migration Map<sup>76</sup> shows that some countries only receive high-level workers, while others receive more low-skill workers. The imbalance between countries’ living standards threatens to create more inequality within Europe. In particular, it threatens the existence of smaller countries, such as the Baltic nations, whose citizens often migrate to other countries for education and work and put down roots in their new homes. With an already dwindling population, these countries face an accelerated decline in population. The only way to stop this is to help them grow faster. Luckily, EU membership has already accelerated growth for new member states, and poorer EU countries have become richer.

The Baltic nations are already doing a great job on their own, but the EU can do more to help. One such way is to use European funding instruments to incentivise private research and innovation (R&I) partnerships between the Baltics and other European countries. Investment in research and innovation

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<sup>76</sup> Ibid.

allows SMEs to grow and create new and exciting products. China and India are growing at such enormous rates because they invest a lot in R&I. Estonia has established itself as a strong player in emerging digital technologies, which in turn has attracted foreign companies and investment to the otherwise small and too-often overlooked country.

The European Commission is currently hard at work gathering and streamlining all the innovation programmes under the European Innovation Council (EIC). Once complete, the EIC will be the perfect platform from which to launch initiatives to increase economic interest in our smaller and peripheral countries.

## Fear of inequalities arising from globalisation

Speaking of the periphery, European politicians have for too long ignored the fears and needs of people living there. When political parties cling to power for too long, they become concerned only with keeping that power. As a result, they become complacent and try to maximise their votes by focusing on the biggest concentrations of potential voters: in cities. After all, most politicians already live in big cities anyway. That's where their jobs are. But not everyone's job is in a big city, and this political focus on urban areas has created much inequality across Europe and fuelled the rise of a new political cleavage.

In political science, we talk about political cleavages<sup>77</sup> as sources of political division, e.g., left vs. right. The terms “left” and “right” have gained different meanings over the centuries. They originated in the French Revolution, when the Liberal Democrats would sit on the left side of the negotiating table and the Conservative Royalists would sit on the right. Over time, left and right took on the dimension of worker vs. owner. In other words, socialists were situated on the left, conservatives on the right and liberals in the centre, between them. Since then, labour markets have become liberalised and it is not uncommon for people to be employed while running a company and/or working on self-em-

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<sup>77</sup> Lipset, S. M. and Rokkan, S. (1967)

ployed projects at the same time. If you are simultaneously on all sides, it makes it more difficult to feel represented by a party that claims to only represent one part of you, while demonising the other. Socialists, in particular, have had great difficulties adapting to this new situation and are losing voters in droves across Europe to both green and nationalist parties.

Instead of the worker-owner cleavage, we are now faced with a division along the centre-periphery. Across Europe, you can observe election after election being determined by this split. Whether it is the EU referendum in the UK of June 2016, the presidential elections in Austria in 2016, the 2017 French presidential elections or any other election since, the results are always the same. Liberals, pro-EU and pro-globalisation movements are gaining their highest results in large cities. The surrounding areas, as well as small towns and villages, are far more likely to vote for anti-EU, anti-globalisation, populist parties, traditionally on the far-left or far-right.<sup>78</sup>

Mainstream political parties have failed to keep up with the changing times. In the 1980s, Thatcher and Reagan took the world by storm and instilled an unquestionable belief in *laissez-faire* politics in everyone; even their own opponents. In many European countries, we were faced with a grand coalition between socialists and conservatives, who established what political scientists Katz and Mair described as a system of cartel parties.<sup>79</sup> They focused on retaining their own power (and supply of tax income) rather than implementing any significant reforms. Whenever a voter would get upset with their inaction, they would blame their coalition partners and ask for more support during the next elections. This worked well for many parties in multiple countries for decades, but eventually the peripheral population became frustrated enough to vote for their only alternative, the fringe parties, usually nationalist in nature.

A prime example is Austria, where the FPÖ started out as a mixture between nationalist and liberal politicians and emerged as a clearly far-right party under the leadership of Jörg Haider in 1986, with 9.73 per cent of the vote. From 1986 until 1999, the grand coalition ruled and the FPÖ bided its time. In the national elections of 1999, the FPÖ took 26.91 per cent, the exact same number of votes as the con-

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<sup>78</sup> Kirchdorfer, D. (2015)

<sup>79</sup> Katz, R. and Mair, P. (2009)

servative ÖVP. At this point, the second-placed ÖVP managed to create a coalition with the FPÖ and oust the victorious socialist SPÖ from power, ending the grand coalition.

The new nationalist-conservative coalition was short-lived, and the FPÖ only gained 10 per cent in the 2002 national elections, although they remained in government until the next elections of 2006, when the grand coalition rose again until 2017, when Sebastian Kurz (also ÖVP) chose to blow it up. He called for new elections and formed a new nationalist-conservative government. This coalition too was short-lived, and the 2019 elections cost the FPÖ 10 per cent of the vote again, although they held on at 16 per cent. Evidently, the people of Austria like to repeat their history, but perhaps they are also just sick and tired of coalitions that promise great reforms and deliver very little.

But why are people so desperate for change that they will go looking for it anywhere they can? This is where the centre-periphery cleavage comes in. Globalisation is not some magical money-making machine—it is transforming our societies from the ground up, and mainstream political parties have ignored this very fact since the 1980s. Wealth and resources are not distributed equally in a globalised world. They are concentrated on what we call “global cities”. Global cities act as hubs for the world economy. They are where our financial control centres are situated, our best universities, our political institutions and multinational company headquarters. Resources are concentrated in global cities, and they siphon resources from surrounding areas and regions, including any potential investments.<sup>80</sup>

It is those very same surrounding areas and regions that are rising up to contest the political mainstream: people who live in small towns, villages and sometimes rural areas. For decades, they’ve had to sit and watch as their once-trusted politicians promised them everything and let them down, again and again. Schools and hospitals have closed down in their towns while new ones were built in the big global cities. Shops move to the big city because it is more economical.

I am often asked why the far-right predominantly receives votes from white men. It is very simple: women see opportunities for an independent career and

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80 Curtis, S. (2011)

life in the big cities. They go to universities, which now have a female majority across the EU.<sup>81</sup> Those (primarily, but not exclusively, men) who don't want this kind of change stay behind and grow frustrated as their prospects for the future grow dimmer.

Even their irrational hatred of foreigners can be explained. It is not just that it is easier to hate someone one considers to be different. As we discussed in the section on migration, we need those migrants to take on both low-level and high-level jobs. Low-skilled migrants directly compete with the same cohort that feels abandoned in the small towns and villages. Eventually, some of these people might try to make it in the big city too, but with few skills, they end up competing with those low-skilled migrants, who are generally cheaper and complain less about their working conditions. At the same time, these low-skilled local citizens see other, highly-skilled migrant workers succeeding and earning money at levels they could only dream of. It is very easy to envy them. If a populist comes along and promises to put national citizens first and take care of the source of all their problems, namely globalisation, this suddenly sounds like a very attractive proposition.

That is why liberals must push back with a positive vision for the future. This vision and this future needs to encompass all citizens, not just the privileged city-dwellers, but also those living in rural areas. Globalisation is a boon to our economies and our society. Free trade creates new jobs, lowers consumer prices and, when done right, increases quality standards. But we must actively manage globalisation so that no one is left behind.

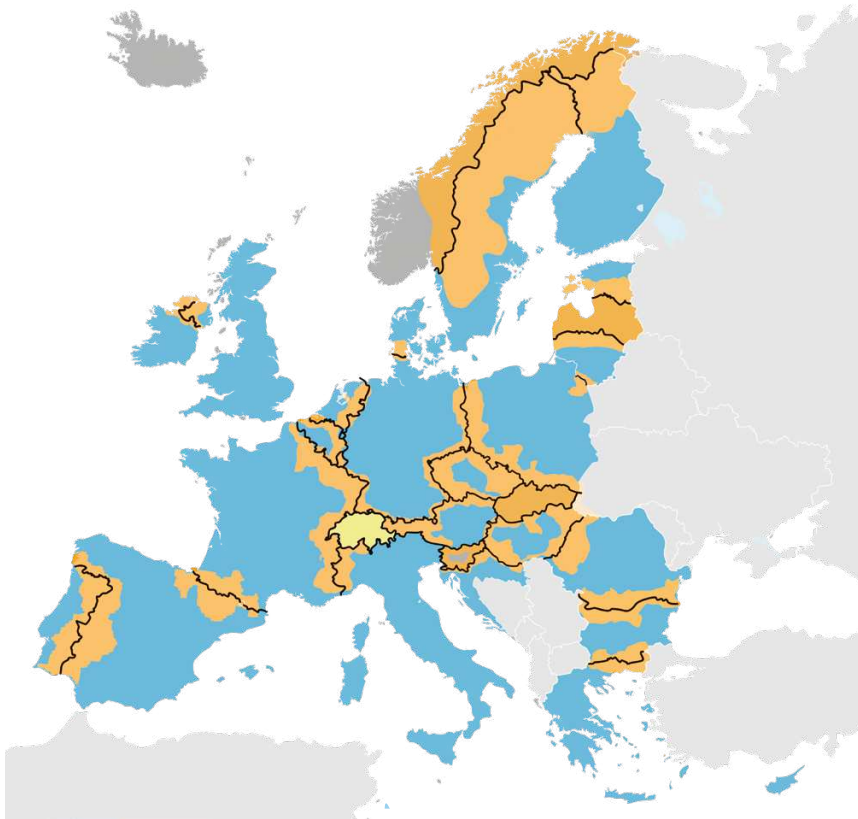
For example, 150 million EU citizens live in border regions. They represent 40 per cent of the EU's territory.<sup>82</sup> Yet we mostly ignore those regions. Interestingly, EU membership has greatly benefitted them, as they now tend to have cross-border economic activities. In some cases, it is even faster and easier to get to the nearest hospital by crossing the border. But because we are still different countries, we make the lives of people in those regions more difficult than they have to be. We can reduce the administrative burdens and invest in infrastructure in those regions. Additional growth in border regions could stimulate additional investment in those areas as well as their surrounds.

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81 Eurostat (2018)

82 European Commission (2017)

Figure 2.3 Border regions in Europe



Source: European Commission (2017)

We must do the same on a European level. There is also inequality between central and peripheral countries in the EU. This includes things like the Dublin asylum system, which burdens countries with sea borders, particularly in the south, and leaves the centre untouched. It is true that Austria, Germany and Sweden took in the majority of refugees in the first years of the crisis, but that is only because we decided to ignore the Dublin system (i.e., the law). The Dublin system, if implemented correctly, would have meant that refugees would have had to stay in the EU country in which they first arrived.

There is a reason why certain countries in the EU were hit particularly hard by the eurozone crisis. It was not just the south—it was peripheral EU coun-



tries: Portugal, Spain, Italy, Greece, Cyprus and Ireland. Ireland is a western country and it has a flexible market, but it was also hit hard because it was on the periphery, where the risks are always higher. This is one of the many reasons why an ever-closer EU is a priority for us. The closer our economies and political systems grow, the less vulnerable we will be to external shocks.

## How despots and tyrants exploit our fears

Remember back to when we started discussing our fears of inequalities: we've discussed how we are not really afraid of the unknown, but of any potential threats to our equity. It is easier to believe that a boogiemer is to blame for all your troubles than to deal with the complexities of our world. There are so many complex things in this world and suddenly, thanks to the Internet, we are all aware of them. But the experience is overwhelming. Populists feed this feeling of helplessness and construct their narratives around our fears and anxieties, then propagate them through the Internet to make us even more susceptible.

Populists promote a protectionist doctrine that pushes for less free trade, less globalisation and more domestic control. This serves them well, as it gives them more control over their local populations, once elected. The EU is actually a body that helps us to manage the effects of globalisation in a way that benefits all citizens. But because the EU is terrible at communicating its work to citizens, it is an easy target for populist narratives. If they truly cared about citizens in rural areas, they would work to focus the EU's attention on them. Instead, they claim EU funding and either ignore or hinder institutions from the inside.

The reason why is that being part of the EU, or any other international organisation for that matter, makes it more difficult to pull one over on one's own citizens. The European Court of Justice (ECJ) keeps a watchful eye on the work of national governments. For example, in the UK, the Investigative Powers Act 2016—better known colloquially as the Snooper's Charter—was blocked by the ECJ because the mass surveillance of UK citizens it proposed contradicted

EU human rights laws. A withdrawal of the UK from the EU could also be followed by a repeal of the British Human Rights Act, which put the Council of Europe's European Convention on Human Rights (championed by Winston Churchill himself) into British law. Civil society organisations and activists across Europe believe this danger to be very real, and are actively warning and campaigning about it.<sup>83</sup>

When something sounds too good to be true, it is usually a populist statement. You have a complex problem, and someone is offering you a simple-sounding solution? That's populism. Populist policy should not be confused with popular policy or policy that is close to the people. Populist narratives get their name because they target the general population and are designed to sound plausible.

Populist leaders across Europe use false narratives to gain power, remove civil rights and undermine the rule of law. They want nothing more than to become despots and tyrants. In Hungary, the free media has been completely repressed. State-owned media in Poland has also been turned into a propaganda machine. The Polish government has attempted to remove the previous judiciary and replace it with their own party-friendly judges. Thankfully, the EU stepped in and stopped them in their tracks, but the response was too weak and took too long. We must ensure that the EU has the strength and will to fight injustices and inequalities in the rule of law at every step.

## Conclusion

The world is rife with inequalities. Some of them can be threatening if not treated carefully and with smart, liberal policies. Others are harmless and even potentially positive. We must keep reminding ourselves that inequalities are what make us human and unique as individuals. There are challenges ahead and there always will be, but we can face them head on as active citizens and demand the political change we want and need to build a brighter future in

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<sup>83</sup> Change.org

Europe. Such a future would see more equity for European citizens, whether it is in access to education, access to the market, civil rights or the political and civic arena. A brighter future must see us uphold freedom, and not thwart it in the name of social justice. It is a time when young people grow up knowing they can choose to be whatever they want to be, and won't have to fear any backlash from older generations. It is a place where migrants come in through a regulated, legal system, and integration works to create a positive image of migration for all citizens, old and new. And it is a vision of a European continent where it doesn't matter where one was born or raised. That is a future we want to build, and we hope that this chapter has inspired you to join us on this journey and help make it a reality.

To conclude this chapter, allow me to reiterate my policy recommendations for a brighter and more equal future in a succinct way here:

1. Reform tax systems across Europe. People (in particular, youth) need to be able to build up some capital. If they are allowed to do so, not only will our economies thrive, but it will also help to remove the burden from our overtaxed health and elderly care systems, allow for new families to spring up and give us all the resources we need to fulfil our respective dreams in pursuit of happiness. As we have learned, ultimately, that's what we all want.
2. Implement new public tools to fight money laundering and tax evasion worldwide. Doing this will give us more control over our own economies and tax laws and will ultimately make Europe more attractive to investors, who will pay their fair share of taxes, allowing us to reduce taxes on work as described above in point 1.
3. Reform our education systems across Europe from a knowledge-based, short-term-learning system to a skills-based, life-long-learning system. This will not only help every new generation to come build a more self-determined and happier life, but will also help everyone alive today who may be struggling to transition to a new job. This way, we can build a brighter future today and leave no one behind.

4. Reduce unnecessary state expenditure. A) Simplify overcomplicated systems, including all our social expenses, e.g., by introducing a citizens' income in the form of negative income tax. B) Cap spending on overgrown public salaries or special pensions. C) Shut down unnecessary or duplicate programmes and systems. These measures will make life easier for citizens trying to figure out what the state does for them and save everyone tax money.
5. Reduce our respective national debts and stop borrowing money. A country without debt is a free country that can make more sovereign political and economic decisions. It also makes it easier to implement tax reforms, as mentioned in point 1.
6. Block any legislation that limits freedom of speech in the name of social justice. Anti-discrimination law that targets freedom of expression is akin to censorship and does not fulfil its purpose. We must ensure that people can speak their minds freely, without having to fear over-blown consequences.
7. When legislating on social justice issues, always put equity first, so as to not limit the freedoms and chances of others.
8. Reform pension systems to allow the elderly to live out their lives in dignity, with enough to live a comfortable life, but also allow them to stay connected to their communities.
9. Make access to entrepreneurship easier and create better representation for the self-employed. This will give the youth of today the chance to build a more self-determined and financially secure life.
10. Integration goes both ways. Ensure that integration policies target locals and migrants equally and neither group feels marginalised nor disrespected in the process. This way, we can all live together in peace and mutual recognition. Maybe we'll even learn something from one another.
11. Continue to create incentives to invest in smaller and peripheral countries of the EU.

12. Invest in infrastructure for peripheral regions, particularly border regions, which have great potential for growth, to improve the lives of people on the periphery.
13. Invest in research and innovation and create incentives for smaller countries to specialise in specific R&I fields, like Estonia did, to attract greater interest from international investors.
14. Fight populists every step of the way, expose their lies for what they are and strengthen the European Union to ensure that citizens' rights are protected, no matter who they decide to elect.

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# Combating climate change the liberal way

Mette Kahlin McVeigh & Mattias Goldmann

## Climate change is too important to be left to others

Liberalism is an ideology that historically follows the Enlightenment and which emphasises the value of science and evidence-based knowledge over dogma and belief. Liberalism promotes individual free choice and gives individuals liberty and rights. Liberalism advocates for democracy and open societies with market economies, where free players control what is produced and how resources are used, while the state protects the individual's ability to choose. But liberal values only safeguard the freedom of individuals and companies in free markets as long as their actions do not harm anyone else, or incur costs that affect individuals who have not given their consent. When it comes to shared resources, like the environment, individual free choice can cause problems of just that kind—the activities of the individual take a toll on others. The climate issue illustrates such a market failure. The state is needed to establish the legal

system and deal with market failure. When the state intervenes, according to liberal values, it should do so while maintaining the greatest possible levels of freedom and responsibility for the actors involved.

Contrary to what many people may believe, what limited success we have had thus far in combating climate change has been due to liberal and market-based solutions. We will argue that the fight against climate change is a liberal cornerstone not to be left to other political ideologies. A few examples of why liberalism and tackling climate change go hand-in-hand demonstrate this well:

1. The United Nations Paris Agreement on climate change is based on the liberal approach of every country delivering its contribution towards meeting the joint targets in the way it sees fit—with shared but differentiated responsibilities. This approach has been the key to the agreement’s successful implementation, and it contrasts starkly with the previous (and failed) Copenhagen Accord, which was largely a one-size-fits-all approach.
2. Important emissions reductions have been achieved largely through market-based solutions, such as the EU Emissions Trading Scheme (ETS) and other cap-and-trade mechanisms—either for countries or regions or for sectors, like the automotive industry.
3. Voluntary agreements between large industries and other enterprises are paving the way for further emissions reductions and increased ambitions in future climate negotiations. These include: the Global Compact, launched by the UN in the 1990s; the RE100 initiative, with large corporations pledging to reach 100 per cent renewable energy; and the “We Mean Business” and other coalitions of businesses pledging emissions reductions well beyond what is mandated or legislated for.
4. In several surveys where business leaders rank the main reasons for their increased ambitions and improved targets on climate, the most often cited was the need to attract and keep key employees, rather than national legislation or international charters.

5. When psychologists and behaviourists study the most efficient and effective driver in terms of changing human behaviour towards what is most climate-friendly, they find market-like approaches with quick and timely rewards to be particularly successful.

With the above examples in mind—in addition to many people’s fear that we face an imminent threat and that there is a need to reduce emissions much more rapidly—it becomes clear that climate change solutions must be based on liberal solutions. Notwithstanding that, it also clear that the approach currently dominating the media landscape (to ban, shame, stop and forsake in order to save the world) remains, at best, only a partial solution. Whether liberals should use bans in this area is discussed at the end of this chapter.

It is, therefore, difficult to say why liberal politicians across Europe and the globe have sometimes exhibited a lukewarm approach to the issue of climate change. In fact, although there are positive role models, liberals are rarely known or famous for being at the forefront of the climate discussion, nor are they overwhelmingly seen as climate champions. Indeed, sometimes liberals around the world are even seen as downplaying the importance of the issue and delaying policy proposals from others, rather than endorsing them or developing more far-reaching proposals themselves. This must stop.

European liberals can, must and will do much better than this. Liberals will rise, unite and point not to the emergency exit, but to solutions that are attractive and achievable for all. In its own way, this chapter aims to further the understanding of why and how a liberal climate policy is not only logical but also a necessity for liberal politicians and efficient climate policy work.

In order to do so, we must reassess a few liberal principles. First, we discuss how protection of the common good is a tenet of liberalism. Second, we outline the benefits of using the market economy in favour of ambitious climate change policies and creating market-like solutions to tackle climate change. Lastly, we discuss complementary solutions to these market-economy solutions.



## Man created climate change, and man can – and will – halt it

*Pour ce qui est de l'avenir, il ne s'agit pas de le prévoir,  
mais de le rendre possible.*

Antoine de Saint Exupéry, Citadelle, 1948

As liberals, we have a strong faith in science, rather than doctrines, religion and traditions. This separates us from conservatives and populists, who seem to believe that science and natural laws are negotiable. As is well known, science is rarely straightforward, and scientists do not always agree. Within the area of climate change, however, science is more uniform than in most others; as an example, more than 2,000 scientists from many different sectors have come together in the Intergovernmental Panel on Climate Change (IPCC), where they publish consensus documents: research-based reports that detail the current state of play and level of knowledge, both for climate change as a whole and in different sectors. This scientific evidence is summarised below to set the scene for the following sections, which outlines liberal policy options to tackle climate change.

Climate change occurs when changes in Earth's climate system result in new weather patterns that last for at least a few decades. Changes over shorter time spans are simply referred to as weather. The climate system receives nearly all its energy from the sun, with a tiny amount coming from the planet's interior. The climate system also gives off energy to outer space. The balance of incoming and outgoing energy, and the passage of that energy through the climate system, determines the Earth's energy budget. When incoming energy is greater than outgoing energy, the planet's energy budget is positive, and the climate system gets warmer. If more energy is released, the energy budget is negative, and the planet experiences cooling.

The climate has always been changing, as evidenced by periodic ice ages. However, over the last few hundred years and over the last several decades in particular, the climate has changed more rapidly and drastically than can be

explained by natural variations. The scientific consensus on climate change is that the ‘climate is changing and that these changes are in large part caused by human activities’<sup>84</sup> and that this process is ‘is largely irreversible’.<sup>85</sup>

Of these anthropogenic factors, the increase in CO<sub>2</sub> levels is of the highest concern. Carbon dioxide is a greenhouse gas: a gas that absorbs heat. Warmed by sunlight, Earth’s land and ocean surfaces continuously radiate thermal infrared energy (heat). Greenhouse gases absorb that heat and release it gradually over time, like bricks in a fireplace after the fire goes out. Without this natural greenhouse effect, Earth’s average annual temperature would be below freezing, instead of the liveable temperatures we have today. But increases in greenhouse gases have tipped the Earth’s energy budget out of balance, trapping additional heat and raising Earth’s average temperature.

The IPPC is a group of 1,300 independent scientific experts from countries all over the world. In its fifth assessment report, the IPCC concluded that there’s a more than 95 per cent probability that human activities over the past 50 years have warmed our planet.<sup>86</sup> The IPPC also makes it clear that CO<sub>2</sub> is responsible for 64 per cent of man-made global warming. Other greenhouse gases are emitted in smaller quantities, but they trap heat far more effectively than CO<sub>2</sub>, and in some cases are thousands of times stronger. Methane is responsible for 17 per cent of man-made global warming; nitrous oxide for 6 per cent.<sup>87</sup>

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84 National Research Council (2010)

85 Solomon, S. et al. (2009)

86 IPCC (2014)

87 European Commission

The European Commission has broken down the causes for rising emissions in an easily accessible list:

- burning coal, oil and gas produces carbon dioxide and nitrous oxide;
- deforestation: trees help to regulate the climate by absorbing CO<sub>2</sub> from the atmosphere. When they are cut down, that beneficial effect is lost, and the carbon stored in the trees is released into the atmosphere, adding to the greenhouse effect;
- increased livestock farming: cows and sheep produce large amounts of methane when they digest their food;
- fertilisers containing nitrogen produce nitrous oxide emissions; and
- fluorinated gases such as hydrofluorocarbons (HFCs), used in industrial processes, produce a very strong warming effect, up to 23,000 times greater than CO<sub>2</sub>.<sup>88</sup>

CO<sub>2</sub> levels in the atmosphere are currently at their highest point for at least two million years. With business as usual, these levels will continue to rise to a point where it will become very difficult to keep global warming below the two-degree target. The IPCC special report on the more ambitious 1.5-degree target also shows that large and important losses can be avoided by halting the warming earlier.<sup>89</sup>

The IPCC has shown several possible options for how to meet these targets. They all conclude that it is late, but not too late. The task is daunting and difficult, but not impossible. There are important thresholds not to be crossed, but there is no exact limit beyond which it becomes meaningless to continue the work to combat climate change—neither in quantities of CO<sub>2</sub> (carbon dioxide, often referred to in parts per million, or PPM) in the atmosphere nor in terms of a specific date when certain targets must be met.

Most of the IPCC trajectories include not only the often-mentioned switch

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<sup>88</sup> Ibid.

<sup>89</sup> IPCC (2018)

to fossil-free and renewable energy and increased efficiency, but also measures such as an increased share of nuclear power, carbon capture and sequestration (CCS) and a large-scale shift to more plant-based diets. As we have seen, many of these measures have already been implemented in liberal democracies around the world; the trick now is to implement them at a faster rate, on a wider scale and in such a way that does not alienate citizens. The *gilets jaunes* of France, the petrol uprising in Sweden and many other initiatives demonstrate that if the work towards emissions reductions is not built from the ground up, it will be difficult to maintain the ambitious pace needed to reach those targets.

Liberal thinkers and policy-makers thus need to keep the science in mind to ensure that we are the guardians of scientific knowledge, and that we remain at the forefront of ensuring that scientific knowledge is put into policy practice.

## Protection of the common good is liberalism

Conservatives and socialists alike may struggle to link climate change to their respective ideologies, as the measures now needed are simply beyond what a traditional conservative agenda can comfortably include. Socialist thinkers will have to accept that many of the most efficient solutions are firmly market based. While it is less than obvious whether or not there is in fact a green party ideology, it is clear that the liberal ideology is firmly in line with where climate policy is currently heading.

We propose that liberals anchor climate change policy in the work of one of the most influential liberal thinkers, the Scottish philosopher and economist Adam Smith. He is best known for his work *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776), which was an important and influential cornerstone for the paradigm of free trade. Smith argued that both the buyer and the seller win through free exchange, and that because trade benefits both sides, it increases our prosperity. This understanding has been a given to leading economists for many decades, and it is clear that it holds true for combating climate change, as well. A few examples of how free trade and market principles have

worked and failed in the energy sector will help to prove the point:

1. In the 1970s, when Denmark decided to generate a large proportion of its electricity from wind—at the time just under 50 per cent of the total annual demand—a market for wind turbines was created, and Danish turbine producers became world leaders. The main reasons this happened include the creation of a level playing field and ensuring that the best wind locations were available for the industry, while tariffs, quotas and import restrictions did not play any role.<sup>90</sup>
2. Solar power has seen a rapid reduction in price every time production increases. Several countries have tried to protect their own solar industries, rarely with success; those countries with the highest percentage of electricity generated from the sun have been open, liberal market economies—at least in the case of establishing renewable energy.
3. When the Swedish invention Solvatten (a device purifying water using only the heat and UV rays of the sun) was launched, it was deemed suitable for the needs of developing countries. A market introduction plan for East Africa was set up, cooperating with micro-finance institutions to ensure that low-income households would be able to afford the device. Over less than a year, Solvatten became profitable, but it failed to maintain any kind of momentum on a larger scale. This was to a large degree due to problems at the African customs level, which led to unpredictable deliveries and steep price rises. Alas, it was not the technology or the project itself that led to this initiative failing: it was a failure in the trading systems being used to deliver it.

It is, however, vital to understand that the liberal school of thought does not mean a free-for-all, survival-of-the-fittest market. Adam Smith himself was quite adamant about this: *The Wealth of Nations* is not merely a study of economics; it shares a deep understanding of human social psychology. Smith

insisted that social harmony would emerge naturally as human beings struggled to find ways to live and work with each other. Freedom and self-interest need not produce chaos, but—if guided by an ‘invisible hand’—order and concord. As people strike bargains with one another, national resources will automatically be drawn towards the ends that people value most highly.

The main difference between human-made climate change (which Adam Smith did not foresee and which was in fact only scientifically proven in the 1890s) and other kinds of pollution, is that climate change cannot be seen or dealt with in the way we may deal with soot, garbage or noise. Since greenhouse gases are global in their scope and do not cause immediate nuisance limited to the area where they are emitted, Smith’s solution for other pollutants, with neighbours setting up formal or informal agreements on how to behave, is not applicable. Smith would insist on the necessity of such agreements, but would broaden the scope from neighbours or neighbourhoods to countries or regions, as is indeed the case in the Paris Agreement, where the principle of shared but differentiated responsibilities echoes Adam Smith’s sense of freedom with voluntarily agreed limits.

In Smith’s other book (he only wrote two), *The Theory of Moral Sentiments*, he focused on the foundation of human morality. He found what may now seem obvious; that the basis of our moral ideas and actions involve a natural sympathy for others, which will lead us to moderate our behaviour in order to preserve harmony. We are self-interested, which is largely positive, but we are not limited by those parameters. In fact, he argued that we are guided by an inner, neutral consciousness that tells us when our self-interest should stand back for the interest of others or for the common good:

*How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it.<sup>91</sup>*

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91 Several quotes taken from the Adam Smith Institute, <https://www.adamsmith.org/about-adam-smith>

Another thinker whose work aligns with much of Adam Smith's theories is Jeremy Bentham. In his *Utilitarianism*, the interests of all beings are considered equal and the goal of society is to maximise the total level of happiness:

*By the principle of utility is meant that principle which approves or disapproves of every action whatsoever according to the tendency it appears to have to augment or diminish the happiness of the party whose interest is in question: or, what is the same thing in other words to promote or to oppose that happiness. I say of every action whatsoever, and therefore not only of every action of a private individual, but of every measure of government.<sup>92</sup>*

This ethics-based promotion of actions that maximise happiness and well-being for the majority of a population can easily be adapted to today's discussion on climate change. We see that actions detrimental to the climate will often only marginally increase our pleasure, happiness or well-being, while the same actions may significantly reduce the pleasure, happiness and well-being of others, even up to a point where their chosen way of life may be rendered impossible.

In contrast to most other actions, including those connected with other areas of sustainability, what affects climate change may also have far-reaching consequences for people we have never met, for species with which we have no means of meaningful communication and for human beings who are not yet born and may indeed be born only after we no longer exist. With this in mind, we see that utilitarianism, which has been vastly influential in shaping modern-day liberalism, clearly shows that we as individuals and as societies must avoid actions that contribute to climate change. Again, a few examples will help illustrate the point:

1. **Using a fossil-fuel-powered car** is intrinsically linked to the emissions of greenhouse gases and thus global warming. While such a vehicle may increase the driver's freedom and thus happiness, it may severely reduce the prospects of happiness for others, espe-

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92 Bentham, J. (2009)

cially if many people behave the same way and use the same kind of vehicles. In previous decades, it could be argued that the level of happiness from *not* using the vehicle would decrease so much so that it was in fact worth it: public transport could be slow, unreliable and inconvenient. But with new technology and the gradual decreases in prices for these technologies, the reduction in pleasure and happiness from choosing, for instance, an electric car becomes minimal and easily offset by the increased welfare created by avoiding climate-change-inducing emissions. In fact, many would argue that individual happiness increases when making such choices.

2. **Coal-based power** is often the cheapest option when it comes to the kind of electricity you have in your home. In most liberal democracies, it is possible to actively choose the origin of your electricity through certificates of origin or environmental labelling. Up until now, the cheapest option is often either to choose coal-based power or to simply accept the existing grid mix, whatever it is—in many countries, this means a high percentage of coal. The pleasure derived from using electricity from coal will in most cases be directly linked to the price advantage—only rarely does one encounter consumers who derive pleasure in the fact that a fossil fuel lights their bulbs and stoves. In recent times, renewable sources of electricity have become much more competitive. In 2019, several tenders for electricity generation were won by offshore wind power or large-scale photovoltaic fields around Europe on the grounds that these sources of energy were the cheapest. From a utilitarian and liberal perspective, it is obvious that the way to maximise overall happiness is to rapidly switch from coal power to solar, wind and other sources of energy that have limited negative effects on happiness and welfare.
3. **Cycling** is the preferred mode of transport in the Danish capital, Copenhagen. More people cycle to and from work than use all the other modes of transport combined. When asked why they choose to cycle, in a large survey conducted by the municipality, the positive



effects on climate change compared to other modes of transport were only mentioned by a small minority. Instead, the most common positive effects individuals identified for this behaviour were better health, saving money and saving time. This can easily be translated into utilitarianism's notion of happiness or well-being, and since the percentage of cyclists in Denmark is so high, the suffering they inflict on others—potentially car drivers and pedestrians—would need to be very high in order for policy-makers *not* to systematically increase the percentage of people cycling. However, conditions may vary in different parts of Europe. Bad infrastructure, air pollution and norms about cars as a status symbol can make it more difficult for citizens in southeast Europe, for example, to use bikes regularly.

There are also examples where the opposite is true: long-distance flying will often increase the happiness of individuals, but will worsen the future for all unless—or until—more sustainable flying is introduced. At the same time, positive examples can easily be reproduced: alongside technological development within key sectors combatting climate change, such as energy, transport, housing and food, the reduction in satisfaction, well-being or happiness from low-emission choices compared to their high emissions alternatives will be very low or non-existent. This trend is exacerbated by the fact that people's values have changed with increased awareness about the effects of climate change. This is especially true in advanced, liberal economies, where a majority express how their quality of life or sense of well-being is reduced by the effects of climate change, and they also have profound unease about its negative effects. This is in itself negative: we are not prone to rational, long-term decision making when suffering from anxiety or panic—but it shows that there is now a strong demand for increased action.

From a liberal-altruistic perspective, this is a game changer: the liberal approach to climate change is to be the champion of emissions reductions. Not for the sake of nature, climate, or other beings, or even for the moral imperative of protecting what's been given to us, but simply because a cost-benefit analysis proves that more people stand to gain from radical, quick emissions reductions than will lose.

## Let the market economy decide

When contemplating the ideological grounds for a strong stance against human-made climate change, there is clear evidence that the liberal paradigm of the market economy has been vital in ensuring the development of cost-effective solutions. This has also been the case when it comes to other challenges that mankind has overcome, including:

- **Global health threats:** The market economy has led to an improved economic situation for almost everyone. The percentage of people living in abject or absolute poverty is at a historical low, and this in turn has led to the successful eradication of many diseases and other health threats. It has also led to the increase of the average lifespan of humans across the world.
- **Resource scarcity:** Non-renewable resources will become more and more scarce until they run out. Thomas Malthus observed that an increase in a nation's food production improved the well-being of the populace, but that this improvement would be temporary because it led to population growth, which in turn restored the original per-capita production level. This "Malthusian trap" has since been used as a warning against the overconsumption of other material resources, echoed in modern times by the Club of Rome's famous 1972 publication *Limits to Growth*.<sup>93</sup> In it, it is argued that Earth's resources 'cannot support present rates of economic and population growth much beyond the year 2100, if that long, even with advanced technology'. For a number of resources, this has been proven wrong over time, most often through substitution. Following the principle of availability and demand, when a resource becomes scarce, it becomes more expensive, and it then becomes economically viable to switch to an existing substitute or to develop such a substitute. This might mean replacing virgin material with recycled or reused material, reducing consumption through increased efficiency, developing a new business model (for instance, a service rather than

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93 Club of Rome (1972)

a product) or switching to a different product altogether.

- **Decoupling evidence:** Local pollutants, such as soot, particulate matter and NO<sub>x</sub>, have been proven to follow an inverted U-curve, initially increasing with rising incomes and then reaching a point where higher incomes lead to lower emissions. This is due to a fact already recognised by Adam Smith and confirmed by behavioural psychologists: that when we reach a certain stage of development as humans and as a society, we no longer need to focus on basic survival and can devote more attention, time and resources to a better standard of living. This in turn includes better air quality and less garbage in the streets, among other benefits.

These success stories do not mean that we can take market-economy solutions for granted. This is especially true considering that, on a global scale, we have yet to identify anything even approaching an inverted U-curve for climate-related emissions. Until now, increased prosperity on a global scale has always been accompanied by rising CO<sub>2</sub> emissions, with the two indicators following each other so closely that they seem like two sides of the same coin.

With this as an indisputable, global fact for the last several decades, we now see that many authorities within the realm of climate change are challenging the market economy, blaming it for the failure to seriously curb CO<sub>2</sub> emissions. In medical terms, such a claim is easily falsified: for instance, if one is bitten by a venomous snake, the serum or antidote must come from the same species of snake to be effective—use a different medicine, and the patient will die. Furthermore, many of the top polluters are state owned, so are not subject to the normal rules of the market economy, where we have time and again seen that the market will reward efficient solutions. All four of the biggest emitters of GHGs in the world are state owned: Chinese coal, Saudi Arabian oil, Gazprom and National Iranian Oil, followed by the privately owned Exxon Mobile, and then by again a host of state-owned enterprises.<sup>94</sup> Nevertheless, we cannot be complacent and must find arguments and reasoning that go well beyond the simple snakebite metaphor.

Given that the fight against climate change is—and rightfully so—very high

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94 Riley, T. (2017)

on the political agenda in many western democracies, we must make a case for the market economy as a climate saver in order to save the model itself. As much as the market economy can help save the climate, the climate can help save the market economy, which is at the very heart of the liberal idea. We do this by looking for liberal, market-based solutions where economic growth and reduced emissions can go hand-in-hand, or better yet, where there is already a positive correlation. We start by looking at the world's foremost economic superpowers, the US, Sweden and the EU.

Sweden was recently named “the global champion of economic decoupling” by the OECD. Since the early 1970s, the economy has more than doubled in terms of GDP per capita, while emissions have halved; the carbon footprint for every krona in the economy is only about a quarter of what it was less than 50 years ago. ‘If every country was like Sweden, we would have no problem’, the IEA’s CEO Fatih Birol puts it.<sup>95</sup> In our view, this is clearly exaggerated, partially because some of Sweden’s emissions reduction has been “exported” in the sense that what was previously produced in Sweden is now imported, and the emissions are therefore part of other countries’ carbon budgets. Still, this is more than hinting at a solution which market liberals should dig deeper into.

To explain Sweden’s success in reducing emissions while at the same time improving the economy, it largely boils down to liberal market-based solutions, with the carbon tax as a prime example. A carbon tax is liberal because by trading in emissions allowances and climate taxes, actors are given financial incentives to elect on their own to reduce their emissions, and to freely decide what measures they will take.

The carbon tax can be classified as a ‘pigovian tax’, meant to discourage those economic activities that would harm a third party or society as a whole. Some products might have either a positive or a negative externality, affecting people other than the ones directly involved in the transaction, such as the carbon dioxide emitted by an industry.<sup>96</sup> Pigovian tax theory is often understood as putting a price tag on a negative externality which “does not have a price”—something becoming less and less true for climate change, with the advance-

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<sup>95</sup> As presented at the Svensk Vind annual conference in 2018, author’s note.

<sup>96</sup> Investopedia (2019)

ment of scientific knowledge about its effects.<sup>97</sup> It might be hard to measure the cost down to the last few dollars or euros, but the fact that it costs society is hard to dispute.<sup>98</sup> Therefore, a carbon tax might be used to encourage ways to replace fossil fuels and curb energy inefficiencies.

If well managed, a carbon tax offers industry as well as households a predictable price for carbon. Such certainty is crucial, not least of all for those sectors relying on large investments with long payback times, such as the power utility sector.<sup>99</sup> Since the manufacturing of an item or the production of energy imposes an unwanted cost on society and other people, we are back to Adam Smith's theory of moral sentiments, where our selfish behaviour is tempered by a moral judgement of our actions.<sup>100</sup> A pigovian tax system on greenhouse gases should therefore be seen as simply balancing out the negatives so that the ultimate result has a neutral effect on society as a whole.

When Sweden introduced a carbon tax in 1991, this became the world's first tax of its kind, but the tax was well-anchored in pigovian tax theory. To date, Sweden's carbon tax remains the highest tax on CO<sub>2</sub> in the world, and it has never been seriously questioned by any of the parties in parliament. In fact, it was accepted from the outset by the industry and is now often cited by Swedish companies as a factor that made them better prepared for climate-related legislation and demands in other countries. Part of the reason for this acceptance has to do with the tax's gradual increase and broadening, with exceptions for industries that are particularly vulnerable to competition from their counterparts in regions with no such tax. The existence of the carbon tax has also reduced the need for formal legislation with prohibitions and similar policy tolls, as the tax itself has meant that coal and oil have been almost completely phased out of the energy sector for industrial use as well as for households. It has also meant that Sweden has the world's highest share of renewables mixed into the fossil diesel sold, with a part coming from Swedish forestry residues that wouldn't be competitive without the carbon tax. At the same time, contrary to what many people believe, Sweden does not have a very high level of

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97 Fitzgerald, M. et al. (2016)

98 Guzman, A.T. (2014)

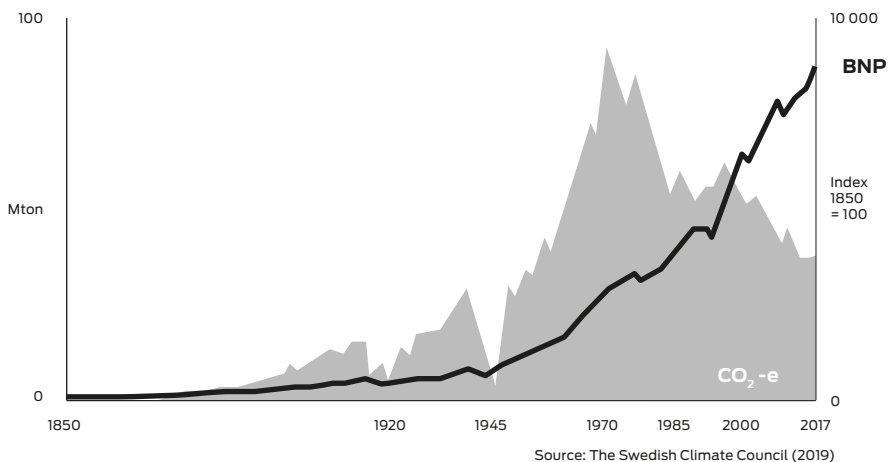
99 The Economist (2010)

100 Smith, A. and Raphael, D.D. (1982)

environmental taxes—in fact, Swedish green taxes as a percentage of the total tax regime are lower than the OECD average. This is partially due to Sweden’s generally high level of taxation.

Several other countries, including France and Canada, have looked to Sweden for inspiration when developing their systems. This is very much in line with the belief from the seven parties in the Swedish parliament that jointly developed the national climate policy legislation that entered into force in 2018. As a small country, Sweden can only make a real difference by leading the way.

**Figure 3.1 Swedish decoupling**



The US has a federal system, with many climate-related issues solved at state level rather than by the White House or Congress. This also means that climate-progressive states such as California, which would be the sixth-largest economy if it were a country, can decide not only for themselves about how to deal with climate issues, but also influence other states and form formal agreements with them. This has been done extensively within the automotive sector, a main contributor to the American carbon footprint. Here, the California

Air Resources Board (CARB) has spearheaded legislation used by more than 15 US states. From requirements for clean cars and fuels to adopting innovative solutions to reduce greenhouse gas emissions, California has thus pioneered a range of effective approaches that have set the standard for effective air and climate programmes for the nation and the world.<sup>101</sup>

From a liberal, market-based perspective, the way CARB has chosen to tackle emissions reductions in the transport sector is interesting; every car brand is to have a certain percentage of zero-emission vehicles (ZEVs). The percentage increases over time, and gradual steps such as LEVs (low-emission vehicles), ULEVs (ultra-low) and SULEVs (super ultra-low) are phased out. However, every car manufacturer is free to either meet the targets on its own or buy surplus permits from other manufacturers that have overachieved. CARB organises auctions to ensure transparency, but the prices are set by buyer and seller. In this way, companies with a high percentage of electric vehicles, such as Nissan, or with only EVs, such as Tesla, have an asset that other companies want, including Chrysler Fiat, which deemed for several years that it was more beneficial to buy permits rather than build EVs.

On climate, it obviously doesn't matter where the emissions reductions occur, and with this kind of auction system, emissions reductions can be achieved at a lower price, since they are allocated to the companies most interested in executing them. At the same time, this provides an important, additional revenue stream for companies who are the so-called "first movers" in the transition to low-emission mobility. It is interesting to note that when the US—under President Trump—decided to weaken these demands on the automotive industry, several of the major car companies protested, so much so that, at the time of writing, they are cooperating with the state of California to ensure that future emissions demands are kept nearly intact.

Similar models have been applied by CARB for other subsectors in transportation, and the model has also served as a basis for China's demand that car manufacturers reach a certain percentage of NEVs (new-energy vehicles). The EU's demands on emissions for new passenger vehicles originally included a similar auction component, but it was later scrapped in favour of every manu-

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101 California Air Resources Board

facturer meeting its own targets.

Auction-based systems function in a similar way, and have over the last decade been used extensively to establish more renewable energy—mainly offshore wind and large-scale solar. In the reverse auctions practiced by Portugal, the Netherlands, Chile, Peru and other countries, the energy company or utility provider demanding the least money to deliver the amount of energy required wins. This has been a successful way to reduce costs by using strict market mechanisms, and has in recent years shown how renewables are now regularly outcompeting coal, oil, natural gas and nuclear power when it comes to cost per kWh produced.

## **Correcting market failures, state policy failures and technology-neutral policies**

As liberals, we must also acknowledge that while we need to promote new market-based policies to tackle climate change, we must also correct old failures. More specifically, we must address fossil-fuel subsidies, viewed as a failed state intervention which stops the market from functioning freely. Here, we will embrace more liberal technology-neutral policies. Part of letting the market decide when it comes to liberal policies also has to do with acknowledging and correcting all of the fossil-fuel subsidies being handed out around the world.

A subsidy is commonly defined as a financial or tax support given to those buying, producing, distributing or selling the goods in question. The IMF estimates that global subsidies for fossil fuels were \$5.2 trillion in 2017 or \$10 million every minute. By the same estimation, ending subsidies would cut global climate-related emissions by about a quarter and halve the number of early deaths from fossil-fuel-related air pollution.<sup>102</sup>

Far from being a subsidy dished out only in oil-producing and coal-dependent countries, the REN21 international policy network for renewables found that 112 countries around the world subsidise fossil fuels, making it possible to

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<sup>102</sup> International Monetary Fund (2019)



significantly reduce global warming simply by reducing or ending these market distortions.<sup>103</sup> A study from the independent think tank International Institute for Sustainable Development (IISD) found that a 30 per cent swap to renewables would lead to emissions reductions of between 11 and 18 per cent among 20 countries studied.<sup>104</sup> As liberals, the logical solution for avoiding these major global problems then boils down to technology-neutral policy.

Technology-specific policies promote certain technologies over others through mechanisms like subsidies and tax breaks. Technology-neutral policies target the real issue and alter the competitive landscape in favour of any technology that can address this issue. Examples include: carbon taxes to combat climate change; fuel taxes to limit congestion and fossil fuel dependence; and vehicle or industry plant emissions taxes to improve air quality.

If the market were truly technology-neutral, we would see a universal levelling of the playing field that would send the right market signals to all actors. This would in turn incentivise innovation in a plethora of clean technologies, having either reached cost parity with fossil fuels when unsubsidised or by doing so through continued technical development and increased production. This includes solar energy, wind power, electric vehicles and many other technologies, as pointed out in the 2019 McKinsey Global Energy Report.<sup>105</sup>

The levelised cost of electricity (a measure that enables comparison of different methods of electricity generation on a consistent basis) is down 81 per cent for solar photovoltaics since 2009; onshore wind is down 46 per cent. Cost reductions have been a combination of economies of scale in manufacturing, fierce competition along the supply chain—intensified by the introduction of auctions in many countries—record-low costs for financing and improvements in the efficiency of generating equipment.<sup>106</sup>

Where not protected by subsidies, fossil fuels are being phased out in many parts of the world. For example, in 2019, 10 gigawatts (GW) of coal power capacity was retired globally; almost as much as was added (12.7 GW), meaning the global coal fleet will soon decline because only a third of the proposed

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103 REN21 (2019)

104 International Institute for Sustainable Development (2018)

105 McKinsey (2019)

106 Frankfurt School-UNEP Centre/BNEF (2019)

capacity has actually been developed since 2010.<sup>107</sup> Although this points to society heading in the right direction, it is still important to ensure that this continues and all fossil fuel subsidies are addressed.

It is therefore clear that fossil fuels must pay for their emissions and other pollution impacts, while at the same time wind and solar must be directly exposed to their actual market value and pay for grid expansions, redispatch and other balancing services they require, and nuclear must pay for full insurance against possible black swan events.

## Green growth

From a liberal perspective, it is important to understand that combating climate change does not entail massive renewable subsidies, as outlined above. It is also important to point out that efficient climate work does not mean a zero-growth economy or even degrowth, much less the idea that reducing emissions can only be done by significantly reducing our standard of living.

On the contrary, many policies now acknowledge that if we are to tackle climate change, we need to use the market we have. Initiatives like Sir Nicholas Stern's New Climate Economy 'provides independent and authoritative evidence on the relationship between actions which can strengthen economic performance and those which reduce the risk of dangerous climate change', showing that the cost of non-action is much larger than the cost of action.<sup>108</sup> Nevertheless, meeting the targets of the Paris Agreement will inevitably entail large-scale investments.

The EU Commission proposes that at least 25 per cent of EU spending in the next seven-year budget, starting in 2021, will be earmarked to support climate action. As the commission itself recognises, this will not be enough to meet targets: 'we must also rely on the private sector to attract capital to such economic activity as limiting climate change, including cross-border green investments.

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<sup>107</sup> Global Energy Monitor, Sierra Club and Greenpeace (2019)

<sup>108</sup> New Climate Economy

In the EU, we welcome banks, asset managers, institutional investors, companies and capital markets to promote greater and better use of sustainable finance.<sup>109</sup>

This focus on green growth and a new cooperation between the private and public sectors is also a centrepiece of the “green deal” introduced in the US by the Democratic Party, where some of its proposals seem to be on the verge of socialism while others address state policy failures.

A 2019 report by the Global Centre on Adaptation outlines this well. Not only does it find that climate change could depress growth in global agriculture yields by up to 30 per cent by 2050, with the 500 million smallholder farmers in developing countries the most affected, but they also estimate that the world needs to invest \$1.8 trillion between now and 2030. The net benefit would eventually be worth \$7 trillion.<sup>110</sup>

Notwithstanding the above arguments to use market-based climate policies, there are still areas of the economy in which climate-friendly solutions are not the ones offering the greatest profits, and where there is neither any detailed agreement to uphold nor an exact scientific answer. This is logical, as science and policy are different walks of life.

We need to help deliver market-like solutions—already to a large degree existent in the carbon markets of the EU, several US states, regions of China and elsewhere—as well as measures like the carbon tax introduced in Sweden in 1991 and now in place in provinces of Canada and France.

It is important to acknowledge that it will sometimes not be possible to achieve perfection. This is particularly true for those who argue that a carbon tax, or any similar initiative, must be global to be efficient. This argument falls under the “best being the enemy of the good” category: as a global and uniform policy, the CO<sub>2</sub> tax may not be forthcoming or, in any case, be sufficient or necessary to reach the climate targets set out by science, policy or business actors and asked for by the population as a whole. The EU emissions trading scheme falls under this category of being good enough, in the absence of a perfect global

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109 EU-High Level Expert Group on Sustainable Finance (2017)

110 Global Commission on Adaptation (2019)

cap-and-trade emissions system.

Nudging is an interesting “good enough” policy instrument that helps deliver market-based approaches and foster innovation. Marketing practices have “nudged” the consumer towards certain choices for many decades—that is why the candy is located right next to the checkout cashiers in most stores, often conveniently at eye-level for children. In the words of Nobel Prize laureate Richard Thaler, it is about ‘making it easy for people to do what’s right’. The use of nudge efforts can thus be related to liberalism’s respect for individual free choice.

As has been proven many times and written about extensively, this is a strong tool in the sense that even fairly small nudges can change demand and behaviour in drastic ways. This is why both President Barack Obama and Prime Minister David Cameron installed special nudge units at both the White House and 10 Downing Street.

Furthermore, and this is why we include it here: it is a fundamentally market-based approach which puts faith in the consumer. Rather than restricting choices through bans or other legislation or using tariffs and taxation to influence pricing, consumers are simply nudged with no formal restriction in choice. From a climate perspective, nudging is especially relevant when:

- the fun is now, and the cost comes later;
- the choice is complicated, and it is hard to foresee its consequences;
- the situation is new or unusual;
- there is no clear feedback, making it hard to spot and learn from one’s mistakes;<sup>111</sup>
- there is a long-term gap between the action and its consequences; and
- the action is concrete and the consequences diffuse.

While nudging has been around for decades, it has only recently been used more widely to reduce emissions and combat climate change, perhaps due to

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111 Norén, A. (2019)

many environmentalists not being great advocates of market-based solutions and many believers in the liberal market economy not being strong advocates for a more ambitious climate agenda. There are, however, many examples—big and small—of how nudging has been used to successfully help reduce the climate impact of our actions:

- 1. Opt out:** In an often-quoted trial in Germany, one group was offered 100 per cent “green electricity” from renewable sources at the extra cost of €10 per year, which 7 per cent opted to do. In a different group, 100 per cent “green electricity” from renewable sources was the default, with the option to save €10 by accepting electricity from any source. In this group, 70 per cent decided to remain with the greener choice.<sup>112</sup>
- 2. Make it fun:** By turning the stairs to a subway station into a piano, where each step gave a different sound, Volkswagen convinced more people to walk rather than take the escalators; and by fitting garbage cans with “jackpot” sounds that would go off every time a piece of garbage was thrown in the can, the streets became much cleaner—all this in an experiment carried out by the company in Stockholm.
- 3. Be like others:** Simply informing people how much the neighbours have reduced their electricity consumption has proven to be one of the most efficient ways to reduce consumption—more so than moral messages and, in several trials, more efficiently than the pricing mechanism, since for many of us the price of electricity is not a strong factor determining our consumption. Similar results have been obtained for water consumption, as well as for when hotels want to avoid cleaning guests’ towels every day: facts about excessive water consumption, climate impact, etc. were less consequential than simply telling guests that this is what other guests do.

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112 Norén, A. (2018)

## Ensure continued trust in rules-based society

In a natural state of affairs, the instigator of liberal philosophy Thomas Hobbes argued, humans were driven by the instincts of survival and self-preservation.<sup>113</sup> The only way to escape from such a dangerous existence was to form a common and supreme power capable of arbitrating between competing human desires. This power could be formed in the framework of a civil society that allows individuals to forge a voluntary social contract with the sovereign authority, transferring their natural rights to that authority in return for the protection of life, liberty and property.<sup>114</sup>

This view is clearly divergent from Adam Smith. But it is clear that no matter what kind of liberal you are, liberals as a community believe in a rules-based society. Liberals are appalled when basic human rights are threatened or curbed in western states, and they realise that safeguarding these values is deeply embedded in the liberal idea. This includes trust in policy instruments and institutions; if trust between the electorate and the elected is not there, the values we take for granted may quickly be diluted or vanish. Within the area of climate change, this includes the major global agreements on reducing emissions. Being the fastest and most widely ratified agreement of any kind in the history of the UN, it is not only relevant within the area of climate policy, but also serves to identify and gauge how well we can trust agreements that are, strictly speaking, more based on trust than on law.

On a more individual basis, a liberal mindset would influence politics and government to adopt more ambitious climate policy through legal routes, rather than resorting to illegal behaviour to further this agenda. This is especially important when some philosophers and influencers are starting to advocate for anti-liberal and anti-democratic solutions, despairing at representative democracy's ability to mend what's broken but failing to show how other means of decision making would be more efficient. Liberals will have to be ready to defend democratic values and practices, showing how up to the task they are in reducing emissions as swiftly and sharply as needed.

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113 Stanford Encyclopedia of Philosophy (2018)

114 Young, S. (2002)

## Complementary measures as a last resort

One example that demonstrates that climate change has become a mainstream concern is CNN's 4 September 2019 organising and airing of a "forum on climate change". One of the most striking moments in the programme arrived when the moderator asked Senator Elizabeth Warren whether the government should be able to regulate the kinds of lightbulbs people can buy. Her response:

*This is exactly what the fossil fuel industry hopes we're all talking about. ... They want to be able to stir up a lot of controversy around your lightbulbs, around your straws, and around your cheeseburgers. When 70 per cent of the pollution, of the carbon that we're throwing into the air, comes from three industries. ... And why don't we focus there? It's corruption! It's these giant corporations that keep hiring the PR firms so we don't look at who's still making the big bucks off polluting our planet. And the time for that is past. We have a chance, a chance left in 2020 to turn this around. But we are running out of time on this one.<sup>115</sup>*

This position demonstrates a liberal conundrum: whether there are scenarios in which liberals have to go beyond market-based mechanisms to tackle climate change. While it is appropriate to use carbon pricing, as it effectively incentivises emissions reductions, it cannot alone provide sufficient decarbonisation. While pricing carbon brings the costs of climate change into economic decisions, it cannot overcome every potential market barrier limiting the uptake of clean energy and other low-carbon technologies. A carbon price alone is also unlikely to provide incentives for investment in high-cost technologies when increasing deployment could help lower their cost, a real trend in both wind and solar. Finding ways to lower the cost of low-carbon options can open the door to greater emissions reductions in the long term.<sup>116</sup>

It is, therefore, important to realise that liberal beacons like carbon pricing must be used as just one out of a larger suite of policy instruments. To boil down this debate to its essence, it really has to do with whether or not non-mar-

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<sup>115</sup> Zhou, L. (2019)

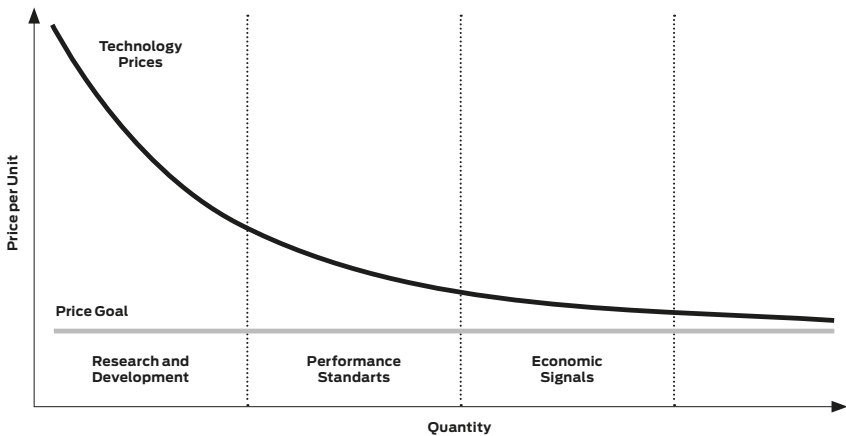
<sup>116</sup> World Resource Institute (2019)

ket-based policies fit into a liberal view on climate change policy. Is it, from a liberal, market-economy perspective, ever right to ban something to protect the climate?

Liberals are fond of rights and want a society that promotes choice for individuals. Bans and prohibitions within climate change policy are therefore tricky, since climate change is dangerous and poses a long-term threat for all of us, both as individuals and society as a whole. However, that threat is not as imminent as others because of the slow process of climate change.

Empirical examples point to the fact that even liberals will need to accept bans as a good complementary measure. However, these should always be considered as a last resort. When considering a ban, it is important to prioritise different instruments in terms of the technological maturity of the solutions that can meet the challenge you are trying to address. The American energy analyst Hal Harvey<sup>117</sup> recently published a book which supports the argument that economic signals work best when you are quite far down the line in terms of technology pricing. The below figure illustrates this well, and could also be used to determine when to consider a ban.

**Figure 3.2 Development of technology prices**



Source: Designing Climate Solutions: A Policy Guide for Low-Carbon Energy by Hal Harvey, Robbie Orvis and Jeffrey Rissman

117 Harvey, H. et al. (2018)



This figure can be used to illustrate that bans work best as final instruments, once economic signals have run their course. Liberals should only consider prohibitions if these two conditions are fulfilled: 1) the authority has sufficient information about advantages and disadvantages; and 2) the balance between said advantages and disadvantages shows that the societal value is already negative, with little use, as can be seen in the above graph.

For example, the UK will ban coal in 2025, after carbon pricing will have done most of the job. That would ideally also be the case in terms of banning new internal combustion engine cars from 2030, which Denmark and many others aim to do. That should be a last resort, because better options should already be available by then. This approach can therefore also be viewed as a political move to set higher standards that would nudge car producers to transition to zero-emission vehicles. A ban, in this case, is quite a blunt and unwieldy instrument. But it is hard to drive the transition in transport through carbon pricing that hits the consumer, so a policy that implements a future ban can make the direction clear for car producers.

There are contexts in which liberals should want to ban things. One example was when freons or chlorofluorocarbons (CFCs) were banned through the UN Montreal Protocol in order to save the ozone layer. This is one of the primary examples of how a global problem did not find its solution in the market economy, but needed a uniform and globally enforced phasing out of the main substances responsible for the disaster in waiting.<sup>118</sup> It is important to realise that this ban was actively supported by a large industrial coalition, which wholeheartedly agreed that the issue could not be solved by market forces alone. The Montreal Protocol served as a role model for the aforementioned UN Paris Agreement, and is now being used to find solutions for other large-scale environmental issues, such as plastic in the oceans.

If something is more cost-efficient, it can also sometimes be more prudent to use bans. Prohibitions and bans are requested by industry more often than one might believe. In some instances, it may be a way to reduce the time needed and transaction costs involved in switching from an established technology towards new and more efficient ways of solving the issues at hand. An example

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118 UN Environment

is how low-energy lightbulbs and LED struggled to gain a foothold in a market so long dominated by incandescent lightbulbs. Because the new kind of bulbs were produced in small series, they were expensive, and because they were expensive, they did not reach a market breakthrough. Only after policy-makers decided to gradually phase out incandescent lightbulbs in the EU and other markets did the energy-efficient bulbs manage to get a substantial market share. This meant massive gains in terms of reduced energy consumption, from 60 or 90 Watts per bulb to 9 or 12 W, with a further reduction once LED was introduced. Once the cost per bulb went down, this also translated into large savings for users. Could this not have been solved by the market economy? Potentially, but this market was kick-started by the EU ban, and after the ban there was once again a free market for anyone wanting to compete. For liberals with an interest in reducing climate impact, surely this must be an acceptable trade-off.

## Fear not the future – change it

In the words of behavioural psychologists, many people are now moving directly from “denial” to “despair”: first not acting on climate change because they did not believe in it, and now not acting because they see it as inevitable.

In the words of young Swedish climate activist Greta Thunberg: ‘For a 67 per cent chance of limiting temperature rise to below 1.5 degrees, we had, on 1 January 2018, 420 gigatons left in our CO<sub>2</sub> budget.... That number is much lower today. We emit about 42 gigatons of CO<sub>2</sub> every year.’<sup>119</sup> The world’s leading climate scientists have insisted that climate-related emissions must peak and turn sharply downwards within around a decade for global warming to be kept below 1.5°C. Beyond that, even half a degree will significantly worsen the risks of droughts, floods and extreme heat for hundreds of millions of people. At 2°C of warming, insects—which are vital for crop pollination—and plants are almost twice as likely to lose half their habitat, compared with an increase

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119 Thunberg, G. (2019)

of 1.5°C. Ninety-nine per cent of coral would be lost at the higher of the two temperatures, but about 25 per cent has a chance of surviving if only the lower limit is reached.<sup>120</sup>

Investors should also see the strong financial rationale for rapidly reducing emissions. The investment advisory firm, Mercer LLC, which modelled the financial fallout from two, three and four degrees of global warming through 2100, shows that if the planet heats up by more than 2°C, it's going to get a lot harder to make money. Limiting global warming to two degrees, coal and other fossil fuels lose the most in value, because countries have shifted toward cleaner energy. If temperatures rise further, sectors with the biggest losses will include industry and agriculture, and the damage from extreme weather events would cause negative returns for almost every other sector.<sup>121</sup>

Some claims about what climate change will entail may seem exaggerated—the planet won't disappear and humanity is not threatened, at least for the time being.<sup>122</sup> However, what has already been agreed upon in the IPCC consensus documents is that failing to seriously address climate change should not be seen as an option. The future of civilisation as we know it will be determined in part by how we handle climate change over the next few decades. Tackling climate change is entirely possible—we have the technologies needed to do so. And as we have set out in this chapter, we also have the policies to ensure that we tackle climate change. This is, in essence, a deeply liberal message, one that shows the power of mankind: We can, must and will rise to the occasion and tackle global warming with market-based solutions, technology, behavioural changes and liberal policies. Just like liberals have won other fights of global relevance, liberal policies will win this time too. Liberals always rise to the occasion.

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120 IPCC (2018)

121 Mercer

122 Mooney, C. (2017)

# Liberal remedies to European unemployment

Šárka Prát

There are many challenges being faced in Europe today, ranging from security to unity, as well as increasing political divides that have countries scrambling for a foothold in the rapidly changing world. One of the fears that many Europeans have, particularly the younger generation, is that they will not be able to become or stay employed. However, this fear of unemployment is not just a phenomenon of today's world. Looking at the history of mankind, we can see that this fear dates back to the time of the Industrial Revolution, a period of rapid technological progress.

## History

From the late 18th century onward, many workers became concerned about losing their jobs to the invention and implementation of new machines, which led to the fear of so-called “technological unemployment”. This fear began in Great Britain, the site of origin for the first Industrial Revolution. In the British economy of the early 19th century, the workers most affected by an inflow of

capital investment were employed in domestic cottage industries with traditionally very low productivity and low capital intensity.<sup>123</sup> It did not take long for the handloom weavers and frame knitters to be rapidly wiped out by more technologically advanced factories,<sup>124</sup> which eventually escalated into the rebellion of the Luddites from 1811 to 1817. The Luddites were originally British weavers and textile workers who belonged to the labour movement and struggled against mechanised manufacturers who undermined skilled artisans.<sup>125</sup> In the end, the Luddites' fear that machines would lead to workers becoming impoverished was not realised because the mechanisation of that period could only replace a limited number of human activities.<sup>126</sup> However, the fear remains, and it usually returns in times of large technological changes.

This fear arose again in the 20th century, specifically in the 1920s, when mass unemployment became an important and emerging issue in Europe. On 26 February 1928, Evans Clark wrote an article in the *New York Times* titled, "March of the machine makes idle hands", in which he claimed that 'the onward march of machines into every corner of our industrial life had driven men out of the factory and into the ranks of unemployment.'<sup>127</sup> Even the US, the most prosperous economy of that time, suffered from the rise of urban unemployment. American village workers had been losing jobs due to the implementation of agricultural technology, such as tractors. The centre of economic debate had moved from the UK to the US, and it was there that the 20th century debate over technological unemployment occurred.<sup>128</sup>

The 21st century's incarnation of this revolution is associated with automation, digitisation, and robotisation, which have once again brought people's fear of unemployment into the foreground. The replacement of manual workers by machines and the demand for highly skilled IT professionals have created a labour market environment in which many find themselves viewed as unskilled job applicants. Generally, it can be stated that technological advancement is the main source of economic progress, but at the same time it has been

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123 Mokyr, J. et al. (2015)

124 Bythell, D. (1969)

125 Andrews, E. (2019)

126 Mokyr, J. et al. (2015)

127 Clark, E. (1928)

128 Woirol, G.R. (1996)

shown to create anxiety within developing countries. Now that the world is seeing another surge of technological development, it is not unprecedented that the developed world is now suffering from another bout of angst.<sup>129</sup>

Moreover, this anxiety has grown over the last decade because of the eurozone crisis and the accompanying increased unemployment. It is also due in part to the movement of some labour overseas, causing grave concern in some segments of the workforce. In these times, youth unemployment is one of the greatest issues facing the wider European community. This is because the high rate of youth unemployment is crippling the next generation: it is almost twice as high as in the rest of the workforce.<sup>130</sup> Higher rates should, to some extent, be expected, as young people tend to experience more frictional unemployment when they first enter the workforce. They often jump between jobs to find where they fit the best and what they enjoy doing. Youth unemployment rates also tend to be higher because oftentimes their work is transitory as they simultaneously study. The worry among youth is that their lack of experience is not being met with the job opportunities needed to gain experience in order to be successful in the workforce.

## What has affected the unemployment rate?

European nations must face this threat with fact-based solutions, and the best way to combat unemployment is through liberal policies. This includes changing national policies like unemployment benefits, taxation and union power to better suit economic and job growth. Another important step is to look at countries that have successfully kept unemployment low, especially youth unemployment levels, to see what can be applied to the rest of the eurozone. One example that will be expanded upon later is Germany, and its education system's unique characteristics which are ideal for decreasing unemployment. The concept of the Danish flexicurity system will also be examined as a possi-

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<sup>129</sup> Mokyr, J. et al. (2015)

<sup>130</sup> France-Presse, Agence (2018)

ble solution to this problem. Through such liberal changes, employment rates will rise and improve the lives of European citizens.

Before these solutions can be explained, it is essential to understand some of the events that have increased the unemployment rate. The eurozone crisis devastated the economy of the EU. The catalyst that set this in motion was the global financial crisis that began in 2007.<sup>131</sup> This led to issues among many member states, due to their inability to pay off their deficits and public debt.<sup>132</sup> Greece, Ireland, Portugal, Cyprus and Spain were in danger of defaulting and needed EU-IMF loans to have a chance of paying back their debts.<sup>133</sup> These five nations defaulting would have further decimated the EU, which made giving them the loans one of the best solutions to the problem. Some economists have argued for other possible solutions to the crisis that involved allowing some level of defaulting in those countries as a response to the impact on the whole EU, made even more serious because of the shock generated by the global financial crisis. This created economic slowdowns and rising unemployment.<sup>134</sup> It took several years for European economies to see the effects of their bailout efforts. By 2014, most countries that had received bailouts, with the exception of Greece (which is still struggling) and Cyprus, had met the requirements set by the loaner countries, and economic growth began.<sup>135</sup>

This economic crisis sent shockwaves throughout the world, making people more fearful about their future job prospects. Even with the economic recovery, nations were still facing many problems, and some countries still had higher unemployment rates than before the crisis.<sup>136</sup> This threat was further exacerbated by other trends, such as the automation of jobs and businesses moving their practices to less expensive countries where labour could be bought at a lower cost. Looking towards the future, AI technology and robot automation will be able to perform over 50 per cent of skills in most of today's professions within the next 30 years.<sup>137</sup> This automation can already be seen in some sectors, such as self-service checkout stations at grocery stores. In the

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<sup>131</sup> Alessi, C. and McBride, J. (2015)

<sup>132</sup> Ibid.

<sup>133</sup> Ibid.

<sup>134</sup> Ibid.

<sup>135</sup> Ibid.

<sup>136</sup> Eurostat (2019b)

<sup>137</sup> Klesa, J. (2019)

future, not just lower-paid ones but all jobs will be affected by technological advancements in automation. This poses a threat to middle-wage jobs, which could increase inequality in society if they are allowed to die out.<sup>138</sup>

Importantly, the fear that many will lose their jobs due to AI is not only a matter which concerns young people. The development of AI can affect labour markets and cause a definitive shift in economic power from labour to capital. Therefore, any AI policy recommendations need to address this area. Digital Innovation Hubs (DIHs) are part of an online platform—with heavy investment from the European Commission—which provides support for innovators developing new technology to keep up with all the latest advancements in the field, as well as testing performance for customers. This platform also helps provide business opportunities and financial support to new technologies being developed.<sup>139</sup> The deployment of AI via the planned European DIHs cannot be sufficient to support the modernisation of EU economies; however, it can be the ultimate tool for their convergence. Therefore, these innovations in general and in the area of AI specifically should be supported both financially and politically. AI will allow the numerous planned European DIHs to work together to support the economy of the EU. Europe cannot and should not compete with massive Chinese state investments to AI application and deployment, but should rather support the transfer of top-level research and development (R&D) while also helping traditional companies to modernise, especially small and medium enterprises (SMEs). This policy should be an integral part of the EU's approach to AI from the very beginning—otherwise, the EU could face serious socio-economic disturbances.

Unlike the usual industrial robots, AI systems can truly replace human beings and their decision making powers in many areas, not only in industry but also in services. For instance, AI-powered systems like Amazon Go enable retailers to not have a single employee in a grocery store. The work of an accountant is done via machine, and even low-skilled programmers producing software are expected to be replaced in the near future. The resulting fundamental political transformation and instability may not be obvious at the time of such a technological boom, but they will show their full force when problems

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<sup>138</sup> Ibid.

<sup>139</sup> European Commission (2018)



arise. Digitisation, robotisation and automation will create new opportunities and new types of jobs. Professions will change, new skills will be required and it will be necessary to adapt to these changes. Some of the main necessities will be to invest continuously in R&D. However, the adaptation of skills for job-holders to get ready for this next important technological step will be of great importance.

Technology-driven changes in the labour market and society as a whole may cause a rise in all forms of inequality. The income and wealth disparities in the US have already risen to heights not seen since the 1890s, or “Gilded Age”, as it is often referred to. Median wages for US workers have been stagnating for nearly 50 years, and fewer and fewer young Americans can expect to do better than their parents. The middle-wage and middle-skill jobs in manufacturing, largely in the Midwest of the US—where many manufacturing plants are located—became automated away or were sent abroad to cheaper countries. However, the new wave of automation and AI is projected to hit high and low-wage jobs in addition to middle-wage jobs. The next most vulnerable jobs include middle-wage occupations, like trucking and administrative office work, and some lower-wage jobs in the service industry and agriculture. This will result in growing inequality. The bottom 90 per cent of the US population has only 20 per cent of the nation’s wealth, while the top 1 per cent has increased its share to 40 per cent.

AI-driven automation may cause similar changes to the European labour market and its economy and society, resulting in fundamental political transformation and instability. To prevent similar political disruption in Europe, readjustments need to be made in the educational and reskilling systems, as well as to the concept of the welfare state. Professions with middle-level qualifications and incomes face a higher risk of replacement. This can lead to deepened economic inequality in society. The systems of education, lifelong learning and reskilling need to be adapted to the changing demands for workforce skills. Social security systems and the safety net need to be strengthened and made more flexible to become a “social trampoline”. That includes the protection of a growing number of self-employed people and adjustments to labour laws.

Therefore, governments alongside the EU will play an important role not only in reshaping the educational system, but also in supporting the adaptation of workers and businesses to new conditions. It shall therefore field-test and implement best practices in education as well as social systems. They shall include bold ideas that may be initially unpopular or difficult to implement, but would create significant competitive advantage for the whole economy in the long run. Businesses are also moving their production abroad to countries that have lower costs of production. This is taking well-paying jobs away from those that need them, increasing unemployment. While the rate of outsourced work has been declining in recent years, between 2015 and 2016 about 3 per cent of jobs were lost because of this.<sup>140</sup> The manufacturing sector is bearing the brunt of this change, with manufacturing jobs seeing the largest decrease in number.<sup>141</sup> This has caused anxiety about future prospects, especially in areas with a traditionally strong manufacturing presence. While the rate of this outsourcing has been decreasing, it still does not ease the fears of workers who they cannot be confident in their job security.

There is potential for reindustrialisation in countries where manufacturing jobs are being replaced with robotisation, AI and other new technological developments that may help them to become more competitive again. Offshoring work may also not be able to continue in the future due to ongoing trade wars and increasing protectionism policies.

There are also many internal policies and factors that affect employment in European countries. Unemployment benefits are used by governments around the world to ensure that those citizens who are involuntarily forced out of their jobs will have some income while they look for new opportunities. These benefits, however, can lead to an unfortunate trade-off. The more generous unemployment benefits are, the more time it takes someone to find a new job.<sup>142</sup> There are a variety of factors contributing to this, but it comes down to a cost vs. benefit decision. People are more likely to search for jobs at a slower pace and may pass on job offers if they do not feel like they meet their expectations of what they want, simply because they are receiving those unemployment

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<sup>140</sup> Eurofound (2016)

<sup>141</sup> Ibid.

<sup>142</sup> Moffitt, R. (2014)

benefits.<sup>143</sup> For example, a study in Austria found that a 4.6 per cent increase in benefits extended unemployment by a half a week.<sup>144</sup> There have also been studies performed by the Institute for Labour Economics that have shown that higher unemployment benefits also increase reservation wages,<sup>145</sup> which refer to the lowest salary a worker is willing to accept when looking for a job. This shows that it is essential for countries to constantly re-evaluate their unemployment benefits systems to ensure that the economy is benefiting as much as it can, by finding the right balance of helping those who are out of work, but not so much that they delay finding a new job.

## Education

To combat the issue of the young workforce no longer having the right education to keep up with the technological developments being implemented, nations must reform many different structures in their governments and societies. One of the most impactful areas that helps to reduce youth unemployment is an emphasis on education. This change comes in two forms: the first is shifting education to areas for which there will be future demand. These skill shifts also accompanied the introduction of new technologies after the first Industrial Revolution. However, with the adoption of automation and AI, there will need to be an acceleration in these shifts, including those that have happened in the recent past. The need for technological, emotional and social skills will increase, while the demand for physical and manual skills will decrease.<sup>146</sup>

The McKinsey Global Institute predicts that, over the next 15 years, the adoption of automation and AI will change the workplace as the result of increasing interaction between people and advanced machinery.<sup>147</sup> The demand for all technological skills will substantially increase because the new types of technologies require workers who understand how they are used and

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<sup>143</sup> Ibid.

<sup>144</sup> Ibid.

<sup>145</sup> Arni, P. (2016)

<sup>146</sup> Bughin, J. et al. (2018)

<sup>147</sup> Ibid.

are able to improve, innovate and develop them.<sup>148</sup> As McKinsey's research shows, 'through 2030, the time spent using advanced technological skills will increase by 50 per cent in the US and by 41 per cent in Europe.'<sup>149</sup> The group also expects 'the fastest rise in the need for advanced IT and programming skills, which could grow as much as 90 per cent between 2016 and 2030.'<sup>150</sup> But it is not just people planning to work in the field of IT who need to develop these new digital skills. The expanding digitisation of the world will require all members of the workforce to develop at least basic digital skills. This is related to the support of education in the fields necessary to build these skills, as well as motivating students to focus on technical and mathematical studies.

The second area is to allow more practical experience for students. Achieving a more practical education may have a large impact on the rate of unemployment. The number of workers with low education has been declining steadily across all countries in Europe, but the level of formal education may not provide a complete picture of the skills of unemployed youth. Vocational training and apprenticeships are also important parts of the educational process preparing the youth for their future jobs, but they are hard to attain.<sup>151</sup> The success of these practices can be seen in EU countries with the lowest rates of youth unemployment, such as Germany, which provides a dual vocational system for its students.<sup>152</sup>

This dual vocational training system in Germany integrates school and work-based learning to prepare apprentices for full-time employment.<sup>153</sup> It works through training contracts which are signed between private companies and students who have completed their compulsory lower secondary education. The dual vocational training lasts between two and three years, when apprentices spend three or four days at work and one or two in vocational school.<sup>154</sup> Here it can be seen that the theoretical and practical parts of the dual vocational training system reinforce and refill each other. This means that while the transition to full-time employment is facilitated by the skills gained in the

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148 Ibid.

149 Ibid.

150 Ibid.

151 Banerji, A. et al. (2014)

152 France-Presse, Agence (2018)

153 Banerji, A. et al. (2014)

154 Ibid.

workplace, such as conflict resolution, academic skills enhance prospects for long-term labour market success.<sup>155</sup>

For the effectiveness of the dual vocational training system to continue, it is important to constantly improve the cooperation between the government and the business community. Germany has allowed for this by adopting certain social, cultural and economic conditions, as well as institutional structures that improve the functioning of the system.<sup>156</sup> To prevent the short-term needs of employers from distorting broader educational and economic goals, Germany created complicated checks and balances at national, state, municipal and company levels. Additionally, Germany has a developed and institutionalised research capacity, which includes the Federal Institute for Vocational Education and Training. The institute is responsible for supporting innovations and improvements of the system to make it more flexible and responsive to the actual situation and demands on the labour market.<sup>157</sup> Germany's approach to preparing young people for employment and the low youth unemployment rate can serve as a great example for other nations, as well as one possible solution to ease young people's fears regarding their future.

## Danish flexicurity

Another possible solution to youth unemployment could be the implementation of a Danish-style “flexicurity” system. The concept originated in the Netherlands in the mid-1990s, and its primary goal was to provide part-time and temporary employees with greater security of employment. In Denmark, this concept, combining flexibility and security, has been used to explain a positive dynamic created by liberal redundancy regulations, high unemployment benefits and active labour market policies,<sup>158</sup> defined as a “golden triangle”.

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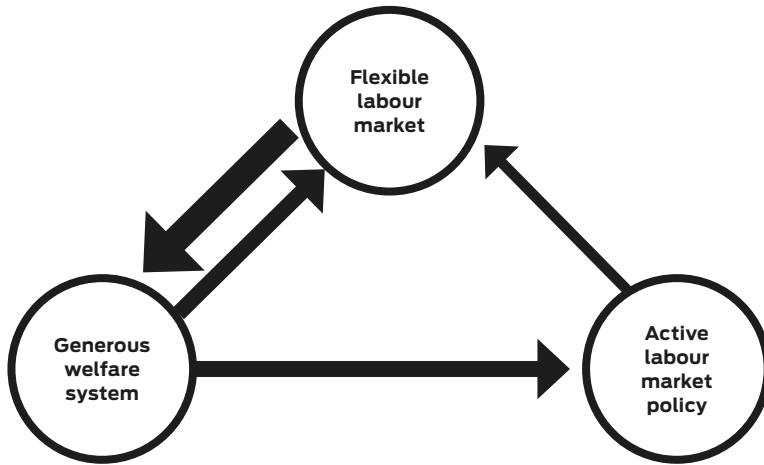
<sup>155</sup> Organization for Economic Cooperation and Development (OECD) (2010)

<sup>156</sup> Euler, D. (2013)

<sup>157</sup> Organization for Economic Cooperation and Development (OECD) (2010)

<sup>158</sup> Bekker, S. and Mailand, M. (2018)

**Figure 4.1 The Danish “golden triangle”**



Source: ResearchGate

The first corner of this triangle is presented by the flexible labour market. In Denmark, one of the most important features of this market is the ease of hiring and firing. The level of protection for employees is much lower than, for example, in Sweden or Germany. This is why relatively lax employment protection legislation allows employers the flexibility to reconfigure the workforce to adapt to changing market conditions. Because of this, there are high levels of job-to-job mobility, and workers flow in and out of employment.<sup>159</sup> In other words, the flexibility of work in Danish companies—meaning their mobility and organisation of working time and overtime or the conditions for part-time jobs—is mainly due to collective bargaining performed by workers and not official legislation, unlike in most other countries who make less space for variability compared to the above legal conditions.<sup>160</sup> An issue with this flexible labour market, however, is that because it values employee performance and it is not difficult for employers to hire and fire new workers, it may become dif-

<sup>159</sup> The Danish Agency for Labour Market and Recruitment (2018)

<sup>160</sup> KerieraWeb.CZ (2018)

difficult for young people just entering the workforce to fully learn their craft. In these circumstances, there will be very little room for error, and this could lead to a young workforce that is not highly skilled in anything, as they were never fully trained.

Although the Danish employment system is characterised by easy and flexible redundancies and the length of employment per position is relatively short in comparison with other European countries, studies confirm that Danish workers do not feel threatened by the prospect of losing their jobs at all. There is a sufficient number of job offers for all workers, and even if they are not employed, they do not need to worry about a reduction in their living standards.<sup>161</sup> All of that is possible due to the social security network, which makes the second corner of the triangle. This social security network is composed of unemployment insurance and social assistance. Unemployment insurance is fully voluntary, and its funds are subsidised when unemployment rises.<sup>162</sup> It can be stated that Danish unemployment benefits are quite generous. The overwhelming majority of the unemployed who are insured against unemployment receive 90 per cent of their previous income. However, these benefits do not extend beyond €2,000 per month. Moreover, the maximum duration of the benefit is two years, and people are only required to have worked for at least 6 months in the last 36 months to be eligible. After an unemployment insurance period, employees can apply for social assistance.<sup>163</sup> Europe adopted aspects of the flexicurity model into its policy after the 2007 financial crisis, and the Danish implementation of this was looked to as the best example of its success. However, there are major flaws in this system that can be seen even in Denmark. In the 1990s, there was high unemployment in Denmark, peaking at 9.5 per cent in 1993.<sup>164</sup> After implementing the initial system, changes were made to further reduce unemployment, such as putting a cap on how long the benefits would last.<sup>165</sup> While the flexicurity system is unique in providing greater assistance to those looking for work, it still falls victim to the issues of the benefits being too high and job seekers having less incentive to find a job.

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161 Ibid.

162 Andersen, T.M. et al. (2011)

163 Ibid.

164 IndexMundi (2018)

165 Meilgaard, C. (2010)

The last corner of the triangle is formed by an active labour market policy. This is supposed to be achieved through a series of measures for both unemployed and employed people seeking work, or those wanting to undergo training or education.<sup>166</sup> The fundamental principle of an active labour market policy consists of high levels of activation, which should combat the dependence of unemployed people on social benefits, thus avoiding moral hazards and maintaining search incentives. This is particularly targeted at the young and unemployed, who receive an activation offer after a short period of time once they become unemployed. An important attribute of the Danish activation system is that it increases in intensity with ascending lengths of unemployment. Because it works so closely with the social benefits network, the activation process can intensify to full time before the social benefits end. That kind of activation can be presented in many forms, from short counselling and assessment programmes to job training and wage-subsidised jobs.<sup>167</sup>

The Danish flexicurity system has become an inspiration for the EU, which integrated this concept into the European Employment Strategy at the very beginning.<sup>168</sup> In 2006, the European Commission came up with the concept of flexicurity consisting of four main components: ‘flexible and reliable contractual arrangements, effective active labour market policies, comprehensive life-long-learning strategies and modern social security systems.’<sup>169</sup> But from the beginning, the commission’s flexicurity concept—together with the balance between flexibility and security—has been controversial. In the early phase of the process, the commission focused mainly on moving from job security to employment security, which emphasised another of the commission’s aims: counteracting segmentation. However, that was also the main reason why several members of the EU and trade unions, especially from southern Europe, were reluctant to embrace the concept.<sup>170</sup>

The development of the commission’s flexicurity system has been influenced by two changes: the ending of the Lisbon Strategy and subsequent implementation of the Europe 2020 Strategy in 2010, and the economic and financial crisis.<sup>171</sup> However, with the outbreak of the economic crisis, flexicurity has not

<sup>166</sup> The Danish Agency for Labour Market and Recruitment (2018)

<sup>167</sup> Andersen, T.M. et al. (2011)

<sup>168</sup> Keune, M. (2008)

<sup>169</sup> Bekker, S. (2011)

<sup>170</sup> Mailand, M. (2010)

<sup>171</sup> Bekker, S. and Mailand, M. (2018)



been seen as a priority. At that time, the EU had to deal with other fiscal and economic issues, resulting in strict EU economic coordination. This had an impact not only on public expenditure, but also on social security, while there were additionally calls for structural reform of the labour market.<sup>172</sup>

In 2012, the concept of flexicurity returned to the attention of the EU, when there was an ongoing process of strengthening social security. As Bekker and Mailand point out in their article, flexicurity itself could have been linked to the high unemployment rate, especially among young people, and rising poverty.<sup>173</sup> Over time, all four elements of the flexicurity concept have been revised. Some of them have moved away from the original definition, while others have reverted back to their initial wording.<sup>174</sup> However, today these four components of the flexicurity concept continue to be key elements of the European Employment Strategy. As is stated on the official website of the European Commission, integrated flexicurity policies play a key role in modernising labour markets and contributing to the achievement of the 75 per cent employment rate set in the Europe 2020 Strategy.<sup>175</sup> These flexicurity principles can also be found in *The Five Presidents' Report: Completing Europe's Economy and Monetary Union* from 2015, which confirms that the standards for labour markets should combine the principles of flexicurity.<sup>176</sup> Another document which highlights flexicurity ideas is the *Council Recommendation on the Economic Policy of the Euro Area*, which suggests the implementation of reforms combining: flexible and reliable labour contracts; comprehensive lifelong-learning strategies; effective policies to help the unemployed re-enter the labour market; and modern social protection systems that support those in need and provide incentives for labour market integration.<sup>177</sup>

The renewal of the flexicurity system in the EU shows that, even after an economic crisis, it is still seen as an appropriate instrument to strike a balance between a flexible labour market and social security, thereby ensuring a rise in the youth employment rate.<sup>178</sup>

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172 Heyes, J. (2013)

173 Bekker, S. and Mailand, M. (2018)

174 Ibid.

175 European Commission

176 Juncker, J. et al.

177 European Commission (2015)

178 Bekker, S. and Mailand, M. (2018)

## Negative income taxes

Negative income taxes are another way that European governments are looking to appease the fear of unemployment among their youth. However, while this idea is mainly supported by neoliberals, it is hotly debated amongst both left and right-swinging parties, such as the more populist and conservative parties. This idea was first proposed in 1962 by economist Milton Friedman, who thought that it could replace welfare in an attempt to alleviate poverty.<sup>179</sup> It is important to differentiate between negative income tax (NIT) and what is referred to either as the citizen's basic income (CBI) or universal basic income (UBI). NIT provides government assistance to those whose salary does not meet the lowest level of taxable income. Based on a person's or family's income, NIT would give an additional predetermined set percentage that would make up the difference between their own earnings and the lowest taxable income set by a nation.<sup>180</sup> This is different from CBI or UBI in that only those earning below a set amount will receive the benefit, whereas the other programmes provide a set amount of money to all citizens, regardless of their own earnings. Another key difference between the two propositions is where the money comes from. Both systems are run from taxation on income; NIT, however, is the more efficient system in that money is taxed from higher earners and distributed among those who qualify for NIT. The CBI system that provides a subsidy for every citizen also taxes based on income, but only after citizens have already received the money. This means that the wealthy are being given money by the government just to have it taken away again through the taxation system.<sup>181</sup> It has been pointed out that there is huge potential in this system for taxpayer money to be lost both in the collection and redistribution of funds.<sup>182</sup> Because the money for these systems is being taken out of both income and goods taxes, there is concern that consumer prices will rise due to the increased VAT needed to finance at least part of this system and leave the poor in worse condition than before the system was put in place.<sup>183</sup>

The NIT is meant to make sure that no member of society is completely des-

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179 Linke, R. (2018)

180 Pryor, D. (2018)

181 Ibid.

182 Ibid.

183 Karakas, C. (2016)

titude, and to benefit those who work more than those do not; if the programme were implemented successfully, this would incentivise those below the income tax line to work more because they would be able to receive more than those who do not work as much.<sup>184</sup> This solves one of the main problems found with the programme by right leaning parties. Right leaning parties worry about the effect introducing NIT will have on a country's overall productivity level. Studies have been performed in the US and Canada in which the basic idea of NIT was introduced to small groups, and they found that there was a decrease in the amount of work people did.<sup>185</sup> However, these studies have been more recently criticised for being too complex in their design, significant misreporting of actual data, and the drop in productivity shown in the studies being either due to time spent looking for jobs or time spent utilising education opportunities instead.<sup>186</sup> In the Canadian study, the two groups that did work less consisted of new mothers and adolescents.<sup>187</sup> However, there was also an increase in the number of adolescents completing high school; and, as discussed earlier in this paper, more education better prepares students to work in the new world.<sup>188</sup> Possibly the most encouraging outcome from these and many other small-scale studies meant to show the impact of NIT is that almost all participants were lifted above the poverty line.<sup>189</sup> A more recent study performed by the Adam West Institute found 'little evidence of workers exiting the labour market or significantly reducing hours worked.'<sup>190</sup> NIT has also been shown to provide better protection against large fluctuations in the world economy that can hurt the poor more acutely than most people, e.g., the Great Recession. It can also help to eliminate poverty traps that keep people reliant on social benefits because those receiving the NIT would have more control over meeting their needs.<sup>191</sup>

Others argue that NIT does not solve the baseline problems that have been found from other basic income subsidy propositions. The Mises Institute

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184 Pryor, D. (2018)

185 Linke, R. (2018)

186 Ibid.

187 Karakas, C. (2016)

188 Ibid.

189 Ibid.

190 Pryor, Daniel D. (2018)

191 Karakas, C. (2016)

points out that even with the tapering subsidy, there are still not enough provisions in place that would protect the government from exploitation of the system.<sup>192</sup> They address the commonly overlooked problem with NIT of the zero-income family, and how their potential earnings from subsidies are significantly higher than those who do work, or those just above the poverty line. These individuals and families who are working and earning just above the poverty line would not receive any subsidy from the NIT—while those just below the poverty line and not working as much would be making more than them, thus killing any incentives to work or encouraging them to purposefully earn less than they are able so as to get a higher subsidy, and thus increase their net earnings.<sup>193</sup> The Adam Smith Institute counters this by claiming that employers will pay a wage based on productivity, not whatever the cost of living currently is.<sup>194</sup> They point out that while this may keep wages low for a while, the effect should dissipate as more people are encouraged to enter the labour market due to the potential subsidy earnings and as the supply of labour adjusts, leaving a higher liveable wage for those working than what they would be able to receive with just the subsidy.<sup>195</sup> Economist Henning Meyer has also called attention to the social value of work. He points out that pride and the ability to socialise and communicate with others in society should not be overlooked when determining if and how much an introduction of NIT will decrease motivation in the workforce, especially among youth.<sup>196</sup>

The idea of NIT is based on reducing poverty by giving those in need more control over what they purchase. Many countries today have a welfare system that provides financial support through various bonds and stamps to be used on specific items, such as food and housing. NIT would give these people cash instead of specified spending allowances, trusting them to find the most efficient allocation of their resources. If the proper measures are taken in introducing NIT to Europe, it is possible that those in poverty will be able to rise out of it on their own and no longer be dependent on these benefits; the basic standard of living for all would also increase. This is because, with the subsidy

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192 Hazlitt, H. (2006)

193 Ibid.

194 Pryor, D. (2018)

195 Ibid.

196 Karakas, C. (2016)

provided by the government, those in need will not be as vulnerable to poverty traps and many other factors that tend to keep people dependent. Disability assistance would be kept separate from NIT so that only those who are eligible would receive that funding. Other marginalised groups would also not be taken into account in the initial allotted amount for the NIT, but would instead have a separate benefits fund to draw from. This would eliminate the argument of citizens receiving an allotment of funds that they do not deserve. Marginalised groups, including the disabled, would still be eligible for the NIT if they were to need it; however, through separating these funds, any cross-over between citizens that qualify for additional funding beyond their position below the poverty line could be eliminated.

As mentioned previously in this paper, the youth unemployment rate remains high due to the ongoing labour market crisis that started in 2008. The youth unemployment rate in Europe is at about 15 per cent<sup>197</sup> on average, though higher in some countries, which makes it about twice as high as in the US, where it falls between 8 and 9 per cent.<sup>198</sup> This is especially concerning because a portion of the high youth unemployment rates were previously attributed to time spent in education. In spite of this, as studies have shown in Spain, young people are not spending as much time now in school and are also not employed.<sup>199</sup> Because of this, there has been a recent increase in support of a basic income for European citizens—as of 2016, it had reached 64 per cent.<sup>200</sup> The introduction of a NIT would need to be gradual and take into account the findings of the numerous small-scale studies currently being performed in many countries around the world; however, research has shown that this proposition has the potential to decrease youth employment in Europe as well as increase the standard of living for all.

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197 Eurostat (2019b)

198 Duffin, E. (2019)

199 Eurostat

200 Ibid.

## The minimum wage

Europeans, along with the rest of the world, have been debating about the costs and benefits of continuing and expanding the minimum wage. The minimum wage was introduced to ensure fair, liveable pay for a worker performing a relatively low-skilled task. However, as minimum wage rates have increased to meet the rising costs of living expenses, there have been a higher number of young people seeking work. Employers have responded to this with cuts in hours and jobs, leaving more work to be done, in less time, by fewer people, making just slightly more money than they did before.<sup>201</sup>

The EU has not yet come up with a unified approach to enforcing a standard minimum wage across all of its countries. However, with the exception of the Nordic countries, most EU countries do enforce some basic statutory minimum wage, with some choosing to impose further regulations based on industry and age. These regulations are often where economists and citizens find fault in the statutory system, as will be examined by looking at the UK later in this chapter. The Nordic countries that haven't adopted these statutory regulations have recently been described as a model for the rest of the EU. However, while these countries may hold surface-level appeal based on average income and overall happiness, they may not provide the best option for decreasing youth unemployment in Europe, as will also be examined later, using Sweden's struggle with youth unemployment as an example.

There have been a number of empirical studies done worldwide that show a positive correlation between raising the minimum wage and youth unemployment levels. According to studies on the effect of the minimum wage in the US, a '10% increase in the minimum wage has been found to reduce regional employment by as much as 7%.<sup>202</sup> Studies have also been conducted across many OECD countries showing the same trend, though the results varied much more between countries. It has also been demonstrated that the more unionised a country's workforce is, the greater the effect of the minimum wage on youth unemployment.<sup>203</sup>

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201 Kalenkoski, C.M. (2016)

202 Ibid.

203 Ibid.

Minimum wage jobs are often necessary for youth to gain experience. On-the-job training is, for some people, the first real job training they receive, and it becomes the building block for all other job training. However, with the increase in the minimum wage, employers are not hiring as many young people or providing as much on-the-job training. This had led to more youth entering a job market that they are not qualified for.

Many countries have started to call for an end to the minimum wage, in favour of a new system such as the NIT or CBI, as discussed above. They believe that the minimum wage is growing ineffective and the relationship between it and unemployment rates can no longer be overlooked, as it is also being exploited by employers. In the UK, the Labour party has announced its plans to increase the minimum wage to 10 pounds an hour to all workers, regardless of age.<sup>204</sup> Many other countries in Europe have similar laws restricting the minimum wage based on age, such as Germany. Politicians in these countries have heard the cries of their people pleading for equal pay for equal work. Youths in these countries claim they are doing the same work as those older than them, but are having their pay limited based solely on their age. This decision has been met with much criticism, as economists fear that youth unemployment will increase with too few jobs available to them.<sup>205</sup>

As the debate over the minimum wage picks up throughout Europe, many people are looking towards Nordic countries as examples of how abolishing the minimum wage can help an economy flourish while reducing unemployment. Most of the Nordic countries have refused to adopt any sort of minimum wage laws, citing the importance of a free market for an economy to grow. Government intervention has long been proven to interfere with economic growth through disincentivising the market from finding its own natural balance. Switzerland felt so strongly about this fact that, in 2014, their government met to discuss the possible implementation of the minimum wage only to have it wholly refused in favour of their current free market system.<sup>206</sup> These countries enjoy high average monthly salaries and are ranked among the happiest in the world, though they do tend to rank higher in their unemployment rankings too.<sup>207</sup>

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<sup>204</sup> Otte, J. (2019)

<sup>205</sup> Ibid.

<sup>206</sup> Boyte-White, C. (2019)

<sup>207</sup> CEIC

While there may not be a government-enforced minimum wage in these countries, there are expansive labour unions that negotiate and regulate wages.<sup>208</sup> This still allows for a free market without much government involvement, though it does help to ensure that workers are fairly compensated for their time no matter their skill level, due to the lack of official regulation. In July 2019, Sweden's unemployment rate was 6.7 per cent with an average monthly salary of \$4,353.<sup>209</sup> Countries that have not adopted minimum wage policies all have average monthly salaries and unemployment rates at about the same level. These countries do tend to have higher unemployment rates, but they also tend to have better unemployment benefits. People may spend more time in between jobs, and it is more normal –as seen by the Danish flexicurity system—to be unemployed, as the job market flows more freely. The negotiated minimum wage that is collectively agreed upon by unions tends to be much higher in the Nordic countries than in the rest of Europe, with the government-regulated minimum wage leading to a higher monthly income as well.<sup>210</sup> This has, however, created an issue for the rapidly increasing number of low education and language skill immigrants entering the Nordic countries.<sup>211</sup> As Ek and Skedinger point out in their article discussing immigrant integration there, ‘high entry wages may act as a barrier to entering the labour market primarily for low-skilled immigrants,’<sup>212</sup> and many jobs in these countries do require a higher skill set than in the rest of the EU.

While much of the world has been toying with the idea of adopting the Nordic system based on its higher-than-average monthly salaries and the general happiness of its people, this may not be the best solution for youth unemployment; nor is it necessarily sustainable across all of Europe. Young people and foreign workers benefit the most from the Nordic model. For example, in Sweden, the non-native unemployment rate is 19 per cent<sup>213</sup> or nearly five times that of native unemployment.<sup>214</sup> If adopted by the rest of Europe, the high percentage of non-native unemployment poses a serious risk, as immigration issues

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208 Boyte-White, C. (2019)

209 CEIC

210 Reinis, F. (2018)

211 Ek, S. and Skedinger, P. (2019)

212 Ibid.

213 The Local (2019a)

214 The Local (2019b)



are already causing a massive strain on the economies of Greece, Italy and Hungary. The Nordic system of poor integration of immigrants and the favouring of native-born citizens for jobs may increase these tensions further if immigrant unemployment rates also rise as dramatically as in the rest of Europe.

The youth unemployment rate in Nordic countries is much higher than in other European countries. The unemployment rate among Swedish youth in 2018 was 16.95 per cent<sup>215</sup>—higher than the rest of Europe’s average unemployment rate of 14.2 per cent and significantly higher than most of Europe’s other economically stable countries, whose youth unemployment is well below 10 per cent.<sup>216</sup> It is worth pointing out, however, that Sweden’s youth unemployment rates have been falling steadily for the last 10 years.

One of the reasons cited as the cause for such high youth unemployment in the Nordic countries is the fact of high starting salaries, even for entry-level positions.<sup>217</sup> Young people in these countries are not coming out of school with enough education or experience for employers to risk hiring them. This is a common problem being faced by young people all over Europe.

With the economic crisis in Europe and the growing rate of youth unemployment, citizens are looking to their governments for answers that are not being given. In 2018, 22 of the 28 EU member countries had a statutory minimum wage.<sup>218</sup> The UK’s raising of the minimum wage to such a high level for all workers worries economists in the country. They worry about where that money will end up coming from and what the long-term effects on the economy will be, as they do not believe they will be able to maintain a high minimum wage indefinitely. On the other end of the spectrum is Sweden, which does not have a governmentally enforced minimum wage, but rather relies on the power of the unions that control the job market there to negotiate a fair pay scale for employees. The worry with this system is that it favours those born in Sweden, making it even more difficult for immigrants to become employed there. It has also been seen to potentially favour older members of society, meaning that if this system—praised by many throughout Europe—were implemented,

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215 Plecher, H. (2019)

216 Ibid.

217 Brunk, T. (2009)

218 Eurofound (2018)

it could worsen youth unemployment rates over time. Simply increasing the minimum wage across Europe (or doing away with it entirely) will solve neither the youth unemployment crisis nor the ongoing economic crisis. Politicians need to find methods of better evaluating the pros and cons of each system. Steps towards this have been taken in some countries through small-scale tests, though nothing implemented so far has provided a universal solution that could be regulated throughout all of Europe.

## Labour unions

Evidence of active labour unions in Europe can be traced back to medieval times, though it was not until after the efforts of the Industrial Revolution had been fully put into effect, around 1871, that labour unions as they are known today began to take shape.<sup>219</sup> The growth of unions at this time was in part due to factors outside their own control, including: ‘1) the economic cycle, 2) technological and social changes, 3) political developments and 4) the relative strength of the employers and workers both organizationally and ideologically.’<sup>220</sup> The economic cycle is known to fluctuate over time, and the amount of union involvement fluctuates with it. As more technological and social changes occur in the world, unions must adapt to make sure they are still meeting the needs of those they represent. Politically, unions have some control over governments, just as the government has the power to impose regulations on unions once they are in office. Unions do not have control over the changing ideology of those they represent or how that affects power dynamics between workers and employers, and because of this they must continue to adapt over time. Unions also used to be run on a much smaller scale than they are today, most being limited to one town or sometimes a region. Another key difference from today is that these unions were once at the mercy of the economy: when it turned, unions were taxed until they could barely function and many of them

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<sup>219</sup> Plez, A.W. (2016)

<sup>220</sup> Ibid.

would disappear altogether.<sup>221</sup> They became important to workers who saw their jobs being taken over machines and feared that even banding together would not be enough to save their jobs. However, over time, workers became more comfortable with the use of those machines—hopefully this can be taken as a lesson for today’s young people and their fears about the introduction of new technology in the workplace.

Today, unions work to protect workers in times of economic downturn to protect their jobs and rights on a much larger scale than they were able to back in the 19th century. Many unions today have the power and support to reach across multiple countries, working to create fair labour practices across all of Europe.<sup>222</sup> In the past, there was mass support for unions throughout Europe; in certain regions, there is still a high amount of participation in unions today. However, in most of Europe there has been a significant decline in labour unions, particularly in terms of youth involvement.<sup>223</sup> For the labour unions to continue, they need to find a way to reach young people and identify the reasons they are not reaching them now. Meanwhile, there has been speculation about whether the labour unions actually need to continue or if they are doing more harm than good to Europe’s labour market.

The National Bureau of Economic Research published a paper discussing the inverse relationship between the amount of union involvement in the EU labour market and the rate of youth unemployment.<sup>224</sup> The implication of this report was that the more involved the labour unions become in the EU labour market, the less youth unemployment there was, and vice versa. This is particularly true when the union is responsible for setting wages. They did, however, find that with a higher union involvement in the labour market, there was also a higher ratio of women to men in the workforce.<sup>225</sup> The European Trade Union Institute (ETUI) found that participation in unions throughout Europe varies greatly, and often has to do with the country’s minimum wage laws as well as the effectiveness of collective bargaining.<sup>226</sup> For example, union participation

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221 Ibid.

222 ETUC (2019)

223 Vandaele, K. (2018)

224 Bussing-Burks, M. (2002)

225 Ibid.

226 Fulton, L. (2015)

in Sweden (where there is no statutory minimum wage) is above 70 per cent, while in France (where there is a statutory minimum wage) there is only 8 per cent participation in unions.<sup>227</sup> Just as the unions experienced growth due to factors outside their control in the 19th century, they are experiencing some of the same factors contributing to their decline in the present day too.

Europe is still recovering from an economic crisis. The still-weak economy following the 2007 recession has been slow to grow, though now the EU area is seeing its lowest unemployment rate since May 2008, at 7.4 per cent in the eurozone and 6.2 per cent across the EU.<sup>228</sup> However, unemployment is still high in countries facing other economic burdens, such as Greece, where unemployment has reached 17 per cent, and Spain, at 13.8 per cent.<sup>229</sup> Historically, long-term economic difficulties have resulted in unions being looked upon favourably by the people—as unions add a level of protection for workers in strenuous times. It has also been argued, though, that unions slow down economic growth and limit the number of jobs in an economy.<sup>230</sup> James Sherk of the Heritage Foundation writes, ‘Economic research finds that unions benefit their members but hurt consumers generally, and especially workers who are denied job opportunities.’<sup>231</sup> A weak or declining economy can worsen these problems. In Sweden, where union participation rates are very high, there is also a high level of youth unemployment. These are young people that have been denied job opportunities by the unions due to their lack of experience. This has further increased their struggle to find work and harmed consumers by raising prices to meet the increased wage demand—risking going out of business because they are less competitive than other companies.<sup>232</sup> Studies have also shown that the amount of time it takes an economy to recover increases with the amount of unions that are active in the workforce.<sup>233</sup> Due to the fact that unions have consistently been shown to decrease the number of jobs available on the market, it may not be advisable for Europe to attempt introducing a union system into all its member countries as a solution for youth unemployment.<sup>234</sup> This is

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227 Ibid.

228 Eurostat (2019a)

229 Ibid.

230 Sherk, J. (2009)

231 Ibid.

232 Ibid.

233 Ibid.

234 Pochet, P. (2015)

a sentiment being echoed by many in the EU, such as the general director of the European Trade Union institution Philippe Pochet, who believes that the Nordic model will not be sustainable in the future, as there are not enough jobs being created—especially for young people.<sup>235</sup>

The massive increase in technological capabilities continuing through the 21st century is another factor affecting union growth and decline in Europe. Just as in the past, workers are being replaced with new and more efficient technologies. Back then, union membership soared across Europe. Workers relied on unions to protect their jobs and wages from being completely overrun by the implementation of machines. Now though, as union rates are declining—especially among young people—there is increased worry that the Nordic system will no longer be sustainable.<sup>236</sup> Because of this, it may not be practical to expect high levels of union involvement as necessary for making the Nordic system work in the rest of Europe, particularly in countries where union involvement is not as common.

Another factor influencing union participation is the societal interpretation of what being in a union means. If a young person grows up in a family that is supportive of unions, then they will be more likely to join one themselves; however, if a young person grows up in a house where there was a negative attitude toward unions, they may not be as likely to join one when they reach working age.<sup>237</sup> When a young person is considering joining a union, the management's attitude towards the union will either encourage or discourage them, e.g., out of fear of repercussions from management. The other workers in the company's union will also play a large part in encouraging solidarity among the new members of the company. Without this solidarity, which is what unions were originally founded upon, hostility from management might cause a reduction in membership.<sup>238</sup> In countries that do not have a strong union presence, there is no solidarity among employees, which has led to a decline in union membership across Europe. Trade unions have had difficulty reaching and organising young people in Europe in part due to high youth unemployment: if they are not

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<sup>235</sup> Ibid.

<sup>236</sup> Ibid.

<sup>237</sup> Vandaele, K. (2018)

<sup>238</sup> Ibid.

working, there is no way for a union to contact them.<sup>239</sup> Unions are now employing new methods to reach young people, such as social media. There have also been studies that show that young people believe unions are irrelevant to their getting or keeping a job.<sup>240</sup> It has been pointed out in recent articles that there is no strong dislike for unions among European youth, and there is the potential for their massive resurgence in the coming years.<sup>241</sup> However, for this to happen, unions need to find methods to better connect with Europe's youth and promote the idea of solidarity among themselves.<sup>242</sup>

Many labour unions today, like in the past, are deeply involved with major political parties. This is because labour unions believe that they will not have to fight management as much if those passing laws and regulations about how businesses must be run agree with the unions' ideas about how they should be treated. Because unions today have more power than they used to, political candidates will often target a particular union, and vice versa.<sup>243</sup> Unions will determine which candidate is most beneficial to them, and offer their full support to that candidate.<sup>244</sup>

This corresponds to the changing ideology of unions, who must work more with those demanding to be seen as individuals as opposed to members of a group.<sup>245</sup> In recent years, there has also been an increase in the number of white-collar workers, compared to blue-collar workers, especially among young people.<sup>246</sup> White-collar workers have been shown to be more difficult to organise (outside of the Nordic countries) in the EU<sup>247</sup>, as have young people, so with an increase in young, white-collar workers, there is even more difficulty for unions in their attempt to organise them. This growing need among union members to still be viewed as individuals within the union creates more difficulty for union leaders in promoting solidarity among workers and potential members. The dissolution of class structures in Europe has also been cited as a source for youth disillusionment with unions. One solution to this is similar to

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239 Keune, M. (2013)

240 Khan, S. (2018)

241 Vandaele, K. (2018)

242 Ibid.

243 Ramaswamy, E.A. (1969)

244 Ibid.

245 Kahmann, M. (2002)

246 Ibid.

247 Ibid.

the one stated above: unions need to focus on a more individualistic relationship with their members to better support their interests.<sup>248</sup>

Unions have long been a part of European history, and they will continue to remain an important part of employment for all members of the workforce. Looking for trends in union growth and decline is difficult because much of this depends on factors outside unions' control. Union participation is in decline among young people because today's unemployed youth are facing challenges that previous generations did not. The importance of unions in protecting workers' rights and wages is being debated throughout Europe because there is high youth unemployment in countries where there is high union involvement as well as where there is low union involvement. Many studies have found that having greater union involvement can actually hurt the economy, decreasing its ability to bounce back after a financial crisis—much like the one Europe is recovering from now. With such a shift in the ideologies of unions and the needs of unemployed youth, there needs to be a shift in the way unions fight for their members; after all, as many studies have shown, the old methods will not remain viable forever.

## The German Agenda, 2010

An important point to consider when comparing liberal remedies for general unemployment and solutions for youth specifically is German Federal Chancellor Gerhard Schröder's proposition of March 2003, referred to as Agenda 2010. In this agenda, he proposed a series of reforms in economic and social policy, such as reductions in welfare, training obligations, union rights and worker protections.<sup>249</sup> Employers and businesses believed that the changes being proposed were long overdue and did not go far enough to fix the problems they were seeing in the German economy, while labour unions saw the changes as socially unbalanced, putting workers at risk.<sup>250</sup>

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<sup>248</sup> Ibid.

<sup>249</sup> Funk, L. (2003)

<sup>250</sup> Ibid.

The German chancellor specifically wanted to increase flexibility in the labour market, much like in the Danish flexicurity system.<sup>251</sup> The protections in place made it difficult for employers to fire and rehire workers and also put employers at risk for wrongful termination lawsuits, whose outcomes were known for being unforeseeable. In this new system, employers would be freer in their ability to change personnel and would therefore find such court cases more predictable. To accomplish this, the chancellor proposed decreasing the worker protection laws, increasing firms' ability to hire temporary workers and the provision that, if a worker were to be fired for economic reasons, they would always have the choice between redundancy compensation pay or bringing the case for rehire to court.<sup>252</sup>

In regard to collective bargaining, the chancellor made it clear that there would be no official legislative action taken at that time. However, it was key during the process of collective bargaining for workers and unions to give employers the room to manoeuvre, not limiting their options with high demands. The chancellor stressed that if this was not done, there would be official legislation put in place to ensure employer mobility with regard to workers' pay and rights.<sup>253</sup> He also emphasised the importance of companies providing training, especially for young workers. Many companies had been putting this responsibility off, leading to a skills deficit that the government would have needed to pick up. If companies did not begin training their employees properly, the government would enforce a tax on them to ensure that they would do so in the future.<sup>254</sup>

He also announced that social welfare and unemployment benefits would be combined into a new policy called Hartz IV. The eligibility period for unemployment benefits would be reduced from 32 months to 12 months for those under the age of 55 and 18 months for those over the age of 55.<sup>255</sup> He further stated that those able to work but unwilling to accept job offers would face sanctions. This was done in an effort to increase incentives for citizens to accept job offers and reduce labour costs.<sup>256</sup>

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<sup>251</sup> Ibid.

<sup>252</sup> Ibid.

<sup>253</sup> Ibid.

<sup>254</sup> Ibid.

<sup>255</sup> Ibid.

<sup>256</sup> Ibid.



The implementation of these policies was ultimately successful in decreasing unemployment. In 2004, unemployment in Germany was at 13.4 per cent<sup>257</sup>, while by 2019 it had dropped significantly to 3.1 per cent.<sup>258</sup> However, while unemployment has decreased significantly due to these policy changes, there is still much controversy surrounding whether such policies go too far in regulating workers' rights—or if they do not go far enough. Many democratic leaders in Germany, including Angela Merkel before she was elected chancellor over Gerhard Schröder, criticised these reforms as limiting worker protections too much. This is thought to be part of the reason she defeated him in 2004.<sup>259</sup>

Youth unemployment fell after these policies were enforced. In 2004, the youth unemployment rate was at 12 per cent, and it continued to rise through 2005 and 2006—reaching 16 per cent—but afterwards it began to drop steadily, with a slight increase in 2008 to 2009.<sup>260</sup> In 2019, youth unemployment is among the lowest levels seen in Germany, at just under 6 per cent.<sup>261</sup>

## Policy recommendations

Every time there has been a rapid advance in technology, there has been a resurgence of the fear that young people will struggle to find employment. There will have to be a transition and adjustment period as this new technology is implemented into the workforce. During this time, it is important that politicians take into account the potential need for higher unemployment benefits, as more members of the workforce might not be able to find work. While this may cause an increase in unemployment temporarily, it will be a temporary trade-off with more workers gaining the necessary skills to re-enter the workforce. It is important for these workers to be looked after during this time so that they will be more likely to re-enter the workforce productively.

The challenges of automation for European economies are often underes-

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257 Hopp, J. (2019)

258 Eurostat (2019b)

259 Grässler, B. (2014)

260 Germany Youth Unemployment Rate (2019)

261 Ibid.

timated, and Europe must look to model countries for help finding the right answers. Member states themselves should compete to become such models, and they should also define the priorities and measurements of their success. Governments should embrace automation, especially in the SME sector, and apply bold policies in the education and social systems. Such policies may include various forms of incomes to help to cover the transitional period for workers. AI and automation will impact not only low and mid-level jobs but all types of employment. In the future, the workplace will be characterised by collaboration between human beings with machines. Digitisation, robotisation and automation will create new opportunities and new types of jobs. However, professions will change and new skills will be required, making it necessary for everyone to adapt. Bridging the skills gap, access to technology and unemployment will become the main political concerns.

To respond to this, Europe must also invest more in education programmes for young people. Students are leaving high school and university without any practical skills, and this learning gap is why they are not being hired. If schools are not preparing young people to enter the workforce, then it is logical that the youth unemployment rate will remain high until they have had the time to develop the necessary skills on their own, often through unpaid internships or low-paying, low-skilled jobs. The German system could serve as a model to the rest of Europe: students are sent for part of their high school career through a trade school to gain practical experience that they can use to get a job more easily later on.

The Danish flexicurity system could prove to be a method that will reduce youth unemployment as well as explain its currently high level. This system works on the three main principles that make losing a job or being unemployed in Denmark less intimidating. Regulation in Denmark allows for companies to hire and fire workers with greater ease than in the rest of Europe, allowing them flexibility with their personnel. There are also greater unemployment benefits for their citizens, so when they are out of work, they are better taken care of. There are additionally very active labour market policies in place, meaning that while a person is unemployed, they have more access to job training and education opportunities to increase their ability to be hired for another position. If

this system, or a similar one, were adopted by the rest of Europe, then the EU's unemployed youth would not face such a degree of risk or have as much fear of being fired.

NIT is a potential replacement for current welfare systems throughout Europe. Unlike UBI and other models like it, NIT only gives money to those who fall below the taxable income line. There is much debate around the effectiveness of this method, though numerous small-scale trials with this tax have lifted many people out of poverty without reducing the number of hours worked by each member of society—one of the main concerns with any system that seemingly provides money for nothing. It has also been said that this system will reduce the amount of governmental waste in collecting and redistributing taxes, and that it will be less susceptible to exploitation on the part of citizens. It has furthermore been posited as a better safety net for young people, especially as their high unemployment persists, because they will still be taken care of when receiving training and gaining more skills for higher paying jobs in the future.

The effectiveness of the minimum wage has long been debated. Unfortunately, there is no viable and universally agreed upon replacement for it, so it continues to persist in most of Europe. Nordic countries, in particular Sweden, that have not adopted a minimum wage policy, use unions to negotiate a fair wage for their citizens. While wages in these countries are higher than the statutory minimum wages set by the countries that have them, there is concern about their current higher-than-average youth unemployment. There are also questions regarding the effects of adopting this model throughout Europe, citing the issues the Swedish system has had when integrating immigrants into unions. Unemployed youth there are now struggling to find work, as minimum wage rates have increased and employers are hiring fewer people and cutting hours.

Unions have a long history in Europe, though the amount of involvement and the power they hold in each country varies dramatically. The amount of youth involvement across all countries has dropped dramatically. Unions are scrambling to maintain their numbers, while youth, particularly the unemployed youth, struggle to find the value and purpose in joining a union. Many

young members of the workforce have never been introduced to the positive aspects of unions that could help them boost their career. As politics continue to divide young people, they also divide unions, which are seeing reduced memberships. Ideologically, unions can no longer represent large groups of people. Young people in particular are more adamant about being viewed as individuals, rather than faceless members standing in solidarity with the rest of the group. Unions are also having problems learning how to better represent the unemployed youth because they are not easily accessible to them.

Among the liberal solutions posed here, education reform and flexicurity would best serve to decrease youth unemployment in Europe. Europe is going through massive technological changes. Computer knowledge is no longer optional for members of the workforce today, and yet young people are leaving school without the most current knowledge about the software being used. The older generations who have been in the workforce longer often do not have the necessary information base to make them competitive on the job market. Europe must take the German mode of vocational training and implement it to give their young people a fighting chance at success. The experience students are taking away upon leaving school and entering the workforce is not sufficient, and changes need to be made to enable them to be hired for the new job opportunities that will accompany the most recent innovations in technology, such as 5G and AI. If young people do not become better prepared for new technological challenges, then the problems with inexperienced workers will only become worse. If Europe can improve its learning opportunities for young people at a more elementary level, they will be able to gain more experience before they enter the workforce.

The flexicurity model has been criticised for causing a higher amount of unemployment in Denmark, where it was initially adopted in 1993. However, as proved by the German Agenda 2010, enforcing more flexibility in the labour market will help to decrease unemployment—this is the flexicurity model. German unemployment is among the lowest in the EU, and so is their youth unemployment. The Danish model also promotes education opportunities for the unemployed so that they become more desirable candidates during their job search. While the flexicurity model has been shown to have problems

with increasing unemployment, the German Agenda 2010 has shown that that keeping social and welfare benefits in check can improve unemployment rates. These two systems will provide the best options for decreasing unemployment, specifically among the youth, in Europe.

These liberal solutions—if implemented correctly—will ensure that Europe’s unemployment crisis will decrease. This will make younger generation less fearful about the future and their employment prospects, since they will be able to enter the workforce with the knowledge and practical experience necessary to thrive in the modern economy. These present unique practical challenges, many of which are already being tackled through small-scale experiments and other research efforts in the hope of their wide-scale use in the future. Europe’s youth face an unprecedented rate of technological development, and they are balking at the idea of competing with it. However, there are plans in place to help them combat these issues, and they can gain hope for their futures by looking to the past—when others in their position fought and overcame those same issues.

While fear of the future has begun to creep back into the minds of young people, they should take comfort in the fact that this is not the first time this cycle has come around. Every time there is a major step forward in technology, there is panic amongst young people who see themselves being replaced with automation. After a few years of adjustments, more job opportunities will open up, and the young people will find new and innovative ways of working with the new technology and expanding societal capabilities.

# Why do we have a pessimistic view of the world's development?

Mathias Sundin

## How people view the world and the future

*Most people think the world is worse off than it is. If that's what you believe, there's a high risk that you also have a negative outlook on the future.*

Professor Hans Rosling discovered this after his students refused to believe him when he showed them statistics on how rapidly poverty was decreasing, and how quickly rates of literacy were increasing. This was unexpected, as getting into his course on global health required the highest grades. Students like his should have possessed knowledge about the state of the world. To get a clearer picture, he subjected them to his “chimpanzee test”. He put together five pairs of countries where one country had twice the child mortality rate as the other, and asked the students to choose which country in each pair they thought had the highest. You can test yourself:

- Sri Lanka or Turkey?
- Poland or South Korea?
- Malaysia or Russia?
- Pakistan or Vietnam?
- Thailand or South Africa?

If you were to write the names of the countries on bananas and ask chimpanzees to choose, they would on average get 2.5 right out of 5 possible. The students got an average of 1.8.

Rosling also gave this test to the professors at Karolinska—the same professors who each year award the Nobel Prize in medicine. They got 2.4, almost tied with the chimpanzees.<sup>262</sup>

The correct answers were Turkey, Poland, Russia, Pakistan and South Africa. They had at least twice the infant mortality rates of Sri Lanka, South Korea, Malaysia, Vietnam and Thailand. Did you have a better result than the apes?

If you, on average, have a worse result than the apes—worse than random—it means you have a skewed view of the world. The knowledge you have about the world is so poor that you do not guess, but answer incorrectly. This revelation about the students' as well as the professors' ignorance of the state of the world eventually led him to found the Gapminder Foundation with his son, Ola Rosling, and Ola's wife, Anna Rosling Rönnlund. The mission was to find this kind of ignorance and counteract it by communicating facts to all the people who wouldn't read boring spreadsheets full of statistics.

Gapminder has tested the populations of several countries, now with 12 questions and three options for each question. A chimpanzee would get four out of 12 right. In the 2017 test, only 10 per cent had better results than the apes. Ninety per cent would get better results if they did not read the questions, but picked the answers randomly. As many as 15 per cent were wrong about *every one* of the 12 questions. None of them had all the right answers.

Of the 14 countries where the test was conducted, South Koreans performed the best, or least poorly. They scored an average of 2.8 out of 12. Belgians were the worst, with 1.8 out of 12. The two questions that participants in all coun-

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<sup>262</sup> Rosling, H. (2007)

tries had the worst answers for were how many girls in low-income countries complete their schooling (the correct answer is 60 per cent) and what has happened with extreme poverty in the last 20 years (it has halved). The chimpanzees didn't lose to humans for any of the 12 questions. Of the three options, the most negative answer was usually the most commonly picked. On the issue of extreme poverty, most people believed it had doubled over the past 20 years.<sup>263</sup>

If one does not keep track of what fantastic and rapid development humanity has had in recent decades, instead believing that things are getting worse and worse, then it is of course pretty natural to be pessimistic about the future.

Hans Rosling tragically passed away of cancer in 2017, at just 68 years old, but he left behind a rich collection of fantastic TED talks, funny interviews, the book *Factfulness*, the Gapminder Foundation that Ola and Anna continue to steer, and a number of people inspired by him. One of these heirs is Max Roser. He runs the site Our World in Data, which is bursting with statistics on the state of the world.

In one post, *Wrong About the World*, he shows that more than half of those surveyed believe that the world as a whole will be worse or unchanged in the next 15 years. Developed countries usually have the largest group of pessimists. Only a few percent think the future will be better. Japan is at the bottom, closely followed by France, Belgium and Italy. It is only when you look at countries that have a lower standard of living that the optimists are in the majority. Indonesia, China, Senegal, India, Nigeria and Kenya are at the top. Sixty-eight per cent of Kenyans believe that the world will be better in the next 15 years, compared to 10 per cent of Japanese people.<sup>264</sup>

When we ask people how they think their children will get on financially in the future, we see the same pattern. In countries with the highest living standards, few parents believe in a bright future for their children. Only Israelis fall on the positive side, with 51 per cent believing their children will better off. South Koreans are close behind, with 43 per cent optimists. In France (14 per cent), Italy (15 per cent) and Japan (18 per cent), it is noticeably more pessimistic. But in countries with lower standards of living, optimism is almost universal: ninety-one per cent in Vietnam, 88 per cent in China, 84 per cent in Nigeria.

<sup>263</sup> Gapminder (2018)

<sup>264</sup> Our World in Data (2018)



Ethiopia is also filled with optimists, at 84 per cent. If my inner image was still true, the optimism of the inhabitants would, of course, have been much lower.<sup>265</sup>

It is often these mental pictures that shape our view of a country or the world. The famines in Ethiopia were often on television when I was a kid. The horrible images of children with swollen stomachs, too tired to wipe away the flies that crept around their faces, were etched into my brain. I now know that Ethiopia is no longer the country I remember, but it is because I have read and listened to Hans Rosling, Johan Norberg, Max Roser and others, rather than because I got another impression of Ethiopia through TV or the media.

There is a clear correlation between knowledge of facts and optimism. The more you know about the state of the world and its progress, the more positive your view of the future will be. In the same survey as above, where people were asked about their views on development over the next 15 years, their knowledge of the world was also measured. Those who had zero correct answers about the state of the world were the greatest pessimists about its future. Only 17 per cent of that group thought the world would be better, compared to 62 per cent of the group that had the highest number of correct answers.

It makes sense. If you think the world is getting worse, and you are maybe convinced that it has been so for a long time, why would it suddenly get so much better in the next 15 years? And if you can see what great progress has been made over a long period of time, especially in recent decades, then it is reasonable to assume that this can continue.

The solution to irrational pessimism should then be to offer these people facts about the world, and they will become more optimistic about the future. I think that this is part of the solution, but unfortunately not the only answer. If we were simply logical processing machines, then it would be enough to input correct facts and generate a more optimistic outlook. But we are not logical processing machines. We are affected by so much more than logic. Facts form the basis of an optimistic message, and the good news is that we do not need to put a positive spin on something that is really bad. That the world is getting better in so many areas is a powerful argument in itself, but it stands against the images and impressions people are provided with in everyday life.

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<sup>265</sup> Our World in Data

## Media

*'How can you be an optimist? Don't you follow the news?' People sometimes ask me.*

*'No, that's why I'm an optimist,' I reply half-jokingly, half-seriously.*

I have great respect for journalism. I'm even married to a journalist. Good journalism is one of the finest, most interesting and important things we have in society. Bob Woodward's and Carl Bernstein's exposure of the Watergate scandal is the jewel in the crown which shows the importance of journalism in society. Not to mention all the journalists who risk their lives, sometimes losing them, around the world when they report on corruption, warlords, oppression and crime.

With that said, there is a lot in journalism that can, and must, improve. Or rather, a lot in the media. Today, it does not give a true reflection of the world we live in. If you form your worldview solely through news reporting, it would be weird if you did remain optimistic.

*'This is Andrea Mitchell, reporting live from this city, where no one got shot last night. No one was injured. Nothing was on fire. No police reports. Yesterday people swam happily in the ocean, not one person was attacked by sharks. It is peaceful and calm. Back to the studio.'*

No news report sounds like that, ever. No one interrupts regular programming to tell you that everything is going well. Of course, this is understandable, but at the same time, the media's focus on negative events can give us a skewed view of reality. Not because the news itself is wrong or "fake", but because the balance between negative and positive events is unbalanced.

In Steven Pinker's book *Enlightenment Now*, he thoroughly addresses the state of the world. Almost all of the 70 graphs in the book point in the right direction. But not the one concerning the media. The data scientist Kalev Leetaru used something called sentiment mining, which assesses the tone of an article or news item. What words does an article contain, words that describe

something bad, or something good? He did this on all the articles in the *New York Times* between 1945 and 2005 and saw that the newspaper's reporting became increasingly negative over time. After fluctuations during the 1940s and 1950s, reporting became much more negative during the 1960s and early 1970s. After a slight recovery towards the positive side in the late 1970s, the balance was left generally unchanged during the 1980s and 1990s, and become more negative again in the early 2000s, reaching its most negative point out of the entire measurement period. Moving up and down over the years, the trend was clearly towards a more negative approach. In a much larger survey of news broadcasts in 130 countries over 40 years, Leetaru saw the same trend.<sup>266</sup>

At the same time, poverty in the world has more than halved, the Soviet Union has fallen, the Cold War ended and dozens of countries became democracies. The world has become more peaceful, less violent, richer and healthier than ever. More children are attending school than ever before in history, and fewer children die at an early age. While this fantastic development has occurred in the world at large and in our everyday lives, media reporting has steadily become more negative.

An example of this is the climate. Climate change deserves a lot of attention, and the dangers it poses should be highlighted in the media. The IPCC's reports should be taken seriously, and it is desirable that the media attention around it be massive. Obviously, much of that reporting will be negative because climate change is a major problem. But the solutions and everything positive done about it should also receive attention.

In May 2019, news emerged that up to one million species are at risk of extinction, based on a report from the UN Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES).<sup>267</sup> One significant reason for this is climate change. The report received a lot of media attention worldwide, often with the most negative headlines and angles possible. The report does say that one million species could go extinct, but that this scenario is less likely than other scenarios, with fewer extinct species. The reporting did not focus on the most likely scenario, but the most negative. In addition, criti-

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<sup>266</sup> Pinker, S. (2018)

<sup>267</sup> IPBES (2019)

cal questions were often absent.

An attentive and knowledgeable journalist could have looked up earlier reports that delivered similar warnings that didn't turn out to be true. 'The Global Report' of 1980 was commissioned by then President Jimmy Carter. In it, researchers warned that between one half and two million species may be extinct by the year 2000.<sup>268</sup> The outcome, according to the International Union for the Conservation of Nature's Red List, was 872.<sup>269</sup> This does not mean that the new report from IPBES is also incorrect—we are almost 40 years further along, and the research has most likely been improved. But it would have been reasonable to ask what was different now, when previous reports proved to be so grossly inaccurate.

About a month after the warning from IPBES, another report appeared. It was also linked to the UN and came from the UN's top scientific adviser in the Trillion Tree Campaign. Thomas Crowther is a professor of Global Ecosystem Ecology at the Swiss Federal Institute of Technology in Zurich. His work aims to generate a holistic understanding of the global ecological systems that regulate the Earth's climate. Crowther has estimated the number of trees on the planet, and in 2015 he published his findings in the prestigious *Nature* journal. There are a little over three trillion, 3,000 billion, trees on the planet.<sup>270</sup>

The next step was to find out how many trees could be planted, and what their impact on carbon dioxide in the atmosphere would be. By using satellite data and machine learning, the world's soil has been analysed based on whether trees can be grown in places and what kind of trees would be best suited there. The result was published in another prestigious science journal, *Science*. There, the researchers show how a massive tree planting programme could capture as much as two-thirds of all human-caused CO<sub>2</sub> emissions, at a low cost.<sup>271</sup>

*'This is way bigger than the next best solution, and this is by far the cheapest,' commented Thomas Crowther.*

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268 Barney, G.O. (1980)

269 IUCN

270 Crowther, T. et al. (2015)

271 Bastin, J. et al. (2019)

You would think that the media, which reports so much about climate change, should give such optimistic news a great deal of exposure, especially considering all the attention given to the IPBES report a month earlier. The research from Professor Crowther shows a big counter to climate change in general, and more trees and forests could also be very good for biodiversity.

Warp Institute studied the impact in Swedish media, who are usually very interested in climate issues. The report on tree planting received only a tenth of the space as the report on species extinction, and often with a negative angle and critical questions in the article. Compare the headlines from Sweden's largest news service, TT:

- 'UN report: one million species risk extinction'
- 'Solution to climate change met with scepticism'.

Questioning and critical voices are a good thing, but why do we only hear them when it is a piece of positive news and not a negative one? This is a prime example of the negative balance we saw in the study of the *New York Times* and the world's news broadcasts. The problem is not with reporting negative news, but with balance. Why should a piece of negative news get ten times more attention than a positive one in the same area? There is no rational journalistic explanation for that.

Other parts of the negative bias in the media are easier to understand. Negative events are often more sudden and dramatic than positive events. An aeroplane crash is immediate, and is of course news that should be reported. The fact that flying has become safer is a slow development over many years. It is only when something spectacular happens that it breaks through, like when no one died in a plane crash in commercial aircraft in 2017. That stands out and becomes news. The fact that the number of fatalities in aviation accidents has steadily declined in recent decades is seldom seen in news broadcasts. Positive development takes place slowly, often over a long period of time.

Max Roser has pointed out that we could have had this headline on the front page of every newspaper, every day since 1990: 'Yesterday 137,000 people left extreme poverty'. Instead, it has not been a front-page headline in any newspaper ever. Of course, the newspapers should not have this as the main headline

every day, but through their reporting, you should get the feeling and knowledge that things are moving in the right direction. For that to happen, much more is required than the occasional article. Neither negative nor positive perceptions are created by a single news report. I know that from my background in politics; to get a message out, you have to repeat it many times. When you are really, really tired of it, it will have just started to take root among voters.

I'm not claiming that the media never reports positive news. There is actually a lot of optimistic news out there. The problem is that such news doesn't spread very much into other media. At the Warp Institute, where I am executive chairman, we have published one positive news item every day for over two years, amounting now to over 800 fact-based, optimistic news items. We find the stories in media from around the world. When we started out, we were worried that we would not find enough news, but that has not been a problem. We create some of it ourselves, by reporting statistics from Max Roser or Hans Rosling, but most of it is found in the media. If a newspaper writes that the coral reef has started to recover, few or no other media pick it up. Negative news seems to have a wider spread.

Is it really reasonable to blame this on the media? Don't they just report what we want to read? If we click more on negative headlines than on positive ones, they will write more negative articles than positive ones. There is something in this argument, but it is not the whole truth. Some people in journalism believe that it is their role to be critical. I believe, of course, that the media should report negative news: about crime, war and starvation. They should investigate corruption, abuse of power and wastes of taxpayer money. But that doesn't mean they can't report positive developments with the same enthusiasm. Why should the role of journalism be to just examine the negative, but not the positive? Of course, there are plenty of examples of very good, positive journalism, but as I said, the balance is skewed.

Also, it is not necessarily true that negative headlines are better for business. The Swedish newspaper *Dagens Nyheter* believes that people did not want to read long articles online. They wrote some anyway, because some people enjoy them, and they thought it was part of their role as journalists to write in-depth articles. The Internet gave them the opportunity to measure not just how many

people clicked on these pieces, but how much time each reader spent reading them and how many became subscribers afterwards. It turned out that these longer, more in-depth articles produced the most new subscribers. In other words, it is not at all certain that the media knows what its audience wants. My belief is that people generally subscribe to the media which give them tough, critical journalism, while at the same time showing positive trends and exciting developments in society. Closing the morning newspaper after reading it, and not wanting to shoot yourself, or anyone else, should be good for business.

One person who has reacted against how the media works is the Dutchman Rob Wijnberg. In 2010, he was only 28 years old, but had already managed to write two books and was editor-in-chief of the morning edition of Holland's leading daily newspaper, *NRC Handelsblad*. He raised the magazine to new heights, but his bosses got more than they had asked for. Wijnberg increased both the number of subscribers and readers, but at the same time, he began to reshape what the magazine reported. Away from the sensational, away from traditional news, he focused on what really affects our lives. 'New instead of news,' he says of his approach.

That was not what the *NRC* executives wanted, and he was fired in September 2012. The decision made some readers so angry that they cancelled their subscriptions.

If they got so angry, maybe they were open to something new, Wijnberg thought, and he began to construct a whole new kind of magazine, without ads and without subscribers. Instead of subscribers, they would have members. After a successful fundraising campaign, they received \$1.7 million to start the magazine. In 2018, *Da Correspondent* had over 50,000 members who paid €6 a month or €60 per year. It is only available online.

In 2018, they went ahead and started a new crowdfunding campaign to expand and launch a global version, in English. In autumn 2019, \$2.5 million later, they launched *The Correspondent*. In the campaign, they talked a lot about the new kind of journalism they wanted to help create. Their slogan and mission statement was 'Unbreaking news'. 'News as we know it leaves us cynical, divided, and less informed,' they write.

*We are your antidote to the daily news grind. News is mostly about what happens today, but rarely about what happens every day. It covers the most sensational exceptions, leaving you uninformed about the rules. We don't cover the weather, we cover the climate, informing you about how the world really works.*

*We don't just cover the problem, but also what can be done about it. Consuming a lot of news can make you feel cynical and powerless. The Correspondent aims to counteract this effect by searching for common ground between different people, and by giving as much attention to solutions as we do to problems. We call this 'constructive journalism', not to be mistaken for "good news".*

The great thing about the world we live in is that we have more opportunities than ever to influence it. In my opinion, the media works poorly in some senses, but I don't just have to accept that. We can do as Rob Wijnberg, use the collective ability to raise capital and launch what we think is the right way to conduct journalism. If one does not want to devote one's life to it, one can become a member of his creation. But we also have an opportunity every day on social media. Media is no longer just the big media houses. All of us have a stake in media. We need to help the spread of positive news, while contributing to changes in traditional media.

The problem with a negative bias in the media is not only that the reflection of the world becomes unbalanced. The problem is bigger than that, depending on how our brains work.

## Psychology and Rosling

'We base our sense of risk and danger on anecdotes and images that are available from memory,' says Steven Pinker, who, in addition to writing books on world development, is also a professor of psychology at Harvard.

It is a mental shortcut that is easy to use to quickly evaluate something. The problems arise when these anecdotes or images in our memory do not match



reality. There are plenty of examples of availability bias with serious consequences. Doctors who have recently experienced an illness are more likely to make that diagnosis, even if facts point in a different direction. Another more positive example is in awards—at least for those who win them. Herbert Simon won the Nobel Prize in Economics in 1978 and realised that the best way to win awards was to win awards: ‘I soon learned that one wins awards mainly for winning awards: an example of what Bob Merton calls the Matthew Effect. Once one becomes sufficiently well known, one’s name surfaces as soon as an award committee assembles.’

Simon won a dozen big awards and was named honorary doctor of no less than four universities. If our mental picture of Ethiopia is starving children, then we will believe that children starve in Ethiopia. And despite the facts I’ve learned, and I now know that image is not true anymore, that is still what I see before me when I think of Ethiopia. In this case, the image doesn’t win over the facts, but who knows what beliefs I have on other topics that are based not on facts, but on what memories are available in my head.

When we are fed daily with negative news, it is easy to believe that this represents reality—especially about things that are really awful, which may affect us deeply. Against that kind of emotion, facts are fighting a losing battle. ‘People tend to assess the relative importance of issues by the ease with which they are retrieved from memory—and this is largely determined by the extent of media coverage,’ says author Daniel Kahneman in *Thinking Fast and Slow*.

This is not the only prank our brains play when it comes to how we view the world. Making decisions quickly on the basis of new memories was not such a stupid idea 150,000 years ago. If you had recently seen tigers in the distance, heading in your direction, and now you thought you could see some movement in a bush nearby, it wouldn’t be a good idea to get over there and check it out. Therefore, our brains are extra alert when we hear about danger. Once upon a time, that was vital information, but now we live in a much safer world.

Many today enjoy gossip, which was a method at the beginning of human-kind to determine who to trust and what faults and shortcomings others had. Today, there is an entire industry around gossip, which does not have the same positive effect as it had thousands of years ago. The same is true about

our attention to dangers. The world humans lived in 100,000 years ago was far more dangerous than the one we live in today. Hans Rosling writes in *Factfulness*: ‘We need to learn to control our drama intake. Uncontrolled, our appetite for the dramatic goes too far, prevents us from seeing the world as it is, and leads us terribly astray.’

In the old world it was a good idea to eat all the sugar you came across, once you did. For who knew when the next chance would come? The risks were minimal, so our bodies rewarded us when we found sugar and told us to eat everything we could. Now, in a society with an excess of sugar, it is no longer a good idea to eat all the sugar we can.

Dramatic, negative news is like sugar for us. We love it. We want more and more, all the time. It’s not the only thing we want, but our brains think the information about dangers is good for our chance of survival. It has not yet adapted to a world where the dangers are much smaller than just a few hundred years ago. We must learn to live in a new way. ‘Factfulness, like a healthy diet and regular exercise, can and should become part of your daily life,’ writes Rosling.

## Humanity lacks a positive vision of the future

Can you come up with five TV series, movies or books set in a bright, positive future? In a future where the environment is cleaner, and people are happier, richer and freer? I can come up with just one: *Star Trek*. An optimistic TV series, especially considering when it was originally created in the second half of the 1960s—not a period best known for its optimistic outlook. I’ve discovered *Star Trek*’s uniqueness in adulthood, and realised its adeptness at being able to tell a good story without a world that is dark and dystopic.

Can you come up with any others? I don’t mean feelgood movies, but fiction in which the world is not dystopian. If you google “optimistic movies”, all you get are feelgood movies. I can’t think of anything other than *Star Trek*. If I feel generous, maybe the movie *Tomorrowland* qualifies.

But if I ask you to list five TV series, movies or books that play out a dystopian, dark future, I don't think you'll have any problem. *Terminator*, *Bladerunner*, *Minority Report*, *Water World*, 2001, *A Clockwork Orange*, 1984, *Ready Player One*, *The Handmaid's Tale*, *The Man in the High Castle*, *Westworld*, *Altered Carbon*, *Lost in Space*, *Fahrenheit 451*, *The Hunger Games*—I could go on.

Of course, drama is easier to conjure in a dystopian society. There is a threat, something to fight against. To some extent, I guess it's the authors' laziness that makes them choose that kind of world. It's the easiest route to a good story. When there is plenty of other dystopian fiction out there, it is easier to create a dark world than a light one. If you've read lots of dystopian books and seen several dark TV shows and movies, it doesn't take as much imagination to build such a world in your head. All of us can do it, if we think about it for only a few seconds. A megacity with huge skyscrapers, dark and foggy, flashing neon lights. Robots are patrolling the streets. In the air, cars fly by. Rain. High up in the sky, huge vessels are afloat. There the rich live, those who want to get away from the darkness down at the ground.

But neither the dystopian nor the utopian communities are the most likely future societies. Although I am convinced that humanity will continue the same journey as the last hundred thousand years and get better and better, we will not go around feeling completely harmonious and satisfied. New problems will arise, even if they are much smaller than what we had a few decades or centuries earlier. Such a world will contain much less suffering than it did a hundred years before, just as the world we live in now is many times better than it was in the early 1900s. But that does not mean that everything will be in total harmony.

Kevin Kelly writes: 'I think our destination is neither utopia nor dystopia nor status quo, but protopia. Protopia is a state that is better than today and than yesterday... Protopia is much, much harder to visualise. Because a protopia contains many new problems as new benefits, this complex interaction of working and broken is very hard to predict.'

He continues: 'We don't have much desire for life one hundred years from now. Many dread it. That makes it hard to take the future seriously. So we don't take a generational perspective. We're stuck in the short now. ... So there is no

protopia we are reaching for.<sup>272</sup>

Today, there is no vision of what humanity's protopia will look like in a hundred years. Not even in 50 years. The closest we've come is the United Nations Sustainable Development Goals (SDGs). They were agreed on in 2015 and the targets are set for 2030. Some of them qualify as ambitious goals for humanity, which can form the basis for a protopia. Goal one: No poverty. Goal two: Zero hunger. But then it becomes more of a to-do list than part of a vision. Not that the goals themselves are bad, but if we are to put together a vision of a future society, a directive to 'promote peaceful and inclusive societies...' is too vague. The SDGs are an excellent list of goals on the way to a protopia, but the vision of what this protopia looks like is missing.

Those who have a vision of the future are in the environmental movement, or at least part of it. William Vogt is the father of the ideology currently dominating the climate and environmental movement, whose goal is to cut back, rather than to develop. 'Cut back!' was Vogt's mantra. His view is that there are clear limits to what the planet can withstand, and mankind should stay within them. Not by technological innovation, but by limiting ourselves. Vogt opposed new crops that are more viable and yield larger harvests. Instead, he argued, the population should adapt to what nature can provide. There cannot be billions of people on Earth, not for an extended period of time, anyway. It will lead to collapse and destruction, which he elaborated on in the popular book *Road to Survival*, in 1948.

Author Charles C. Mann recently wrote a book about Vogt and compared him and his view to that of Norman Borlaug, the man who developed new crops that significantly reduced starvation first in Mexico, then in India and other parts of the world. Borlaug won the Nobel Peace Prize 1970. The book is called *The Wizard and The Prophet*. Borlaug is the wizard and Vogt is the prophet. Mann writes a balanced portrait of the two, as he both understands and shares the views of both. Three days a week, I go with Borlaug; three days with Vogt; and on the seventh day, I am confused, he writes.

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272 Kelly, K.

This is how he describes Vogt:

*Vogt laid out the basic ideas for the modern environmental movement. In particular, he founded what the Hampshire College population researcher Betsy Hartmann has called ‘apocalyptic environmentalism’—the belief that unless humankind drastically reduces consumption and limits population, it will ravage global ecosystems.*

This is not true for the entire environmental movement, but large parts of it share Vogt’s basic analysis. Although I belong to the “wizards”, I think some of what the “prophets” argue has merit. Vogt was very worried about population growth. With too many people on the planet, the ecosystem would collapse, and the apocalypse would be just around the corner. I don’t believe that, but at the same time, it’s not a bad thing in the short-term for women to give birth to fewer children as their wealth increases. That is where these views differ: Vogt wants to limit, not through increased wealth, but through other methods. To cut back. The wizards want to do it through development, innovation and increased prosperity.

Vogt, as I said, had a great impact on today’s environmental movement, although he himself has largely been forgotten. His vision of setting clear boundaries is the dominant thought model today. “Earth overshoot day” is based on that idea. That is the day when the planet’s resources for the year are consumed. Many others and I agree that we should not overutilise Earth’s resources, but the big question is how we get there. By going forward, or backward?

Vogt’s vision is the clearest out there, but it is very negative. Nobody becomes optimistic about the future by working to limit our development under the threat of an approaching doomsday. I think one reason people are so negative about the future is the lack of a clear, optimistic vision. Not a utopia, but a protopia. Something to really strive for; a much better society.

There are people with great ambitions and even visions, but they often limit themselves to a specific area. Elon Musk is clearly one of the planet’s most ambitious and visionary people. He wants to shift the transport sector away

from internal combustion engines that get energy from oil to electric motors that get energy from the sun. With Tesla, he has awoken an entire industry. Daimler, who once invented the internal combustion engine, now devotes no resources at all to developing it. Everything goes to electric engines. Musk also wants to help humanity to become multi-planetary. A species living not just on Earth, but also out there, in the solar system. On the Moon, other planets, at space stations and on Mars. The goal is a self-sufficient society on the red planet. The day it is achieved, we are no longer a species that only lives on one planet, we are not just terrestrial, we are Solarians.

A very inspiring vision that I wholeheartedly support, in spite of its enormous level of ambition, it does not describe a future for humanity. Not a utopia. To become more optimistic about the future, we need a discussion about this broad vision for the future. We need to piece together the different parts. I do not believe in a single common idea for all of humanity; it goes against what humanity is. The strength of humanity is the plethora of ideas. It is that we have both Vogt and Borlaug, both Greta Thunberg and Elon Musk. But we need a joint discussion, where we all contribute ideas about the future we want to see. Just when you start to think about it, you become more optimistic. It's hard to think of positive ideas for the future and become pessimistic.

## Increasing the rate of development

One thing that seems to be important for the future is a high rate of development. In the statistics I reported earlier, you can clearly see how much more optimistic people are in countries where development is progressing fast, when compared with countries that already have higher prosperity but where development is slower. Or, at least, it feels slower.

When one does not experience clear, important improvements in one's life, it seems close at hand to think that things are getting worse. Or at least that they have stagnated, and relatively earlier rates of development have become worse. In countries that have had very poor conditions, with poverty, starvation and

severely unsanitary conditions, the positive developments become clear:

1. There is a decent fresh toilet to use instead of a hole in the ground.
2. One's child does not die, but survives.
3. There is a shop where you can buy food and you don't have to worry about feeding yourself and your family.

These are dramatic improvements, and with those in mind, it's easier to see future big improvements coming. Electricity will come to the village so you do not have to start a fire indoors, then paved roads, more doctors and better food. In rich countries, the development is less clear, although it is actually at least as fast. When you already have the basic security and prosperity, a smart-phone doesn't feel like that big of a deal. The fact that we carry around with us a supercomputer connected to all the world's knowledge is almost magic, but of course, a toilet instead of a hole in the ground feels like a bigger and more important step.

I think we need to become more radical in the richest countries. If you are will allow for another example from Sweden, we are currently having a debate about trains in our country. Travelling by train is popular—so popular that the tracks are full of trains and even a small delay for one train has major repercussions for many others. The overburdened tracks have created a big need for maintenance.

In other words, the trains are often late. The debate then revolves partly around maintenance, but above all on how the rail network should be expanded. The two main options are more rail for old, slow trains (which run at 200 km/h) or high-speed trains (300 km/h). Both options are very expensive, especially for high-speed trains.

A radical idea would be to invest in something in the style of Hyperloop. A form of near-vacuum train, moving in tubes above or below ground at speeds around or above 1,000 km/h.<sup>273</sup> This is a new, partially undeveloped technology, and that is exactly the point. Instead of plunging hundreds of billions of krona into trains that only go twice as fast as they did in the 1950s, the better bet could be on Hyperloop, or something similar. If you succeed, it is a big step

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forward. Travelling between Stockholm and Malmö would take 45 minutes, instead of five hours.<sup>274</sup> Hyperloop all over Europe would constitute a dramatic difference, and it would connect countries like never before. This is not really an argument for Hyperloop itself—I am not an engineer and cannot judge how credible that technology is, but we have to dare to dream and invest in those big improvements. Peter Thiel, one of the people who started PayPal together with Elon Musk, divides optimism and pessimism into each of two categories: definite and indefinite.

**Definite optimism:** Believes the future will be better than the present and works to make it better.

**Indefinite optimism:** Believes the future will be better than the present, but does not know how exactly, so makes no specific plans.

**Definite pessimism:** Thinks the future is bleak, but prepares for it.

**Indefinite pessimism:** Sees a bleak future, but has no idea what to do about it.

It is the definite optimism we need more of. Thiel once wrote: ‘We were promised flying cars, all we got was 140 characters.’ I find his comment unnecessarily harsh about social media, but he has a point.

In order to increase the rate of development in the world as a whole, but not least in the richest countries, we must dare for more. Become more radical. Invest in the big improvements, those which makes things ten times better, not just 10 per cent better. Some of these efforts will fail. Sometimes spectacularly. But sometimes we will succeed, making great strides forward and in a short time improving our lives significantly.

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<sup>274</sup> Hyperloop-One



## Is it naive to be an optimist?

One more reason why optimism is not more widespread is that it is often considered naive to be an optimist. You get called a “fanboy” if you think what Elon Musk is trying to do is good. With your arms crossed, one should point out possible faults, deficiencies and future problems. Then, you are apparently serious. For some reason, we consider critical people more intelligent. This is pure nonsense. It’s not that there aren’t very intelligent critics, nor that we should have a world without critics. It would be both bad and dangerous. But the superficial critic is easy. That’s what we’ve been training for over hundreds of thousands of years: risk awareness, being able to visualise what can go wrong. Being good at it has increased the chance of survival. Deep, intelligent criticism is difficult.

When I lecture and mention artificial intelligence, the probability is that the first question afterward is about the problems, not the opportunities, AI creates. Killer robots and mass unemployment: sometimes it seems that the only issue for AI is which of these comes first. Will the robots murder us just before we become unemployed, or will we become unemployed first and then murdered? Asking such a question may make you appear critical and smart, but it is the easiest thing to do.

Even more strange is the view that thinking the future is bright is naive, but thinking the future will be dark is not. It defies logical thinking, exactly the thing pessimists claim to be so good at.

About 100,000 years ago, the development of humanity accelerated for the first time. Before that, it had been a step forward and a step back. The innovations during our first 2 million years were extremely slow. But then we began to accelerate. There are many theories as to why this happened, but the most likely theory is based on population density. Enough people lived on a small enough area that allowed ideas—innovation—to spread among different groups. This increased the chances of survival. For the first time, we began to accumulate knowledge. We put new knowledge on top of old knowledge. In the first 2 million years, we had learned to create a primitive rock axe and control fire, but we could not talk to each other and had no clothes on our bodies. But then we learned to talk, write, we spread across the planet, sewed clothes, started farming, moved together in villages and then cities, created empires, larger cities,

roads and books. In the 18th century, we embarked on a democratic revolution that began to lift all of humanity out of misery and poverty. We learned to fly, stepped out on another celestial body and created millisecond-fast communication across the planet.

In the last hundred thousand years, the world has been constantly advancing. But in the last 300 years, with its scientific methods, freedom and democracy, and the Industrial Revolution, things have accelerated like never before.

The pessimist bases his thinking on the fact that this development will now stop, slow down or maybe even reverse. It defies all logic. Of course, it *can* happen. A positive future is not guaranteed. But why *should* it happen? Are there any fundamental events that point to it? By that, I do not mean who is the president of the US or if the UK leaves the EU. I mean something much more fundamental that suggests that man's ingenuity would end, or that the desire to constantly make things better might die out. Nothing suggests that; everything suggests the opposite. When more people get to live in democracies, more of us get to go to school and have access to the Internet, and the pace of innovation will only increase. We have access to more brains than ever, and these brains start with more knowledge than before. The number of ideas will increase to more than ever.

It is extremely naive to believe that human progress would just stop, for no reason. The rational opinion is to believe that positive development will continue, but at the same time understand that it does not do so through magic, but thanks to the ideas and hard work of millions of people. Thinking about that makes me optimistic that we can turn humanity in an optimistic direction.

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# FEAR OF THE FUTURE

Why the world is going to turn out  
better than we think

People walking in unbearably hot climates, in search of the last few jobs that have not yet been taken by robots owned by the super-rich... This is the image of the future you get from listening to current discussions and the media. It seems that the future has never had such a bad reputation as it does right now. Little seems to be left of the excitement and trust we used to hold for the future: where our grandparents saw flying cars, we now see doomsday scenarios—even in the present age of unprecedented wealth, progress and technology. This contradiction is why we have put together this publication. We believe that the future needs to be defended, both against real threats like climate change and against pessimism. Throughout history, the future has shown us that it can earn our trust. It has faced very serious threats but has often surprised us with fantastic technology and social progress.

With this publication we want to remind people about how much better the world has become over the past few decades. It is often said that we should learn from our mistakes. This may be true, but it is at least as important to learn from the progress that has already been made. This publication uses a discussion of current problems as its starting point and offers solutions that could contribute to a better future—as well as give us fewer reasons to be worried about it.



ISBN 978-2-9602333-3-9



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