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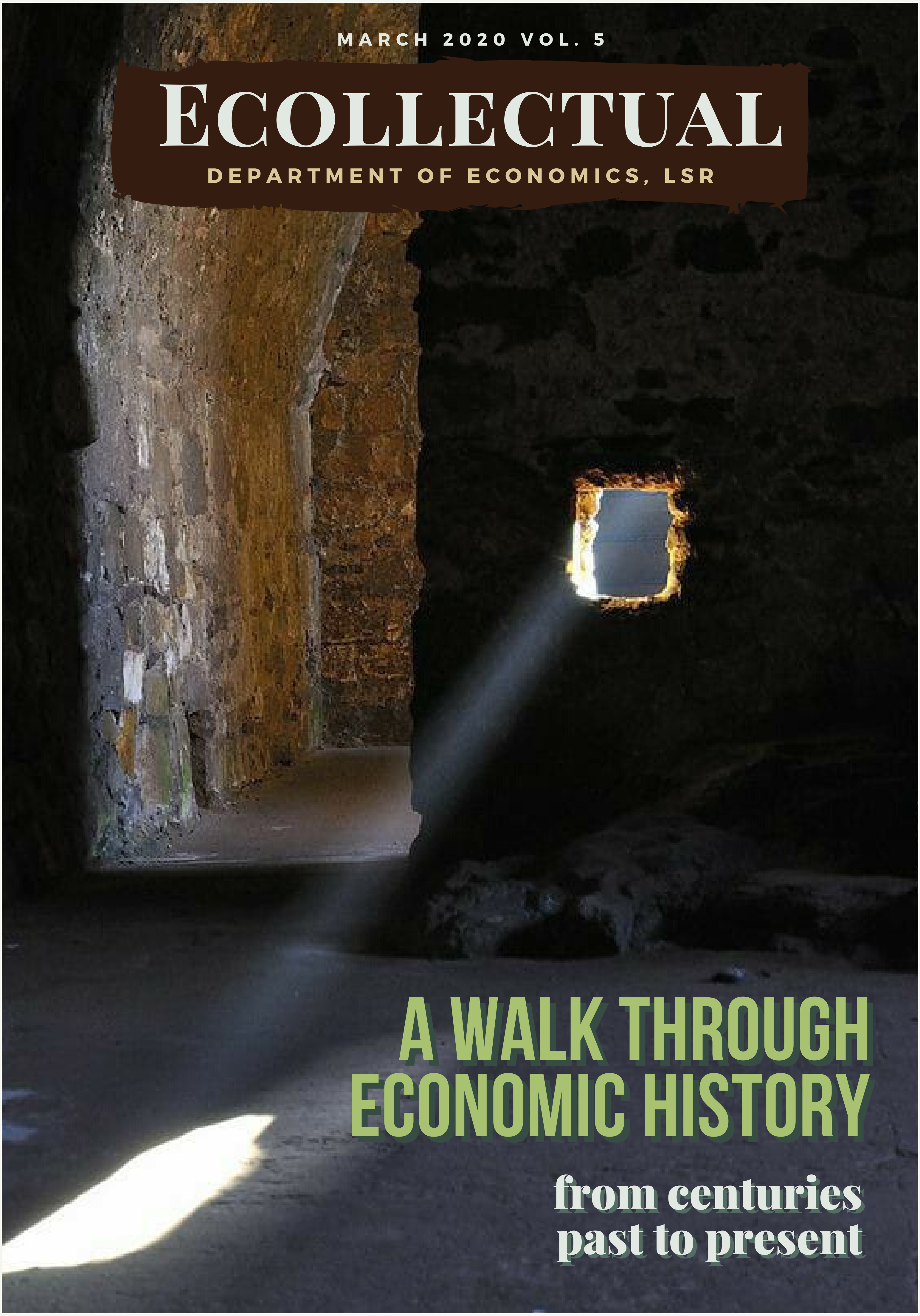


A WALK THROUGH ECONOMIC HISTORY

from centuries past to present

Cliometrics, or Saving a Failing Marriage

- MAITREYEE GUHA

Economics often undermines its reliance on history. No subject needs to learn from its past mistakes more, because it makes so many predictions and prescriptions. Yet the fields are much like an unhealthy married couple, who barely work together but can't live apart.

Things aren't all that bad. The field of economic history exists. Until the 1950s, it was mostly qualitative in its approach, writing long essays about economic phenomena that have guided history.

Things changed in 1957 when the Economic History Association formally unveiled **cliometrics, named after the Ancient Greek muse of history**. Economists such as Walt Rostow encouraged using economic theory and econometrics to answer historical questions. Alfred Conrad and John Meyer demonstrated this with their paper *The Economics of Slavery in the Antebellum South*, which concluded that slavery would not have disappeared without the Civil War because it was too lucrative. For this, they used statistical methods and econometric techniques to predict future profitability. Later, Robert Fogel and Douglass North would win the Nobel Prize in Economics (1993) for their pioneering work in cliometrics. By combining historical data and economic models, they, among others, arrived at **conclusions regarding the role of institutions in the economy and of demographic transformations**.

Cliometrics is not a one-size-fits-all technique. Fogel himself noted the **difficulty of hypothesizing in historical contexts in the absence of reliable data**. The field has also done little to bridge the gap between mainstream economists and historians.

Nevertheless, it has created a space for economics and history to reconcile, and to work together to deliver more accurate analyses than either could've delivered alone.

How Slavery Built America

- MAITHILI KAMBLE, PAVANI GANDHI

For a long time, historians mostly depicted slavery as a regional institution of cruelty in the South, and certainly not the driver of broader American economic prosperity.

Slavery, **the treatment of human beings as property deprived of personal rights**, has occurred in many forms throughout the world. But the American slavery system stands out for both its global scale and its lasting legacy. It started from 1619 and lasted till 1865.

The slave economy of the southern states had **ripple effects throughout the entire U.S. economy**, with plenty of merchants in New York City, Boston, and elsewhere helping to organize the trade of slave-grown agricultural commodities — and enjoying plenty of riches as a result.

Slave based agriculture was so profitable that it siphoned money away from other economic endeavours. There are many economic links between the southern plantation complex and

CIRCA 1800: SLAVES PICKING COTTON ON A PLANTATION the development of American and global capitalism, involving trade, industry, banking, insurance, shipping, and other industries.

The relationship of slavery to American capitalism rightfully begins on the plantation. Cotton textiles were the first industrially produced products and the most important commodity in the world by the 19th century. **3/4th of the world's cotton came from America**.

The profitability of slave- based agriculture, especially king cotton, meant that the South would remain largely agricultural and rural.

And although there were fewer slaves in the North as northern states outlawed slavery, cotton shipments overseas made northern merchants rich.

Merchants and manufacturers in the past did know that slavery was a moral problem, but then they tried to say that such moral considerations were extraneous to the concerns of business.

In retrospect we can all agree that these claims are preposterous. Such observations should make everyone today acutely conscious about making **rationalizations that seek to insulate business from moral responsibility**.

The African slave trade helped to shape a wide variety of societies from modern Argentina to Canada. These differed in their use of slaves, the harshness of the regime imposed on slaves, and the degree of mixing of the races that custom and law permitted.

But none of these became **as blatantly racist — insisting on racial separation and a strict color bar** — as the English North American colonies that became the United States.

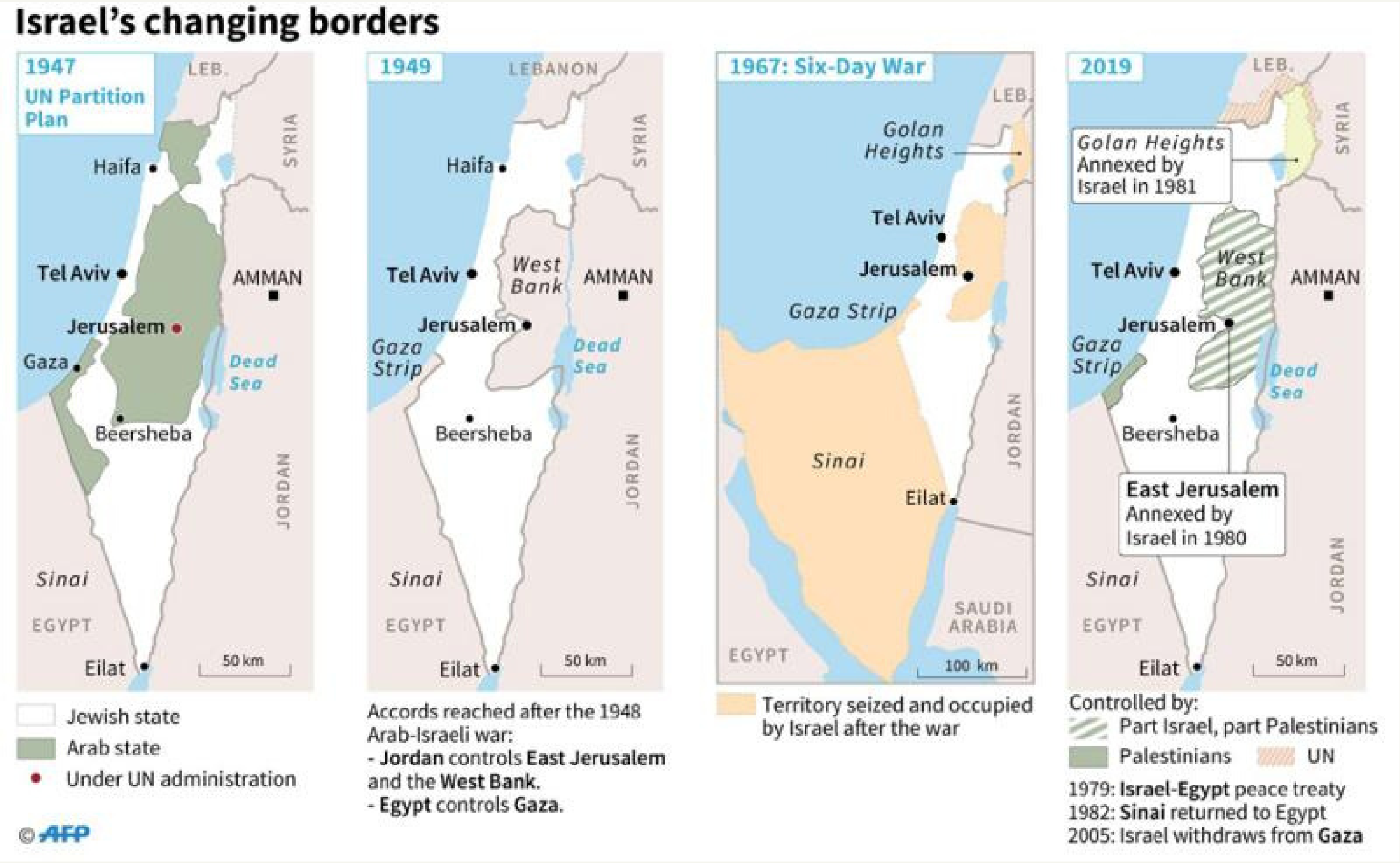
The Arab-Israel War and Prospect Theory

- ANANYA KALRA

Brief context about history:
The origin of the problem went back almost 2000 years to the year A.D. 71 when most of the Jews were driven out of Palestine, which was then their homeland, by the Romans. Until the end of the 19th century, however, there were never enough Jews to make the Arabs, who now looked at Palestine as their homeland, feel threatened.

The main problem was that Palestine was inhabited by Arabs who are understandably alarmed at the prospect of losing their land to the Jews. Britain became involved in 1917 and supported the idea of a Jewish national home in Palestine.

By 1940, about half the population of Palestine was Jewish caused by the flood of refugees. In 1937, the British peel commission proposed



dividing Palestine into two separate states, one Arab and one Jewish but the Arabs rejected the idea (influenced by bias). The Jews started rebelling and the British, weakened by The Second World War, felt unable to cope, so asked the United Nations to deal with the problem, and in November 1947, the UN voted to divide Palestine, setting aside roughly half of it to form an independent Jewish state.

The **Six-Day war** took place in 1967, which the Jews won and then the Arabs were left with 22% of historic Palestine. Yet again the **Yom Kippur War** of 1973 happened, leaving the Arabs with even less area (approximately 12%).

Influence of the bias (The Prospect Theory): The Arabs rejected the proposal of division, as they were looking at the part of Palestine, they were losing rather than the 50%, they were getting for sure. The wanted complete control over Palestine, which was impossible keeping in mind the support of the US with the Jews.

This flawed decision by the Arab leader, resulted in two more wars, which made the condition worse for them, decreasing their area of Palestine from 50%, which they could have had, to almost nothing. During the 1967 war, they had in mind the part they had lost, and not what they are still left with, which resulted in them losing even more. The same happened in 1973 which resulted in another war.

Economic benefit of the two state solution: A two-state solution provided the best economic outcomes for both Israelis and Palestinians. Israelis would gain over two times more than the Palestinians in absolute terms — $123 billion versus $50 billion over ten years.

But the Palestinians would gain more proportionately, with average per capita income increasing by approximately 36 percent over what it would have been in 2024, versus 5 percent for the average Israeli.

In most scenarios, the value of economic opportunities gained or lost by both parties is much larger than expected changes in direct costs. This solution could have prevented future wars which in turn would prevent the loss of life of thousands of people as well as the infrastructural loss.

1997 Asian Financial Crisis

- SHREYA MAHAJAN, MANSI CHAUDHARY

The Asian crisis of 1997 refers to the financial crisis which was faced by **East and Southeast Asian tiger economies** as a series of devaluations and other events that began in July 1997 and originated from Thailand.

There were a plethora of deep-rooted and intricate factors behind this sharp slump which raised fears of a global economic meltdown.

The crisis initiated due to **lack of prudent regulations in the Asian financial markets** which led to unprecedented amounts of borrowing as well as huge foreign direct investment. Both the factors resulted in exorbitant real estate values, increased corporate spending and rise in government spending thereby creating asset bubbles. This abundance of lending and investment not only deteriorated the quality of investments, but created excessive debt which began to show in these economies.

On the other hand, the export-led growth of the East Asian economies was adversely affected as the US Federal Reserve began increasing its interest rates around this time while Japanese and German exports had become tough competitors of their exports.

These pressures, along with a speculative attack on their currency pegs finally led to **Thailand's decision to unpeg Thai Baht to the US dollar**. This decision resulted in rapid currency decline not only in Thailand but also other East and Southeast Asian countries like Indonesia, South Korea, Malaysia to name a few.

The crisis was ultimately solved by the International Monetary Fund (IMF), which provided the loans necessary to stabilize the troubled Asian economies. The IMF's support was conditional on a series of economic reforms, the **structural adjustment package (SAP)**.

The SAPs called on crisis-struck nations to reduce government spending and deficits, higher taxes, privatisation of state owned business, allow insolvent banks and financial institutions to fail, and aggressively raise interest rates. The reasoning was that these steps would restore confidence in the nations' fiscal solvency, penalize insolvent companies, and protect currency values and make it more attractive.In late 1997, the organization had committed more than $110 billion in short-term loans to Thailand, Indonesia, and South Korea to help stabilize the economies.

The lessons learnt by the crisis are maintaining lower ratios of external debt to GDP and corporate short-term external debt exposure, allowing exchange rates to be more flexible, building up strong foreign exchange reserves and maintaining a strong regulatory body.

The Economic Impacts of the 9/11 Attacks

- ANUPREETA DATEY, MANYA JAIN

Nineteen years ago, Americans watched in despair as the **worst terror attack on the US soil** unfolded, which snatched away their sense of safety and security. The images of planes flying into buildings and entire structures collapsing, haunt the Americans and the entire world till date.

Known to be the deadliest attack in human history, 9/11 **took the lives of about 3,000 people**. The events that followed changed the state of world politics and the global economy, the effects of which are felt till date. The attacks left a long lasting impact on every sphere of world relations.

The attack on the World Trade Centre proved to be a massive jolt not only to New York's economy but also the economic situation worldwide. Back home, New York's economy, faced the immediate problems like **loss of millions of jobs, dislocation of employees, closing down of many small scale businesses**, which resulted in decline of New York City's GDP by $30.3 billion.

The economy, which was already facing a recession, was pushed to the brink of financial crisis by this attack. The insurance sector also incurred huge losses, where around $40 billion were required to cover the losses.

A major setback was faced by the airlines due to the cancellation of airline operations, refunding of tickets and bankruptcy of major airlines which ultimately led to the **tourism industry coming to a standstill**. Other short term effects included **plummeting oil prices** and also **fall in value of the dollar** against other currencies.

The economy experienced a severe debt crisis owing to the huge expenditure on defense especially in 2011 where the debt summed up to $21 trillion.

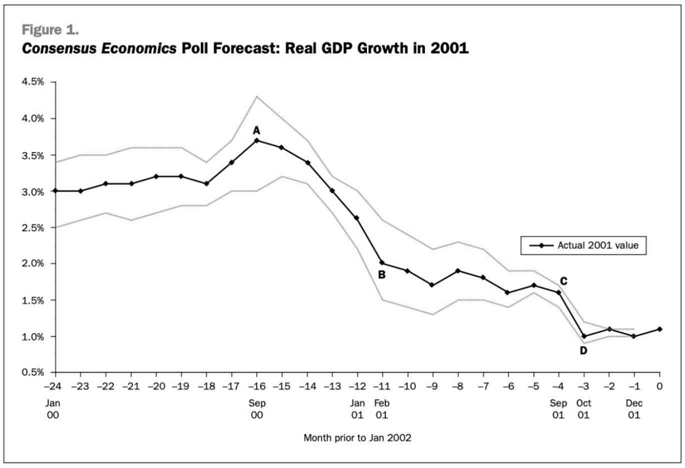


Figure 1.
Consensus Economics Poll Forecast: Real GDP Growth in 2001

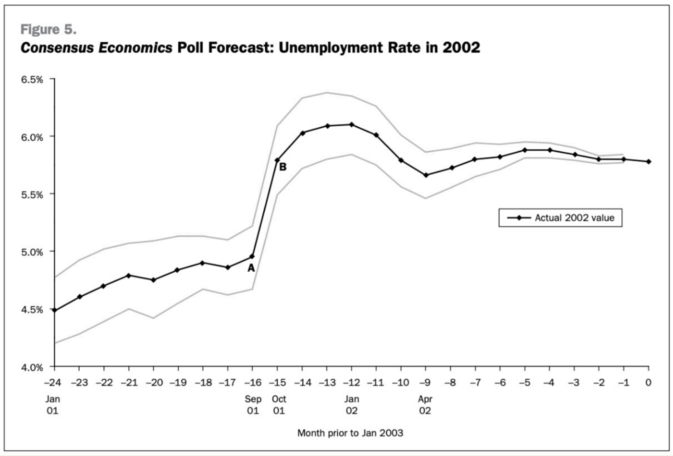


Figure 5.
Consensus Economics Poll Forecast: Unemployment Rate in 2002

Counterterrorism funding in the US totaled $2.8 trillion between fiscal year 2002 and 2017. After the attacks, the amount that countries were willing to spend on counterterrorism measures increased significantly as the world witnessed an increase in the frequency of terror attacks.

On 11th September, 2001, planes crashed into twin towers and economies all over the world felt the shock of this hit. But does it end there? The tremors of this attack can still be felt and will quite possibly haunt our future for a long time.

Prof. Tom Buckley's Lecture: Innovation and International Business

- NEETIKA KANOJIYA

On 7th February 2020, we welcomed **Prof. Tom Buckley**, a lecturer at the University of Sheffield, to give us insights on **Innovation and International Business**. Here are the major takeaways from his lecture!

- One of the major challenges faced by companies is the **resistance to change**. Business managers all over the world should be able to explain the need to give up traditional methods of production.

- Another challenge is the **expense of innovation**. Funding for the new ideas could be raised either externally or internally by a firm through retained profits.

- There is a need to be innovative because there is an existing stock of knowledge that could be expanded through technological advancement. Judicious use of latest technology can help in further innovation.

- The difference between **innovation, invention and research and development**: invention can be defined as the creation of a product or introduction of a process for the first time. Innovation occurs when someone improves on, or makes a significant contribution to an existing product, process or service. Research and development refers to the successful amalgamation of innovation and invention, undertaken by corporations and governments.

What a US-Iran War Could Mean for the Global Economy

- NEETIKA KANOJIYA

The ongoing US-Iran tensions dates back to the year 2015 when the Obama Administration along with UK, France, Russia, China and Germany (P5+1) bartered a **nuclear deal with Iran** (JCPOA) **limiting its nuclear program** (enriched uranium) along with **lifting the economic sanctions on export of oil and gas and other frozen assets**. These economic sanctions had devastated Iran's economy for years.

removed in 2015 were re-imposed on Iran by the Trump administration. In May 2019, the US tightened the sanctions targeting Iran's oil exports. In June 2019, the US accused Iran of destroying six oil tankers in the gulf of Oman. On June 20, Iran shot down a US drone and started rolling back key commitments under the Nuclear Deal in July. In January 2020, the US killed Iran's top military commander, Gen. Qasem Solemani

> ***US sanctions against Iran have led to a sharp downturn in Iran's economy, pushing the value of its currency to record lows, quadrupling its annual inflation rate, driving away foreign investors, and triggering protests, causing it's economy to fall in deep recession.***
>
> - British Broadcasting Corporation (BBC)

In May 2018, Donald Trump decided to pull out of the JCPOA, announcing he would reimpose economic sanctions on Iran effective from 4th November, 2018. In November 2018, all the sanctions

to which Iran vows severe revenge and pull-backs from the 2015 Nuclear Accord.

A **full scale war, the ensuing spike in oil prices** and **global recession**

Source: Economiv Times

would lead to a regime change in the US which Iran badly desires. Though the US is less dependent on foreign oil, **even a modest price hike could trigger a broader downturn or a recession**. While, an oil price shock would boost US oil producers' profits, the benefits would be outweighed by the costs to the US oil consumers' households and firms.

Overall, US private spending and growth would slow, as would growth in all of the major oil importing economies including Japan, China, India, South Korea, Turkey and most European countries. The price of oil can spike much more than a basicspike much more than a basic supply-demand model would suggest, because many oil dependent countries will engage in **stockpiling**.

The risk that Iran could attack oil production facilities or disrupt major shipping routes creates a **fear premium**. Hence, even a modest price increase of $80 per barrel would lead to a sustained risk-off episode, **ushering in a severe global recession**. The risk of global growth stall, is now much bigger and rising!

How K-Beauty Took Over the Global Skincare Industry

- SHREYA KHURANA, TANVI MAHANT

It wouldn't be wrong to acknowledge that we surely have been hit by the *Korean Wave*, be it you getting moved by the extremely talented (and magical!) group BTS, or to see your peers talk about K-dramas the same way most aunties talk about Pakistani dramas.

However, watching these means you're viewing the world through an Instagram filter because the views, the setting and of course the people are oh-so-pretty.

While the Academy was quite late to realize the potential of Korean films, we are sure even they can agree that Koreans have the most gorgeous and more importantly, healthy skin. The reason behind the same will be **a meticulous skin care routine** they swear by.

This methodical 10 step skin care has hit the world by a storm and has surely rocketed the sales of Korean skin care brands.

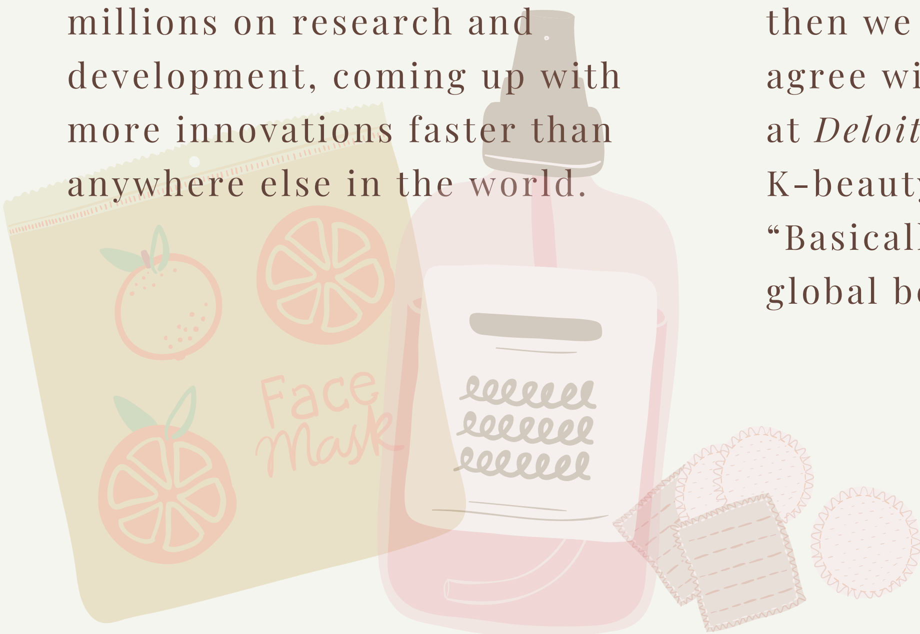
The Korean beauty market is among the top 10 around the world, with an estimated worth of **over $13.1 billion in sales in 2018**, according to *Mintel*, a global market intelligence agency. Facial skin care products alone make up half of the total market share and are **projected to reach $7.2 billion by 2020**.

There are various reasons as to why K-beauty is leading the beauty industry worldwide, which are as follows:

- **Korea's Skin-First Philosophy:** Instead of covering up skin issues with makeup, it's best to treat the root cause before they start. This is the kind of philosophy Koreans grow up with. Korean women spend twice as much on beauty as American women. Korean men spend far more on skincare than men anywhere else in the world.

- **It's All About The Ingredients:** K-beauty products stand apart for their exotic ingredients – snail mucus (yes, it's true!), avocado, plant essences and even placenta. These ingredients have shown positive results and many Western companies and trying to incorporate these in their products now.

- **Research and Development**: To keep up with the demand, top Korean beauty companies spend millions on research and development, coming up with more innovations faster than anywhere else in the world.



AmorePacific (Korea's *Estee Lauder*), spends **$100 million a year on R&D alone**. Even American and European brands are formulating their products with Korean R&D chemists and manufacturing plants. There are thousands of Korean beauty brands on the market, far more than any other country. The **top Korean beauty companies launch 20 to 30 new products per month**, compared to Western brands that launch 10 to 30 per year.

So what's next in store for K-Beauty? There will be more and more products going away from chemicals and focusing more on natural, organic, and vegan ingredients. There will be use of eco-friendly materials for their packages.

If their products can guarantee this personal experience to customers then we are certain everyone can agree with Anna Wang, consultant at *Deloitte* and founder of UK-based K-beauty online retailer *Ulzzang*, "Basically, where Korea leads global beauty companies follow."

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