

UBS Center Newsletter

No. 9, June 2017



Migration expert Sir Paul Collier (Oxford University) at this year's Podium.

Content

Research	2
Scholarships	5
Research Feature	6
Publications	9
Dialogue and Events	10
Outlook	14

Dear reader,

We are excited to announce that Nir Jaimovich (USC Marshall School of Business) is joining the UBS Center as Affiliated Professor. Earlier this year, we welcomed Ralph Ossa (University of Chicago) and Florian Scheuer (Stanford University) to the UBS Center. You will find out more about their research fields and their motivation for coming to Zurich on the following pages. Furthermore, we extend a warm welcome to Elias Papaioannou (London Business School), who will join us as Visiting Professor in the 2017/18 academic year.

Meanwhile, Fabrizio Zilibotti has accepted an offer from Yale University and will be leaving both the University of Zurich and the UBS Center this summer. We would like to warmly congratulate him on this prestigious appointment and would like to thank him for having played such an important role in the successful build-up of the Center in his capacity as Scientific Director since 2012. His successor in the role of Scientific Director will be Joachim

Voth, another world-class researcher who has been a member of the Center since 2014.

On the research side, this issue features David Yanagizawa-Drott's work on fake news and propaganda, a current hot topic. He provides new insights by examining government distortion and news coverage biases in several research projects.

On the event side, we look back on another successful edition of our podium, which helped to clear up some of the many misconceptions surrounding the highly charged topic of migration. Regarding upcoming events, we look forward to the joint public lecture by Esther Duflo (MIT) and Abhijit Banerjee (MIT) on September 21. The 2017 Forum for Economic Dialogue on "How to deal with the Globalization backlash?" will take place on November 13, featuring Dani Rodrik (Harvard University) as keynote speaker.

Ernst Fehr
Director



Research

New Researchers

Interview with Professor Ralph Ossa

Professor Ossa, you were appointed to the Professorship of Economics of Globalization and Emerging Markets, endowed by the UBS Center. Which economic topics fascinate you?

Ralph Ossa: I am interested in all policy-relevant topics, particularly pertaining to international trade. At the moment, I think a lot about what I call “unconventional trade policy,” which is trade policy that goes beyond classic tariff policy. For example, international tax competition was just a big topic in Switzerland surrounding a referendum on corporate tax reform.

One of your current research projects focuses on gains from trade liberalization, looking at the Canada-U.S. Free Trade Agreement (CUSFTA). What is this project about?

In this project, we challenge the way economists think about the gains from international trade. Most economists argue that a central benefit of trade liberalization is that consumers obtain access to a wider range of imported goods. For example, trade liberalization might allow them to buy Swiss chocolate even if they do not live in Switzerland, which then increases their utility. The main point of our paper is that these import variety gains are just part of the story and are typically counteracted by contemporaneous domestic variety losses. The issue is simply that trade liberalization also tends to drive domestic firms out of production, which means that domestic consumers can then no longer purchase the goods these firms make.

What are the main new insights from this research?

Looking at the Canada-U.S. Free Trade Agreement, we estimate that domestic variety losses actually outweighed import variety gains for the Canadian economy, thereby challenging the conventional wisdom in the field. Having said this, we also show that Canada still gained from the Canada-U.S. Free Trade Agreement overall simply because it also caused a significant reduction in the prices of imported goods.

If you had not become an economist, what career would you have chosen?



Ralph Ossa was appointed to the Professorship in Economics of Globalization and Emerging Markets, endowed by the UBS Center. He joined the University of Zurich at the beginning of this year.

Prior to moving to Zurich, he was Associate Professor at the University of Chicago Booth School of Business. He holds a PhD in Economics from the London School of Economics.

His research focuses on international trade, economic geography, and economic development.

I always wanted to be a professor; I was just debating the field in which to give it a shot. The runner-up choice was physics, and I almost switched to the ETH Zurich after two years of undergraduate business and economics studies in Germany. But I am glad I stuck with economics because I am ultimately more interested in social science questions.

The UBS Center aims to foster a closer dialogue between policymakers, business leaders, and the public at large. Being a member of the Center, what is the main message you would like to convey?

Academic economists are better than their reputation and can make valuable contributions to policy debates. Most of them that I have met do not have ideological agendas but are true scholars trying to make sense of the world. I think this is the most important message in times when experts are increasingly frowned upon.

Research

New Researchers

Interview with Professor Florian Scheuer

Professor Scheuer, one of your main research fields is tax policy with a focus on income taxation. What is the main insight from your work in this field?

Florian Scheuer: My goal has been to incorporate more realistic accounts of labor markets into our design of tax systems. For instance, during the financial crisis, we saw examples of astronomically compensated individuals whose contributions to social output in the end turned out to be illusory. I therefore started working on rent-seeking (joint with Casey Rothschild from Wellesley). Take, for instance, CEOs who can influence their own pay by stacking a board of directors in their favor. When some of the highest income earners are overpaid relative to their economic productivity, does that imply that we should impose higher taxes at the top?

“We find that the critical question to ask is whether top earners are benefiting at the expense of others, and if so, at whose expense.”

If CEO pay hikes are at the expense of workers doing productive work, then raising taxes on CEOs would increase more fruitful activities. But if top earners make outsize profits from winning against others in the same line of work, raising taxes could backfire. One example of this is high-speed trading. If the most profitable traders faced higher taxes, that would discourage their activity. But this would make it easier for others who compete against them, potentially drawing more traders into the fray.

Another example is my work on the taxation of so-called superstars. The idea is that relatively small differences in ability among workers are magnified by technology or globalization that lead to drastic differences in pay. In a classic example, the advent of TV allowed a small share of performers to capture a massive audience, leaving other artists in the dust. Many economists believe that these “superstar effects” are a key driver of recent inequality trends. Does this provide an argument for a more steeply



Florian Scheuer recently joined the Department of Economics at the University of Zurich, where he was appointed to the Professorship in Economics of Institutions, endowed by the UBS Center.

Professor Scheuer is a Faculty Fellow at the Stanford Institute for Economic Policy Research (SIEPR), a Research Affiliate at the Center for Economic Policy Research (CEPR) and the CESifo Network, as well as a Faculty Research Fellow at the National Bureau of Economic Research (NBER). He was awarded the W. Glenn Campbell and Rita Ricardo-Campbell National Fellowship and the John Stauffer National Fellowship for Public Policy at the Hoover Institution for the academic year 2015 to 2016.

Professor Scheuer's current research focuses on inequality and its public policy and political economy implications. In particular, he has worked on incorporating important features of real-world labor markets into the design of optimal income and wealth taxes. These features include financial markets with aggregate uncertainty, political constraints on tax policy and the resulting inequality, as well as economies with rent-seeking or superstar effects. His research has been published in the *American Economic Review*, the *Journal of Political Economy*, the *Quarterly Journal of Economics* and the *Review of Economic Studies*, among other journals.

Professor Scheuer received his PhD from MIT in 2010. Prior to his appointment to Zurich, he was Assistant Professor at Stanford University and Visiting Assistant Professor at Harvard University and UC Berkeley.

Research

New Researchers

progressive tax code? Together with Ivan Werning from MIT, I've shown that, in fact, it does not, because

“while superstar effects make the earnings distribution more unequal, they should also increase the responsiveness of individual incomes to tax changes.”

Since additional work by superstars reaps outsized rewards, discouraging their effort – even a little bit – has larger revenue consequences and makes distortions from any given tax change larger. This emphasizes that we really need more precise estimates of the elasticity of taxable income of superstar earners, rather than just measuring the change in the distribution of earnings, which has received the bulk of the recent attention.

At the beginning of this year, Swiss voters shot down the government's plan to reform corporate taxation, a decision that could hurt the country's appeal to multinational companies. What is your assessment of the situation in Switzerland?

The reform was intended to tackle a fundamental problem: How to set different effective corporate tax rates on firms that differ in their mobility? Ideally, from the perspective of a single country, we would want to tax internationally mobile firms at lower rates than less mobile ones. But since a direct discrimination is at odds with international tax rules, the reform attempted to replicate it indirectly, for example by allowing for lower rates on research or equity intensive firms. While I think this was generally a good idea, it was combined with an overall reduction in effective rates. These massive revenue losses eventually made it politically infeasible. But these are really two distinct issues. One might as well engineer a reform that achieves a similar differentiation but is closer to being budgetneutral. I hope that a reform along these lines will be more successful, in which case I would neither expect major negative consequences for firm location decisions nor overall tax revenues.

Of course, from an international perspective, tax harmonization would be the real solution, but it is politically even harder to achieve. Interestingly, in the US the idea of destination-based cash-flow taxes is picking up steam right now; this is a system that would also reduce the incentives for firms to move their location for tax reasons. So we will continue to see some exciting (at least to me!) discussions about corporate taxation, not just in Switzerland, in the near future.

The UBS Center helps academics get their message across to policymakers, business leaders, and the public at large. What is the main message you would like to convey?

As the examples above convey, I have been trying to achieve two goals with my work. On the one hand, move the traditionally quite abstract academic literature on optimal taxation a bit closer to the issues that have dominated the real-life policy discussions in the recent past. On the other hand, perhaps also inject some rigorous science into the public debate about taxes. I think this aligns very well with the objectives of the UBS center, and I hope we will be able to expand on it in the future. I sense a lot of interest from policymakers and the business community in nonpartisan, policy-relevant research if we make the effort to communicate it.

You spent the past 11 years living, studying, and working in the U.S. What drew you to Switzerland and the University of Zurich?

I greatly enjoyed spending such an extended period of my life in the U.S., having first lived five years in Massachusetts and then almost seven years in California. I am sure it has left a permanent mark on me, both professionally and personally. But being originally from Germany, I always had the intention to return to Europe if the professional conditions became sufficiently attractive. The Economics Department in Zurich has made some terrific progress in this direction over the past few years, and I am excited to contribute to this trajectory in the future. In addition, our twin boys were born last year, so now was the perfect time to no longer have a twelve-hour flight between us and our families!

Research

New Researchers

New Affiliated Professor

Nir Jaimovich is a macroeconomist who specializes in studying business cycles and the dynamics of the labor market. He will join the Department of Economics' faculty at Zurich in September 2017. He will be affiliated with the UBS Center.



Professor Jaimovich is an associate editor of the *Journal of Monetary Economics* and the *Journal of Economic Theory*, and a Research Associate in the National Bureau of Economic Research (NBER) Economic Fluctuations and Growth program.

Before joining the University of Zurich, Nir Jaimovich was Professor at USC Marshall School of Business, Duke University, Stanford University, and University of California, San Diego. He has published in the *American Economic Review*, the *Journal of Political Economy*, and the *International Economic Review*, among other journals.

Visiting Professor 2017/2018

Elias Papaioannou will join the Department of Economics at the University of Zurich in September 2017 for a visiting professorship. During his stay, he will be affiliated with the UBS Center.



Elias Papaioannou is Professor of Economics at the London Business School. He is also a research affiliate of the CEPR (Centre for Economic Policy Research) and the NBER (National Bureau of Economic Research).

His research interests cover the areas of international finance, political economy, applied econometrics, macro aspects of regulation, law and finance, and growth and development. He has published in many leading peer-reviewed journals, such as *Econometrica*, the *Quarterly Journal of Economics*, the *Journal of Political Economy*, the *American Economic Review*, and more.

Scholarships

New UBS Scholarship Holders 2017

We are happy to announce that the 2017 UBS Center Scholarships were awarded to four outstanding young talents.

The scholarship recipients were selected from several hundred applicants to the Zurich Graduate School of Economics (ZurichGSE). Two of our new doctoral students obtained their Master's degree in Economics from Bocconi University in Milan, Italy: **Chiara Aina** from Italy and **Christian Decker** from Germany. **Ante Malencia** from Croatia holds a Master's degree in mathematics from the University of Zagreb and is currently completing a Master's degree in Economics at the University of Zurich. Last but not least, we welcome **Julian Teichgräber** from Germany to the Center. He holds a Master's degree from the London School of Economics.

The four of them will join the Zurich Graduate School of Economics at the University of Zurich in September 2017. We wish them great success with their studies and look forward to welcoming them to Zurich.

Research

Feature

Fake News and Propaganda How Governments Distort News Coverage

There is a thin line between news bias, fake news, and propaganda. Just look at the current debate about manipulation of the media in the U.S. While mass media is believed to play a powerful role in democracies, the ability of the media to perform its prescribed role as the “watchdog” has been questioned.

David Yanagizawa-Drott, Professor at the University of Zurich, provides new insights to this problem by addressing the question about government distortion and news coverage bias in several research projects. Two of them focus on government distortion in the U.S. using data from the cold war. A third project aims at understanding the mechanisms of propaganda, providing evidence from the Rwandan genocide.

Government distortion and news bias in the U.S.

The United States have always been very proud of their media system that mainly consists of independently owned media. Accordingly, U.S. citizens consider free speech and a free press a fundamental human right that has to be well protected. In a recently published study, Yanagizawa-Drott and Nancy Qian (Yale University) put the independently owned media in the U.S. to the test and revealed some disturbing insights. Using data from 1946 to 2010, they document that U.S. news coverage of human rights abuses committed by foreign governments was associated with membership in the United Nations Security Council. In fact, the data shows that news coverage of human rights abuses increased for those countries in the UN Security Council that were not politically allied to the U.S. In contrast, membership reduced news coverage of bad behavior for strongly allied countries.

The study provides evidence that government distortion can systematically exist in a highly competitive media market amongst independently owned media. The fact that this can occur in a democratic regime known for media independence suggests that market forces are not always a sufficient guarantee against government influence. However, the findings only apply to the Reagan and Bush Sr. administrations from 1981 to 1992, a period during which the government was known to have actively influenced the press. This suggests that

perhaps government distortion would not have been sustainable over time.

Strategic determinants of U.S. human rights reporting

In a related study, Yanagizawa-Drott – again with Nancy Qian – analyzes U.S. human rights reporting during the Cold War, comparing the U.S. State Department reports to Amnesty International human rights reporting. They argue that trust and reliability are important factors when it comes to choosing between several business partners. An investor, for instance, has to choose between multiple countries for his business transactions. Put yourself in his position. Where would you rather invest your money, in stable countries that uphold human rights or in countries where human rights are being violated? You would probably choose the former, which is in line with the findings of a study on private firms in the U.S. Indeed, researchers found that Foreign Direct Investment decisions correlate with U.S. State Department reports on the levels of human rights violations.

One could argue that using human rights as a determinant of private investment and economic policy is not an obvious cause for particular concern. However, critics of the U.S. State Department have complained that it unfairly biases its human rights reports against countries with opposing ideologies and favors countries that are strategically valuable to the U.S. Hence, the image provided of certain countries may be deliberately distorted. Depending on the extent to which firms and non-government organizations depend on the information provided by the U.S. State Department,

this manipulation might have far-reaching economic consequences,

as Yanagizawa-Drott and Qian point out. The results show that the U.S. and Amnesty International have similar reports for countries not allied with the U.S., and they show that these countries on average do not change over time. In contrast, the U.S. reports describe allied countries more favorably during the Cold War. Interestingly, the distortion ended immediately after the Cold War for those countries that turned into nonallies after the Cold War.



One of the two major Rwandan radio stations, RTLM, provided the most extreme and inflammatory messages.

In sum, both studies make the point that the strategic determinants of biases of primary information sources is an avenue that should be seriously researched. The results suggest that the U.S. may manipulate its reports on foreign countries in order to justify financially supporting allies, which could have far-reaching economic consequences.

Propaganda and conflict

In another study that focuses on the Rwandan genocide, Yanagizawa-Drott takes a different perspective while still concentrating on government distortion and the media. The study on the Rwandan genocide deals with the question on the role of mass media in time of conflict and state-sponsored mass violence against civilians.

Elites in control of autocratic states have repeatedly used mass media – often under their direct control – with the intention of inducing participation in and citizen support of violence against certain groups. Yet it is an open question whether and how propaganda that explicitly encourages violence against a certain group can in fact directly induce violence against that group. In order to address this question, Yanagizawa-Drott investigates the role of mass media in the spread of violence during the 1994 Rwandan genocide by estimating the effects of propaganda disseminated via radio. The radio was the dominant medium for the government to deliver messages to the population.

The results show that the broadcasts led to more violence during the genocide. Furthermore, Yanagizawa-Drott finds that the broadcasts exhibited

positive spillover effects in militia violence, meaning that when propaganda triggered violence in one village, this in turn led to violence spreading to neighboring villages. Finally, the analysis suggests that the radio station caused 10% of the total participation in the genocide, which corresponds to approximately 51,000 casualties.

The study provides evidence that mass media can affect conflict in general and genocide violence against an ethnic minority in particular.

The findings are of significant relevance for the policy debate regarding restrictions on mass media, especially in case of state-sponsored mass violence. The international debate during the Rwandan genocide is illustrative. The U.S. did not approve of interrupting radio broadcasts, claiming that it would impinge on the fundamental human right to free speech and a free press. However, the results of Yanagizawa-Drott's study suggests that many lives could have been saved if the international community had jammed radio signals during the Rwandan genocide.

Methods of distorting the truth

Professor Yanagizawa-Drott's research points to a fundamental problem of our time. Mass media often referred to as the fourth estate, not without reason, as it plays a powerful role in democracies. It reaches an immense audience, and its content can affect a wide range of outcomes, including political behavior such as voting. Of course, bending the truth for political gain is nothing new and the record of its uses stretches back to ancient times. However, while the intentions may remain the same, the communication means have undergone a massive change. The social media revolution allowed people to exchange information on a much greater scale than ever before, while publishing platforms like WordPress allowed anyone to create a dynamic website with ease. It removed the economic barriers for publishing and distributing news almost completely. With the economic barriers removed, 2016 proved a much more fertile breeding ground for fake news than previous years. In light of Prof. Yanagizawa-Drott's findings, that should

Research

Feature

unsettle us. It may seem exaggerated to compare government distortion in U.S. independent media with propaganda during the Rwandan genocide. However, although propaganda and fake news are not the same, they do hold similarities: both are methods of distorting the truth for emotional persuasion, seeking to drive action.

References

Government Distortion in Independently Owned Media: Evidence from U.S. Cold War News Coverage of Human Rights (with Nancy Qian), *Journal of the European Economic Association*, 2017, Vol.15: 2.

Propaganda and Conflict: Evidence from the Rwandan Genocide, *Quarterly Journal of Economics*, 2014, 129(4): 1947-1994.

The Strategic Determinants of U.S. Human Rights Reporting: Evidence from the Cold War (with Nancy Qian), *Journal of the European Economic Association*, P&P, 2009, 7(2-3): 446-457.



Prof. David Yanagizawa-Drott is Professor for Development and Emerging Markets at the Department of Economics, University of Zurich, and Affiliated Professor at the UBS Center.

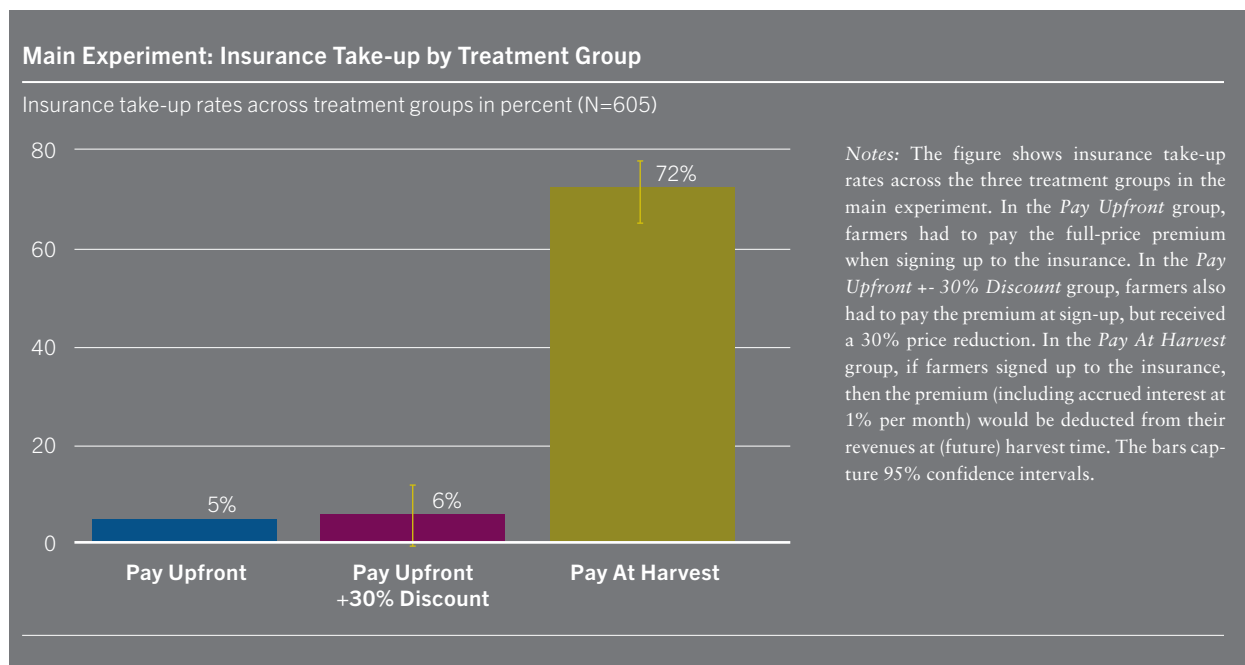
Before joining the University of Zurich, he was an Associate Professor of Public Policy at the Harvard Kennedy School of Harvard University.

He is a member of the Poverty Action Lab (PAL), the Bureau for Research and Economic Analysis of Development (BREAD), and the National Bureau of Economic Research (NBER).

His research interests include political economics and economic development, with current focus on culture, conflict, and globalization.

Publications

Working Paper Series



Time vs. State in Insurance: Experimental Evidence from Contract Farming in Kenya

Working Paper No. 18, December 2016

Lorenzo Casaburi, Jack Willis

In the textbook model of insurance, income is transferred across states of the world, from good states to bad. In practice, however, most insurance products also transfer income across time: the premium is paid upfront with certainty, and any payouts are made in the future, if a bad state occurs. As a result, the demand for insurance depends not just on risk aversion, but also on several additional factors, including liquidity constraints, intertemporal preferences, and trust. Since these factors can also make it harder to smooth consumption over time, and hence to self-insure, charging the premium upfront may reduce demand for insurance precisely when the potential gains are largest, for example among the poor.

Crop insurance offers large potential welfare gains

This paper provides experimental evidence on the consequences of the transfer across time in insurance, by evaluating a crop insurance product which eliminates this intertemporal transfer. Crop insurance offers large potential welfare gains in developing countries, as farmers face risky incomes and have little savings to self-insure. Yet demand for crop insurance has remained persistently low, in spite of

heavy subsidies, product innovation, and marketing campaigns.

The authors show that the intertemporal transfer can help explain low insurance demand, especially among the poor. They test a crop insurance product which removes the intertemporal transfer in a randomized control trial in Kenya. The product is interlinked with a contract farming scheme: as with other inputs, the buyer of the crop offers the insurance and deducts the premium from farmer revenues at harvest time. The take-up rate is 72%, compared to 5% for the standard upfront contract, and take-up is highest among poorer farmers. Additional experiments and outcomes indicate that liquidity constraints, present bias, and counterparty risk are all important constraints on the demand for standard insurance. Finally, evidence from a natural experiment in the United States, exploiting a change in the timing of the premium payment for Federal Crop Insurance, shows that the transfer across time also affects insurance adoption in developed countries.

You can download the Working Papers and Factsheets (summaries of the Working Papers) from our website anytime.
www.ubscenter.uzh.ch/en/publications

Dialogue and Events

Podium

How Migration Is Changing Our World and Why We Have to Regulate it Differently

Chipping away at the many misconceptions surrounding migration is just a first step toward finding viable solutions to this highly charged topic. This was one of the main insights of this year's podium, which took place in Zurich on April 10, 2017.

Following the publication of his book *Exodus: How migration is changing our world*, Sir Paul Collier believed his home country, the UK, was mature enough for a rational discussion about migration. "But I was wrong," he adds at the opening of his keynote address on migration for this year's Podium discussion.

Migration is arguably one of the defining issues of our age, but has becoming increasingly confused and conflated with similar but unrelated matters. Migrants are not refugees, explained Collier: migrants move out of hope for a better life and improved economic prospects to a country of their choosing. Refugees, by contrast, are compelled to leave against their will and are often received by reluctant hosts forcing both parties into an uneasy cohabitation. And while there is a moral duty and obligation to help refugees, there is no automatic or moral right to migrate. People migrate out of self-interest, and this creates so-called "externalities," both in the countries they move to, but even more so in their countries of origin.

Brain drain vs brain gain

While international trade is governed by what we call "comparative advantage," i.e. it benefits both sides, migration is usually an example of absolute advantage, in which the beneficiary is almost always the migrant's adopted home, to the detriment of their native land. Africa hemorrhages skilled labor and suffers capital



Professor Collier is one of the leading experts on migration.

outflows of USD 200bn per annum, twice the amount it receives in aid. At one point, there were more Sudanese doctors in London than in Sudan. A Nigerian engineer chooses to work as a cab driver in New York because he can earn more than as an engineer in Nigeria. The engineer accepts a loss of status, while Nigeria loses valuable skills. Haiti loses 85% of its young educated people, a devastating loss to an already impoverished country. EU expansion has led to greater economic divergence between eastern and western Europe. And yet, most of these losses of vital skills and human resources produce a rise in global GDP, proving what a hopelessly misleading measure of growth GDP is, says Collier.

And what is the impact on the adopted nation? Con-

“There is evidence that excessive, uncontrolled migration reduces social cohesion.”

trary to popular perception it is more social than economic, says Collier.

It makes it less likely that higher earners are willing to make financial sacrifices to help the more disadvantaged members of their own society. In order to preserve social and cultural cohesion, migration needs to be controlled and managed effectively at both ends. Migrants must be absorbed into a shared and common identity, and that means the rate of migration should never exceed the rate of integration, says Collier.

Finding a balance between migration and integration in the adoptive countries and a balance between brain drain and brain gain in the countries of origin would produce a fair and sustainable approach to migration globally, argues Collier. But this requires a willingness to move beyond the emotive and politically charged rhetoric that surrounds this subject. We need to start measuring the impacts of migration in a way that can help us develop policies to control and manage the process to benefits all sides.

You will find more pictures, video recordings, and media coverage of the Podium on our website.
www.ubscenter.uzh.ch

Dialogue and Events

Podium

Panel Discussion: Understanding Migration and Steering it Rationally

Following Collier's presentation, Rolf Dörig, Peter Grünenfelder, and George Sheldon discussed migration as a global phenomenon and the difficulties with regulating immigration at national and international levels.

Peter Grünenfelder, director of Avenir Suisse, commented on Collier's statement about reestablishing normality. He mused that there are currently approximately 215 million people who are moving back and forth.

“Approximately 700 million persons would like to emigrate, primarily to Europe and America.”

Furthermore, prosperity is approximately 50 times higher here than in Africa. These are economic pull factors that can hardly be avoided. How, asked Grünenfelder, could anyone establish normality?

The factor of return migration is ignored

All panel participants agreed that migration is a complex, global phenomenon. There were different opinions, however, with respect to steering mechanisms. Grünenfelder rated Switzerland's migration policies as largely successful and pointed out that the best steering of migration happens with economic development. George Sheldon, professor of labor market and industrial economics at the University of Basel, countered that a migration policy that only focuses on the de-



Sheldon criticized that return migration is largely ignored in the discussion about steering mechanisms.

mand of the economy can be problematic. Individual firms do not consider important external factors when recruiting new labor, which leads to a large labor migration. Sheldon pointed to a general problem in steering migration. Steering usually is based on a fixed migration amount. This depends on two flow factors: immigration and return migration. Sheldon criticized that the migration amount is presently only calculated based on one factor, and that the return migration as an important flow factor is largely ignored.

“The final amount is quite different, however, since not all people remain here,”

says Sheldon. The lower the economic qualifications of the immigrants, the greater is the probability that they will remain, which is due to the earnings differential between the land of immigration and the country of origin.

Integration through work

The speakers shared the opinion, however, that the integration and socialization of the migrants is best accomplished on the labor market. One of the most important measures for preventing social conflict is the avoidance of ghettoization. Switzerland is considered a model country in this respect. Immigration policies limit the isolation of individual ethnic groups and thus support cultural blending. This is of central importance with respect to the current refugee crisis, emphasized Rolf Dörig, president of the board of directors of Swiss Life Holding and Adecco Group. He advocated more intensive humanitarian aid for refugees. Europe must come together on this issue and consider what we can do to attain a normal situation.



Rolf Dörig and Peter Grünenfelder agreed that the labor market is crucial for integration and socialization of migrants.

Dialogue and Events

Podium

Keynote: The Current Migration Policies in Switzerland

The second part of the event focused on the Swiss migration policies. Mario Gattiker, state secretary for migration (SEM), explained in his presentation the international framework of rules in which Swiss immigration policies are embedded, and clarified where the national immigration policies meet their limits.

Gattiker emphasized the importance of the European policy frameworks – in particular the Schengen agreement and the free movement of people – several times in his talk. He himself learned two things in the negotiations with the EU about the free movement of people. First of all, the free movement of people was effectively non-negotiable and secondly that a conflict over the free movement of people cannot attain a political majority.

“The national migration policies have met their limits.”

It would be possible to cancel the Schengen agreement, but not without broad consequences in other areas, for example in the area of security. The free movement of people and Schengen are reciprocal rules, continued Gattiker, while clarifying how Switzerland also benefits from the convention. He pointed to the half million Swiss who work or study in Europe, and who benefit, for example, from the coordination of social insurance policies or the recognition of professional diplomas.

Migration policy merely fights symptoms

“Migration policies will not solve the world’s problems,” reflected Gattiker. They are purely a way to fight symptoms. As an example, he cited the largest group of migrants that is currently landing Italy and that are not considered refugees in accordance with the Geneva Convention. These are people from Guinea, one of the richest lands in the world in terms of raw materials. The Guineans leave their country because the creation of value from the aluminum ore bauxite, which is mined extensively in Guinea, largely takes place abroad. All that remains behind is a crater from bauxite mining and a corrupt regime that pockets any remaining assets. Switzerland has a good solution for this problem with an accelerated procedure for processing asylum rights. This is the reason why so few Guineans are in Switzerland. But that obviously does



The Swiss state secretary for migration (SEM) made a strong case for coordinated European policies.

not solve the problem in Guinea, added Gattiker critically.

Switzerland is an exemplary country of immigration

Gattiker saw no acute need for action with respect to Swiss migration policies. Switzerland is, behind Luxembourg, the OECD land with the second highest immigration rate. “10% of the inner-European mobility is mobility into Switzerland,” specified Gattiker. The characteristics of Swiss migration policies are a recipe for success. This is a demand-oriented immigration, which has large advantages. In comparison with the European average, Switzerland has, with 17%, only half as many overqualified persons. A Nigerian engineer driving a taxi in Switzerland is an exception here. This is also a result of the strategy that the Swiss Federal Council already announced five years ago, stating that Switzerland did not want to contribute to the global brain drain. An additional factor of success for the Swiss migration policies is the deterrence of salary and social dumping. There would be no acceptance in the population if immigration would endanger salary and work conditions; the associated measures with the free movement of people agreement are thus important.

The integration potential of Switzerland is high

In the last part of his speech, Gattiker pointed to the basis of the Swiss success story that manifests itself in the democratic legitimacy of the migration policies. The Swiss populace explicitly agreed to the free movement of people three times, and the revised refugee asylum law was approved by 68% of the populace. Indeed, the Swiss integration potential is high, emphasized Gattiker. There are areas, however, where action is required, he conceded, for example in the area of social cohesion, in the use of potential that is already in the country, and in urban and regional planning.

Dialogue and Events

Podium

Panel Discussion: A New Migration Policy for Switzerland

Gattiker's presentation was followed by a stimulated and at times heated discussion between Reiner Eichenberger, Bruno Sauter, and Gattiker himself. In particular Reiner Eichenberger, professor for the theory of finance and economic policy at the University of Fribourg, expressed his displeasure with Gattiker's statements.

Eichenberger criticized Gattiker's comments on the report of the Swiss Federal Council on the costs of immigration. According to Eichenberger, the report is based on false calculations, and the claim that immigration does not produce any costs is plainly wrong. He mentioned the scarcity of infrastructure and land, as well as a conflict of goals with respect to CO₂ policies. "It is no longer beneficial for the populace to demand a high quality of location, because the quality of location is practically obliterated by the high immigration rate," commented Eichenberger.

People searching for jobs are disadvantaged

Bruno Sauter, general director of the Office for Economy and Labor of the Canton of Zurich, also put Gattiker's positive balance on Swiss migration policies into perspective. He pointed to the difficult situation of people searching for jobs who acutely experience the problems of immigration. According to Sauter, the difficulties stem from differentiating between the effects of immigration and the structural changes in the economy. The potential for conflict is large. Sauter cited statistics on job seekers in Zurich. In addition to the 40,000 persons seeking jobs, of which 25% have low qualifications, there are up to 9,000 refugees with an average of seven years of elementary schooling who also must be integrated into the labor market. The labor market cannot absorb them.

The state secretary for migration showed understanding for this problem, but also pointed to the many advantages that Switzerland had through migration. Sauter agreed with Gattiker that the migration steering here generally works well. However, there are certain areas that malfunction, in particular with regard to enforcing the associated measures. He again cited an example from his daily work: A 50-year-old sales employee should earn a salary of CHF 6,900 in accordance with the Swiss Association of Commercial Employees, an amount that no enterprise pays. These are presently all salary dumping cases, said Sauter. If,



Bruno Sauter pointed to several malfunctioning areas in the system.

however, a firm hires a 25-year-old German for the same job, this is not considered salary dumping. This is a side effect of immigration, and the administration must offer solutions in order to avoid effects like this in the future, explained Sauter.

Cure taxes for migrants

In the following discussion with the public, Eichenberger was asked to describe a measure he would favor that would be able to attain a political majority in order to improve the situation. He then presented his idea of a general immigration tax. All migrants would have to pay something between 12 and 15 Swiss francs in the first three to five years in Switzerland. This is not a problem, he explained, as they still pay even less taxes in Switzerland than in their own countries, even though they earn double as much. In the end, the migrants benefit from the high quality of location in Switzerland, which would justify their contribution to the costs for migration. We should not give national assets away, but instead allocate them in such a way that Switzerland has more and create an incentive to attract more foreigners, concluded Eichenberger.



Reiner Eichenberger did not agree at all with Gattiker's positive assessment of Swiss migration policy.

Outlook

Public Lecture & Forum for Economic Dialogue

Lecture “Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty?” on September 21, 2017

The Department of Economics is hosting a public lecture with **Abhijit Banerjee and Esther Duflo**, who will present the latest insights from their research on global poverty.



Esther Duflo is the Abdul Latif Jameel Professor of Poverty Alleviation and Development Economics at the Department of Economics at MIT and a co-founder and co-director of the Abdul Latif Jameel Poverty Action Lab (J-PAL). In her research, she seeks to understand the economic lives of the poor, with the aim to help design and evaluate social policies. She has worked on health, education, financial inclusion, environment and governance.



Abhijit Vinayak Banerjee is currently the Ford Foundation International Professor of Economics at MIT. In 2003 he founded the Abdul Latif Jameel Poverty Action Lab (J-PAL), along with Esther Duflo and Sendhil Mullainathan, and remains one of the directors of the lab. His areas of research are development economics and economic theory.

Furthermore, Professor Banerjee will be the speaker in the UBS Center Seminar on September 20, 2017.

Forum “How to Deal with the Globalization Backlash?” on November 13, 2017

2016 was the year when the basic tenets of globalization were challenged – first in the UK and then in the U.S. – What does its future hold?

The 2017 UBS Center Forum for Economic Dialogue features leading specialists from all sectors to share and debate their latest insights on globalization. The program includes three different sessions:

Morning Session: “Free trade – an idea in decline?”

Afternoon Session: “How to do business amidst the globalization backlash?”

Disputation: “How much globalization do we want?”

Panelists include Laura Alfaro (Harvard Business School), David Dorn (University of Zurich), Kevin O’Rourke (University of Oxford), Beatrice Weder di Mauro (University of Mainz), and others.



Dani Rodrik will present the latest insights of his research on globalization.

This year’s Zurich Lecture of Economics in Society will be delivered by Dani Rodrik, one of the most important political economists of our time. Professor Rodrik is the Ford Foundation Professor of International Political Economy at Harvard’s John F. Kennedy School of Government. His research covers globalization, economic growth and development, and political economy.

The detailed program together with further information on how to register will be available in due course.

www.econ.uzh.ch

The detailed program together with further information on the speakers and how to register will be available in due course.

www.ubscenter.uzh.ch

Outlook

Inaugural Lectures

David Hémous: Innovation and Inequalities

Inaugural Lecture
September 25, 2017, 6:15 pm, University of Zurich



In 2015, David Hémous was appointed to the Assistant Professorship of Economics of Innovation and Entrepreneurship, endowed by the UBS Center. His work is centered on Economic Growth, International Trade, and Environmental Economics. In particular, he has worked on the role of innovation for climate change policies, the long-term growth impact of countercyclical fiscal policy, the labor adjustments to international trade, and the impact of relational contracts on innovation.

Professor Hémous' inaugural lecture will cover the latest insights on innovation and inequalities. The lecture will take place in the main auditorium of the University of Zurich and will be open to the public.

Pietro Biroli: Genetics and Economics

Inaugural Lecture
November 27, 2017, 5:00 pm, University of Zurich

Pietro Biroli is a microeconomist, interested in the early origins and the life cycle evolution of health and human capital. His research aims at understanding the mechanisms through which effective interventions and optimal choices of investment can help promote human development. He was appointed to the Assistant Professorship of Microeconomics, endowed by the UBS Center, in 2015.



In his inaugural lecture, Professor Biroli will explain how genetics and economics are connected. The lecture will take place in the main auditorium of the University of Zurich and will be open to the public.

