

People, Patterns, Power Social Science Research Center Berlin



Articles on: Democracy, law, international relations, human behavior, innovation, social inequality, and education



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Titelfoto:
*Menschen in Bewegung*¹
[Foto: Dieter Biskamp]

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WZB Reports
ISSN 2195-5182

Winter issue 2012/13

Publisher

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This first issue of the WZB Reports contains
articles from previous issues of the quarterly
journal WZB-Mitteilungen and the WZBrief
Bildung, most of which were originally published
in German.

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Page 5: David Ausserhofer

Layout

Kognito Gestaltung, Berlin

Printing

Bonifatius GmbH, Druck · Buch · Verlag,
Paderborn

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The WZB was founded in 1969 by members of the German parliament from all parties. The WZB is funded by the Federal government and the state of Berlin.

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Reaching Out

When the WZB was formally founded in 1969 by members of the German Parliament and established itself as an institute for basic research in the 1970s, one of the core objectives was to strengthen the international dimension of Germany's research in the social sciences. From the beginning, the WZB has had directors from abroad. Ph.D. candidates and post-docs from most continents have been part of research teams, and scores of international guests joined the WZB community for a few weeks, a semester or a sabbatical. Needless to point out that most WZB research is conducted from an internationally comparative perspective and often involves intense cooperation with partners around the globe.

For more than three decades, the institute's quarterly journal *WZB-Mitteilungen* has informed a readership now totaling around 9.000 subscribers about the latest findings of WZB research. The *Mitteilungen* address an audience of academics and experts outside academia who need first-hand information on current research: Experts in politics, business, NGOs and civic organizations, but also individual activists, teachers, and people interested in issues discussed in the political arena. Articles in the journal are concise and over the course of a year cover all main fields of research, representing perspectives from many disciplines: mainly sociology, political science, economics, and the law, but also history, pedagogy, psychology, and neighboring fields.

The *Mitteilungen* are published in German but typically contain one or two articles in English. This pilot edition, completely in English, includes essays from the past four regular issues. We offer it to you like a business card: It's only a token of what the WZB is, but it might lead to more.

Jutta Allmendinger

Estrangement in Diversity

Heterogeneity and the Level of Trust in a Neighborhood

Susanne Veit

In the past few years, many empirical studies proved that ethnic and cultural heterogeneity in society can present a challenge to social cohesion. Based on one larger survey in the USA, the results of which Robert Putnam published in 2007, inhabitants of culturally heterogeneous regions are more socially withdrawn than residents of ethnically homogenous areas. They have fewer friends and are more wary of strangers. They are also more pessimistic about the willingness of others to serve in favor of the community's benefit, for example, to use less water in times of water shortage. Study results also show that real engagement – like voter participation, making donations and volunteer work – is less pronounced amongst residents of ethnically heterogeneous areas than amongst those who live in homogeneous ones.

What are the reasons leading to social withdrawal in heterogeneous communities? In scientific literature, various reasons are discussed for this frequently lower level of cooperation in heterogeneous groups. To begin with, the lower degree of trust and lacking readiness to cooperate in heterogeneous contexts can be explained by individual preferences. When people with different cultural roots consider other things worthy of striving for or maintaining, then the probability of cooperation decreases.

In addition, fears, prejudices and aversion to members of different ethnic or cultural population groups, as well as the tendency to prefer representatives of one's own ethnic group (in group favoritism), endanger social cohesion. Another explanation concerns possible problems considered more frequent or more likely to occur in cooperative projects within culturally heterogeneous groups, like for example, problems in coming to an agreement because of language barriers, different experiences or norms of behavior.

Another hurdle could be reduced social control in heterogeneous communities. The old adage "birds of a feather flock together" can be empirically proven. People tend to maintain contact with other people who are similar. So, most people have friends with a similar social and cultural background. Thus, denser networks in ethnically homogeneous communities exist that enable social control and as a result contribute to ensuring that enough people participate in projects together. Social freeloading – in the sense of profiting from the contribution of others without contributing oneself – is thus not only more easily discovered, and thus a risk to one's own reputation, but is also punished.

Most empirical studies on the subject are based on large national and international surveys. Though surveys are able to determine a frequent and mutual occurrence of two phenomena that cannot only be coincidental; the well-known question of causality – whether the chicken or the egg came first – cannot, on the other hand, be answered with certainty. In addition, in surveys only attitudes, behavioral intentions and past action can be asked about. This information is, however, often distorted. Consciously or subconsciously people often present themselves more positively, or more social, than they really are. This is where experiments offer one way out: scientific examinations in which people are purposefully exposed to varied stimuli (test conditions), whereby other circumstances remain constant. Differences occurring in comments or behavior can be traced back to the various stimuli because of the random assignment of

Summary: Experiments offer evidence that the level of trust is lower in ethnically heterogeneous neighborhoods than in homogeneous ones. The experiments also show that there are reasons for this lower level of trust. The causes, however, are neither a result of ethnic prejudice nor conscious discrimination against members of other ethnic groups. Rather, it is the perception of differences (especially in norms and values) that gives people a general sense of insecurity.

people to the test conditions. The real goal of the measurements is kept hidden from the participants.

We used these advantages of experimental studies in two experiments in order to highlight more closely the relationship between cultural diversity and social cohesion. The first experiment on trust amongst neighbors was part of a Germany-wide telephone survey. Two questions were to be answered. First: Do residents of ethnically heterogeneous districts trust their neighbors less than residents of homogeneous regions? If that is the case, can the lower level of trust be traced back to the perception of cultural heterogeneity? In other words: Can trust in neighbors be negatively influenced by directing the respondents' attention to their cultural heterogeneity? Participants in the telephone interview were asked to guess the probability of their wallet (containing money and their address) with its original contents being returned if they had lost it in their neighborhood. Amongst the approximate 4,000 people surveyed, on average trust in neighbors was neither particularly positive nor negative.

Upon closer examination it was shown, however, that trust varies and that is in the degree of the ethnic heterogeneity of participants' residential district. In areas of greater ethnic heterogeneity, people gave significantly lower estimates of the probability of having their wallets returned including contents. To answer the question of causality of this phenomenon (the question whether ethnic heterogeneity erodes trust rather than other associated characteristics and the assumption that diversity reduces trust and not the other way round – if high trusting people would prefer more homogeneous neighborhoods), the participants were given different details about the composition of their neighborhood. All participants were told: "Places of residence are different. In some locations residents are very similar; in others they are very different from each other." A quarter of those surveyed were left with this very general description of diversity. For all others, the type of diversity was described more precisely.

To one quarter of survey participants, it was added: "...because they come from different countries – some are for example of German origin, some originate from Turkey and others from Italy". For the second quarter, the following comment was added about religious diversity: "...because they have different religious beliefs – some are for example Christians, some Muslims and others Atheists". For the last quarter surveyed, comments were added about the diversity of generations: "...because they belong to different generations – some are for example still very young, some are middle-aged and others are already elderly".

Subsequently, it was analyzed to what extent variations in people's trust were contingent on the mention of different types of neighbors' heterogeneity. It was shown that the reference to neighbors' different countries of origin or different religious beliefs had a slightly negative influence on the trust of those surveyed. When attention was directed toward different stages of life, however, this had no effect on the expressed trust. As noted above, people who actually reside in ethnically heterogeneous areas trust their neighbors less. The causality of this relationship, namely the hypothesis that the perception of ethnic heterogeneity erodes trust rather than other types of diversity, could be empirically confirmed by the additional loss of trust among residents of actually diverse neighborhoods when the ethnic or religious diversity within ones neighborhood was experimentally emphasized.

Now it is entirely possible that this reduced trust in residents of heterogeneous areas rests only on mutual prejudices. Besides that, it is questionable whether expressed trust based on personal attitude says something about real behavior. To address this problem, there was a second experiment. Over 2,000 stamped and addressed letters were dropped on sidewalks throughout Berlin, as if someone had lost them. Two questions were to be addressed. First: In which areas were more "lost" letters picked up by passers-by and deposited in the next mailbox, in ethnically homogeneous or heterogeneous Berlin neighborhoods? Second: Is there a relationship between the return rate of letters from particular religious or ethnic organizations with the religious or ethnic groups in resi-



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dence? To answer the second question, the supposed ethnic or religious identity of both sender and recipient of the letters was thus varied experimentally.

There were four types of letters: letters from an Islamic cultural foundation (religious minority condition) and a Turkish cultural foundation (ethnic minority condition), that were each addressed to a Mr. Kadir Gökdal, and letters from a Christian cultural foundation (religious majority condition) and a neutral, non-descript cultural foundation (ethnic majority condition) that were each addressed to a Mr. Johann Kolbe.

These letters were distributed in equal numbers dropped on sidewalks throughout Berlin. It was recorded how many of the letters were picked up by passers-by and deposited into mailboxes and thus reached their designated recipient. Almost two-thirds (63 percent) of the letters reached their destination. In terms of the question concerning the willingness of forwarding a “lost” letter, it was shown that letters from ethnically heterogeneous areas of Berlin like Tiergarten or Wedding were less frequently forwarded than from ethnically homogeneous ones. The reduced willingness to forward is not only exclusively observed in ethnically heterogeneous areas: In poorer parts of the city, like Kreuzberg or Märkisches Viertel, fewer letters were picked up than in better-off areas; in the East less than in West Berlin.

In terms of the question of the influence of recognizable religious or ethnic affiliation of sender and recipient it turned out: Letters from religious and ethnic minority organizations addressed to a person with immigrant background were forwarded just as often as letters from a Christian or neutral cultural foundation addressed to a person with a German name. In addition, we checked to see if letters from an Islamic cultural foundation were more frequently forwarded from parts of the city in which many residents come from Islamic countries (Arab countries or Turkey). Along those lines, letters from a Turkish cultural foundation dropped in neighborhoods with a high percentage of Turkish residents and letters from a Christian or neutral cultural foundation dropped in parts of the city with a high percentage of German residents without immigrant background could have reached their recipients more often. If this were the case, the preference of representatives of one’s own cultural group could explain the different rate of return from more or less heterogeneous parts of the city. Our results, however, do not confirm this. The letters dropped in Berlin neighborhoods with residents of different ethnic backgrounds were forwarded less frequently, independent of the cultural identity of the sender and recipient.

In total, the results of both experiments show that ethnic heterogeneity in a society weakens social cohesion. This not only affects perception (meaning the expressed trust in neighbors), but also the actual behavior. The lower trust of residents of heterogeneous neighborhoods seems, at least in part, to be justified.

The results also suggest that this phenomenon really is to be traced back to individual perception of religious and ethnic heterogeneity. Evidence on the impact of prejudices or the unequal treatment of representatives of different groups could not, on the other hand, be found. More so, it seems the perception of heterogeneity promotes social withdrawal independent of the counterpart’s cultural identity, thus weakening social cohesion. How this withdrawal can be explained must be examined in future studies. Ultimately – and this is important to emphasize – the results of the second study give occasion for optimism. Without any sort of personal benefit, and independent of the ethnic or religious identity of the sender, passers-by forwarded two-thirds of the lost letters. Thus, one can rely on neighborhood communities.

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Deals with Friends and Strangers Trust in a Cairo Slum

Dietmar Fehr

Economic activities require trust. For example, bilateral trade flourishes when trust is high among participating countries or more people are active on financial markets when trust prevails. Trust facilitates transactions when it is otherwise difficult to enforce rights through formal routes or when certain participants possess less information than others.

In developing countries, formal institutions are often weakly established, if they exist at all. In their place, social ties and networks appear which minimize insecurities, provide access to services and goods, and facilitate transactions. Social networks provide better opportunities to control each other, and members are more apt to adhere to agreements in order to not lose access to it. However, there is one critical disadvantage: Transactions are limited to the members of a network. To carry out transactions beyond the respective network, trust in strangers plays an important role.

In order to better understand the differences and determinants of trust within a social network and toward strangers, we conducted a controlled experiment in Manshiet Nasser, an informal housing area in Cairo. Like many other large cities in developing countries, Cairo is currently undergoing a process of urbanization, which can also be seen in the enormous growth of slums. Manshiet Nasser is one of the oldest and most densely populated areas of this type. It is difficult to estimate the population but it is believed to hover between 400,000 and one million people. Slum dwellers are typically dependent on social networks and rely on mutual solidarity to ensure their daily existence and survival, but the urbanization process is becoming more of a challenge to these systems. On the one hand this process creates new opportunities, which reduce the dependence of individual network members, but a larger network also means less opportunity to control each other.

Residents of various neighborhoods in Manshiet Nasser were recruited for the experiment and asked to bring an acquaintance or friend along who would also participate. With the help of actual social relationships we wanted to vary the social distance between participants in order to more closely observe the effects it had on trust. The participants were not representative of the residents of Manshiet Nasser but did demonstrate how heterogeneous the informal housing area is. The illiteracy rate among participants, for example, was circa 30 percent, while approximately ten percent had received a college education. Only 40 percent claimed to have a regular average income of 12 Egyptian pounds per day (1.40 Euro at the time of the study).

To measure trust in our experiment, we employed a trust game in which we assigned the participants the roles of a principal and an agent. In this game the principal can invest a sum of money with the expectation that the agent reinvests it; however, the principal does not have complete control over the agent's actions, even when he is a friend. The principal can also decide not to invest his starting capital, which would immediately end the game. If he chooses to invest his capital, however, the agent can react in two different ways: If the agent chooses to be cooperative, he returns the bulk of the money to the principal and thus both are better off than without the principal's investment. But he can also decline to reward the principal for his investment and repay only a minimal amount in which case the principal is worse off than when he would have chosen to not invest. The game also involves a twist: If the agent rewards the principal's trust there is a small probability that the principal only receives the

Summary: While strong social ties help individuals cope with the absence of formal institutions, trade is essentially limited to those who are part of the social network. Trust is, however, important to overcome such limitations. This experiment in a Cairo slum compares the determinants of trust toward strangers and people who are close socially. Indeed, trust is higher among people who have a social relationship, explained mainly by expectations and not other factors like other-regarding preferences. However, individuals poorly predict their friends' trustworthiness, leading to a loss in social welfare.

minimal amount back. This means that in such cases, the principal does not know if he was cheated or if he was simply unlucky and the agent had actually intended to reciprocate his trust. Since it is impossible for the principal to enforce repayment, his investment is based on his trust in the agent. On average, trust should be higher among friends, because a principal may rely on shared experience and better information about the agent.

Participants played the game either as a principal or as an agent. In order to measure the effect of social distance on trust, each participant had to make two decisions in his role as principal or agent. That is, a participant played the game once with his friend and once with a stranger whose identity was revealed only at the end of the game. At the end, one of the two decisions was randomly implemented and the participants were paid according to the outcome of their decisions. (They earned an average of 34 pounds, approximately two to three times more than the average daily wage). In addition, expectations and other potential factors which could have an effect on trust were surveyed in a questionnaire.

As a supplement, we measured social preferences in a simple distribution game with a decision maker and a recipient. Each participant received a certain amount of money and had to decide how much he would give to the recipient. Again, the recipient was once the friend and once a stranger. There were also two different set-ups in which the decision maker either remained anonymous or in which his identity was revealed afterwards to the recipient. The results of the distribution experiment showed a high willingness to share money and to help others. On average, participants were willing to give 36 percent of their capital to a stranger and 44 percent of their capital to a friend, even when they were unable to find out where the money had come from. This result indicates a high degree of solidarity. Motives of reciprocity also play a role when the decision makers are non-anonymous and can rely on future transactions. In this constellation, transfers slightly increased again by four percentage points



Who can be trusted? A young man observes garbage collectors (zabbaleen) in Manshiet Nasser, an informal housing area in Cairo, Egypt.
(Photo: Katharina Eglau)

(strangers) and, respectively two percentage points (friend) in the hope that the recipient would act in the same way. This can be regarded as a type of informal insurance, commonly seen in developing countries.

In the first part of the experiment, the trust game, we observed that a decrease in social distance led to more trust. While only 24 percent of the players trusted a stranger, the willingness to trust an acquaintance increased 16 percentage points to 40 percent. The agents showed a high degree of cooperativeness. 55 percent of the agents repaid the investment to a stranger and therefore acted in a cooperative manner. Here, the percentage was also higher when the principal was also a friend (72 percent). Efficiency gains can be only achieved when a principal trusts and invests his money and the agent cooperates, since only then the entire capital is divided. This result was more often achieved when the game was played among friends (28 percent).

Surprisingly, this extent of cooperativeness was not recognized or expected by the principals. They even expected a slightly higher degree of cooperativeness from agents they did not know. However, the difference is not statistically significant and can perhaps be attributed to the fact that the principals did not exactly know what kind of reliability they could expect from a stranger. Trust in unfamiliar agents is more likely explained by social preferences than by expectations.

In comparison, principals more likely followed their expectations when the agent was a friend; i.e. when they believed their friends were cooperating, they were more willing to place trust in them. Other factors such as risk aversion, social preferences or social network characteristics did not appear to have any influence. It seems that principals with precise expectations were more likely to follow their expectations. Overall, however, principals underestimated the cooperativeness of their friends; only 40 percent expected their friends to cooperate, although 72 percent of them were actually willing to do so. If starting from the premise that expectations are more easily influenced than preferences, then there would be a considerable potential to influence expectations in such a way that principals place more trust in the agents so that an efficient result, namely trust and cooperation, could be achieved.

The experiment shows which factors play a role for trust within and beyond a social network if one is unable to perfectly anticipate the decision of the other. A majority of the agents would have cooperated if the principals had trusted them, but the principals do not seem to have realized this. They did not expect their friends to cooperate often enough. The overall result shows that even social relationships do not necessarily transcend information asymmetries. To what extent this result is valid in other contexts remains open.

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(Photo: David Ausserhofer)

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The Regulatory Road Not Taken

The Proposed Financial Transaction Tax in a Historical Context

Roni Mann

In the aftermath of the financial crisis, the need for greater and tighter regulation of the financial sector has become almost a matter of consensus. But the various reform proposals and new legislative measures reflect a tension between two competing conceptions of the problem and potential solutions. On the one hand, there is an emerging conviction that market mechanisms are deeply inadequate for ensuring the proper functioning of the financial system. This view sustains a “substantive” conception of regulation: regulatory measures should be designed to ensure that the financial system fulfills its role in the service of the real economy, including by identifying what specific types of market behavior should be encouraged, impeded, or even prohibited. On the other hand, there is a lingering hold of a “thin” conception that became dominant in the 1980s: this view presumes financial markets to be efficient until proven otherwise, and circumscribes the role of regulation to facilitating market transactions and correcting diagnosed instances of market failure by relatively unobtrusive means. The current European debate on the financial transaction tax (FTT) suffers from a generally unacknowledged oscillation between these conceptions.

Shifting Regulatory Conceptions

Among the various arguments in support of the FTT, it is the economic rationale for it that poses a direct challenge to the faith in market mechanisms. Simply put, the idea is to throw sand in the wheels of the overly-liquid financial markets, increase the cost of transactions, and discourage some forms of market activity. The European Commission’s proposed directive for an FTT (September 2011) indeed explicitly aims to limit “undesirable market behavior”. It is commonly observed that the greatest impact of the tax would be on automated high-frequency trading, for which the 0.1 percent tax rate (or, in the case of derivatives, 0.01 percent) would be more often prohibitive and shrink the market dramatically. The proposal therefore appears to signal a sober departure from the basic commitments that undergirded the massive wave of financial deregulation, which began gradually in the 1970s and continued up until the recent crisis. But the tenets of deregulation are more resilient than they appear.

The central imperative in the deregulatory period was to deepen capital markets and reduce transaction costs, trusting market innovation to produce instruments for spreading and managing risk. This approach carried with it a deep suspicion toward the regulatory measures of the New Deal and branded them as relics of a bygone era. The clearly “substantive” New Deal reforms, which included the establishment of federal deposit insurance and supervisory institutions, and the fundamental structural changes of the industry mandated by the Glass-Steagall Act, had radically altered the relationship between government and the market. By 2007 that legacy was all but dismantled, sustained by a pervasive belief was that only complete markets would lead to the efficient allocation of capital and to long-term economic growth. But the new deregulatory paradigm quickly accommodated the perception that financial institutions could not be entirely left to themselves, giving rise to a new, “thin” conception of regulation. Within this conception, regulation was appropriate only where a default presumption of market efficiency was overridden, and only by “thin”

Summary: Post-crisis proposals for financial sector regulation reflect an unresolved tension between a “thin” and a “substantive” conception of regulation. Tracing these shifting approaches historically – beginning with John Maynard Keynes and the American New Deal – helps understand why the European Commission proposed a financial transaction tax but simultaneously assessed that it would be bad for economic growth. This article was originally published in September 2012.

measures. Thus, proponents of deregulation acknowledged that unencumbered financial markets would tend toward excessive risk-taking due to identifiable incentive problems and information asymmetries, and understood this to justify some supervision and the imposition of capital ratio requirements. The Basel capital accords are the cornerstone of this conception.

By contrast, the proposal for an FTT originally stemmed from a “substantive” conception. John Maynard Keynes first proposed a transaction tax in his famous “casino” passage in the *General Theory* (1936), as a way to restrict stock market speculation. He defined “speculation” in contradistinction to “enterprise”, to denote trading that is not based on the assessment of how the underlying assets would perform in the long run, but on predictions concerning the psychological patterns of behavior of the rest of the market. Often short-term, and disconnected from the perception of real future yield, excessive speculation prevented the stock market from fulfilling its “proper social purpose” of directing “new investments into the most profitable channels.” Key to Keynes’ analysis was the insight that market mechanisms could not resolve the problem, because widespread speculation was precisely the “scarcely avoidable outcome of our having successfully organized ‘liquid’ investment markets.”

Before the 1929 crash, calls to curb stock market speculation had been frequently met with *laissez faire* objections – the earlier version of the “thin” conception. This was especially the case with the attempts to limit “margin trading” – stock purchases financed by broker loans. Early proposals to impose limits on margin trading had been rejected as both arbitrary and paternalistic, that is, illiberal. True, said the members of the New York state government commission following the 1907 panic, the availability of credit for stock trading did increase the volume of speculative trading, and it seemed risky. But how could one distinguish legitimate investment from useless or harmful speculation? As late as 1928, with alarming rises in broker loans, the chairman of the Federal Reserve also refused to intervene, asserting that the Fed was not in a position to judge whether the level of margin loans was too high or too low.

The Roosevelt administration gave a resolute answer to these conceptual and normative issues. Despite objections from Wall Street, the Securities Exchange Act of 1934 authorized the Federal Reserve to impose tight restrictions on margin trading. The terms “speculative credit” and “naked speculation” were made workable by deferring to the discretion of the Fed in setting the precise margin limits. Rather than addressing the concern with market freedom and liquidity, the Congress cast its objectives on substantive economic grounds, focusing on the need to enhance the nation’s productive capacity and to ensure that financial markets fulfilled their social function of channeling resources to productive uses. This confident act of legislation embodied a fundamental shift in the burden of proof: instead of demanding that the regulator defer to markets, a *prima facie* case had been made that financial markets could not be trusted to act as “servants” of the economy, and regulation became the new default rule.

Does the European Commission’s proposal revive this approach? On first glance it appears to espouse a “substantive” conception, stating explicitly that the tax aims to create “appropriate disincentives for transactions that do not enhance the efficiency of financial markets”. However, this is undermined by the Commission’s own impact assessment which forecasts that the FTT would have a negative impact on GDP (1.76 in the long run). The Commission thereby fails to take account of the substantive argument for the FTT, as developed by prominent economists in the late 1980s.

Speculation and Economic Growth

In 1989 both Joseph Stiglitz and Larry Summers concurred with Keynes’ FTT proposal, casting it in the more updated vocabulary of economic efficiency, or social welfare. They have identified that much of what goes on in Wall Street is far from contributing to the stock market’s performance of its ultimate functions, those of “spreading risks, guiding the investment of scarce capital, and



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processing and disseminating the information possessed by diverse traders". Indeed, ongoing increases in "transactional efficiency" – the facilitation of free trade in an ever-growing array of securities – have resulted in an overall reduced efficiency in the allocation of capital. Stiglitz emphasizes that a large part of short-term trading is a wasteful zero-sum game with no social welfare benefits, conducted by people who believe (irrationally) that they can beat the market. Summers' work identifies the harmful, rather than merely wasteful, outcome of "noise trading": trading that is not based on fundamentals (similar to Keynes' "speculation"). Although such trading can act as arbitrage and may correct for mistakes in share prices, patterns of "mistakes" are not random but cumulative, and arbitrage is insufficient to correct them. The result is that market prices become increasingly distant from fundamentals, thereby distorting signals for investment decisions and creating bubbles destined to burst.

While the effects of noise trading on volatility is still debated, the inefficient allocation of resources can hardly be. Both Stiglitz and Summers stress that the financial sector is much too big, and lament the brain-drain from more welfare-enhancing fields into Wall Street. They also point out the troubling effect of short-term trading on the behavior of firms, as corporate managers committed to shareholder value align themselves to the market's attention span, and operate increasingly on shorter horizons of profitability – to the detriment of longer-term projects. These dimensions of the problem have only grown in recent decades, as both the array of traded securities and the size of the financial sector have been expanding, with trading in international derivatives exchanges reaching a turnover of about a hundred times US GDP in 2006.

The gist of these ideas is echoed in part in the current discourse on the FTT. Even strong objectors, such the British House of Lords, have examined closely the question of the economic impact of high-frequency trading, and taken evidence from experts on matters such as spurious liquidity and endogenous dynamics of price bubbles. The presence of such analysis is already a retreat from the "deep markets" dogma. But there remains a puzzle: how is it possible that a measure designed to increase the efficient allocation of capital would have a negative impact on GDP? If the Commission stands behind its statement that the targeted transactions "do not enhance the efficiency of financial markets" then it should have predicted that curbing them would mean less waste, better allocation of resources, improved corporate strategy; in short, increased productivity.

Economic Sense Versus „Fairness“

The prediction of a negative impact on GDP seems to be based, at least in part, on the assumption that the tax would result in increased cost of capital. The premise here is that, like other taxes, the FTT would be a distortion of pre-tax behavior and transactions, which are assumed to provide the efficient baseline. This fails fully to register the point that some forms of market transactions are themselves the cause of inefficiencies, with their reduction via taxation being a contribution to increased efficiency, rather than a "cost" of pursuing various other aims through the tax. Further, while the Commission states that the FTT would reduce "excessively risky" transactions, its impact assessment does not seem to factor the risks of instability in the calculation. If speculation were perceived as responsible for financial instability even minimally, how could the Commission's predictions not take recognition of the devastating impact on GDP that crises themselves tend to have (in 2009 the EU27 GDP took a 4.3 percent hit), and the vast bailout expenditures that often ensue? The impression is that the Commission analysts were compelled to provide a prediction and a number for the foreseen effects of the tax, which translated into ignoring fundamental aspects of the analysis that remain under debate or are hard to quantify.

The very use of the GDP measure for assessing the FTT is not at all obvious. While financial transactions themselves do not register in GDP, brokers' fees do. If the post-FTT decrease in the volume of financial services would show as a decrease of GDP, any analysis that saw some of these services as socially useless

should have expressed some reservation about the merits of GDP in this context. The Commission's reliance on it exhibits the continued force of the "thin" conception, wedded to a presumption of market efficiency.

Failing to take full account of the substantive foundations of the economic rationale for the FTT has appreciably weakened the case for the tax. Most of the advocacy in favor of an FTT is framed not on principled economic grounds but in terms of its revenue-raising potential and, centrally, the need to have the financial sector contribute its fair share to the costs of stabilizing the system. These arguments do not support an FTT specifically, but rather could apply equally to any form of bank levy. Further, they tend to be met by objections from bankers and economists who advance arguments couched in the language of efficiency, while still espousing an agenda of deepening markets and reducing transaction costs. The result, then, is an unfortunate tendency for the debate to be framed in well-worn terms of an ostensible tradeoff between "fairness" arguments and economic sense. No doubt there exist other reasons why the proposal for a Europe-wide FTT has failed so far; but the tepid economic case made for it has not helped.

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Small – But Not Always Weak How a Coalition Without the Powerful Created the International Criminal Court

Interview with Autumn Lockwood Payton

After several years of preparations in the United Nations, a UN Conference of Plenipotentiaries in Rome laid the foundations for an International Criminal Court (ICC). The court can try individuals who committed massive crimes: genocide, war crimes, crimes against humanity and aggression. It came into being not upon the initiative of the most powerful states but rather by the efforts of a coalition of small and middle powers: most EU member states, Canada, Australia, developing and emerging countries, democracies in Latin-America, Asia, and Africa. During the Rome negotiations, two of the five Permanent Members of the UN Security Council, the P 5, gave up their resistance to an independent court and to a prosecutor who can initiate an investigation into crimes without the permission of the Security Council. The Security Council can defer a trial only by a unanimous vote. The Rome Statute which resulted from the conference in 1998 has since been ratified by 119 states, with the U.S., China and Russia among those who do not recognize its jurisdiction. Paul Stoop spoke with **Autumn Lockwood Payton** about the power of less powerful states and how they were able to establish the court ICC that is in operation in The Hague, Netherlands, since 2002.

It was not really a major power that started a new attempt to establish an International Criminal Court in 1989/90: Trinidad and Tobago. What was its role?

Trinidad and Tobago was the agenda-setter. This first-mover power comes from a structural position rather than from power in the classical sense. A small country exercised latent power by getting other states and nongovernmental actors to take on the issue of a permanent court, an idea that lay dormant during the Cold War.

And this small country had its wish fulfilled?

Ironically, the initiator was not successful in the end. Trinidad and Tobago primarily wanted a court to try drug trafficking. This crime does not fall under the jurisdiction of the ICC that was created in Rome in 1998. But at least they got the ball rolling. The suggestion of creating an ICC would have come at some point from someone, probably from some other weaker developing country, but certainly not from one of the Permanent Members of the UN Security Council.

So exercising power may depend on timing, on the situational context?

There was really an important timing element. Agenda-setting does not only depend upon being the first mover but you have to be the first mover at an opportune time. This is what less powerful states have to seize upon. The playing field is not likely to become more even very soon, but I do see that they are getting more creative to get their issues on the agenda.

Over the course of the years smaller states and middle powers formed a coalition, the group of so-called like-minded states. How did its members exercise power during the long negotiations leading to Rome?

Members of this broad coalition headed committees and worked on compromise proposals. Experts of smaller nations played crucial roles, not the least the head of the Preparatory Committee (1996 to 1998) and the presidency of the Committee of the Whole during the Rome Conference. This kind of power lies within the institutions. Powerful states are sometimes not so good at using this kind of power. They usually swing things their way differently. We saw that the P 5 were taken by surprise when the very diverse group of like-minded states started to coalesce. This group was able to say: let's not be stopped by our smaller differences. Instead, we try to agree on a core set of issues that are essential for all of us.

What were the core issues that were decisive for the like-minded states?

Which crimes are going to be tried by the court? What is the role of the Security Council? Most important – and the issue they coalesced around – was the independent prosecutor who would be able to start an investigation as a first step to a trial, independent especially from the Security Council. To make progress around these core issues, they ignored smaller differences of which there were plenty.

When did this coalition gain momentum?

When these cooperating small and middle powers and developing countries realized that the draft statute for the ICC, presented by the Geneva-based International Law Commission, a standing UN commission, did not address these core issues the way they preferred. Then they started to play an active role in the preparatory sessions of 1996 to 1998 which lead to the Rome Conference in the summer of 1998. The fact that these countries had a clear position and were almost ready to go gave them a clear advantage.

What about the traditional strength of the P 5?

We tend to think of the P 5 as a solid block, which it is in a way, since they play a privileged role in world politics. They, for instance, can establish ad-hoc tribunals to try massive crimes. But the P 5 had no intention whatsoever to work together, except for maybe the US and the UK on some issues. This potential powerful block exercised little of its power.

Was the European Union a powerful actor?

It did not negotiate as a political unit. Most of its members joined the like-minded group, but two of its large member states, France and Britain, were sceptical about an ICC beyond control of the Security Council.

Why did the United Kingdom and France change their mind during the Rome Conference?

Of course there were compromises negotiated in Rome: the UK and France got things other members were reluctant about, like the possibility for the Security Council to defer a trial if decided by a unanimous vote – this gives power to the Security Council but actually no veto power for a single member of the P 5. And France got its way with an opt-out clause for a category of crimes over a seven-year period. But overall, these powers had to sacrifice something they really wanted, and that was more Security Council control over the court.



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What made the UK move toward accepting a strong court?

The UK came to the Rome Conference presiding over the EU. There is the expectation that the presidency will push for the position the majority of the Union has. The presidency is not completely bound by it but does take a risk. Insisting on its own position could mean that others might be not so accommodating in the future when negotiating EU issues. The UK's negotiation space was somewhat restricted. Here again we see the power of an institutional setting. Especially if we look at what happened in the EU: the Rome Conference took place right after the Treaty of Amsterdam set forth a common foreign and security policy of the Union – but before the treaty went into force. It would have reflected badly on the presidency if it had blocked the road to a court so many EU members and a worldwide coalition wanted to establish.

Why did France change its position?

France, not being bound by serving as the presidency, was in a better bargaining position than the UK to extract a deal. There were a number of EU negotiations going on at the time: the Agenda 2000 as an attempt to reshape the EU budget, the conclusion of the common agricultural policy and the attempt to trim the agricultural subsidies, talks about the presidency of the European Central Bank with Jean-Claude Trichet as one of the two candidates. France had stakes in all these debates, and in the end, these things were much more important to France than sticking to its original position on the ICC. Also, France wanted to avoid looking like a bad team player in the EU and decided to be more flexible on the ICC and accept a strong, independent court in change for negotiation gains on the European front.

Was there an overt issue linkage?

Issue linkage is very difficult to prove. Governments cannot easily admit giving up a position in exchange for gains on other issues. So you have to conclude from the larger context and find plausibilities. We also should not forget that public opinion in France was clearly in favor of a strong ICC. This made it easier for France to give in. There definitely can be power in polls and public opinion.

Did the NGOs play an important role as well?

There was a network of cooperating NGOs under the label Coalition for an ICC (CICC) that also was powerful. Not so much in getting the UK and France on board, but rather as a valuable resource for expertise and information, especially for smaller delegations in Rome that were not able to attend parallel sessions of committees and working groups. Information is power, so the legal expertise and the sheer amount of man- and womanpower the NGOs offered the smaller delegations definitely were factors of strength.

Do individuals matter?

They can matter, in the context of institutions, procedures, and situations. They matter in their capacity to build coalitions, to negotiate deals, to reach compromises. We talk about people like the Chairman of the Committee of the Whole during the Rome Conference, Canadian legal expert Philippe Kirsch, or about Cherif Bassiouni, Vice-Chairman of the UN General Assembly's Ad Hoc and Preparatory Committees on the Establishment of an ICC in 1995 and from 1996 to 1998.

The Homemade Nobel Peace Prize

Why the European Union is This Year's Winner

Pieter de Wilde

After many previous nominations, the European Union (EU) has finally been awarded the Nobel Peace Prize. The Norwegian Nobel Committee cited the EU's contribution to peace between France and Germany and its influence on successful democratization in Southern, Central and Eastern Europe as the reason behind the decision. Yet, none of these events took place in 2012. Even if we credit the EU with these achievements, the award seems slightly awkward at a time when so many EU citizens are suffering under the harsh austerity measures intended to save the Eurozone. Taking into consideration the EU's long-term achievements and the current Eurozone predicament leads me to ask: Why now?

To answer this question, we need to understand the domestic politics of Norway. Norway is not a member of the EU. It has applied for membership twice, in the early 1970s and the early 1990s. Referendums on membership in 1972 and 1994 were close, and the population was deeply divided on the issue. Both times, votes against membership held a narrow majority, but the issue remained on the political agenda. Ever since the first referendum in 1972, EU membership has continuously been a bone of contention in Norway. Couples divorce, siblings stop talking to each other and flying an EU flag in public easily invites verbal, if not physical abuse. Permanent 'yes' and 'no' movements exist – *Europabevegelsen* and *Nei til EU* – with widespread cross-partisan membership and grass roots organization. Every political party has a clear position on the membership issue: *Arbeiderpartiet* (the labor party) and *Høyre* (the conservatives) are strong supporters of membership, while *Sosialistisk Venstre* (the socialist left), the *KRF* (Christian democrats) and *Senterpartiet* (the agrarian party) oppose membership. Only the liberals (*Venstre*) and the progressive party (*Fremskrittspartiet*) have less outspoken positions.

In the course of polarization of opinions about membership, the EU as a whole has become domestically politicized. Those who favor Norwegian membership continuously praise the EU for everything it does and stands for. To those who oppose membership, nothing could be possibly good or admirable about the EU. It has come to the point where it is next to impossible to enter Norwegian public debate about the EU without first declaring whether you support or oppose membership, after which the other side immediately stops listening. This, obviously, leads to frustration among those with a more nuanced position. In this context, we should understand the comment by the Nobel Prize committee chairman Torbjørn Jagland that "it is entirely possible to respect the role the EU has played for peace without supporting membership."

A five-member committee decides who will receive the Peace Prize. Following the explicit will of Alfred Nobel, this committee is elected by the Norwegian Parliament. The committee consists of former politicians who reflect the political balance of power within parliament. Torbjørn Jagland is a member of *Arbeiderpartiet*, Chairman of the Council of Europe and is a strong supporter of Norwegian EU membership. The other four current members are representatives of *Høyre*, *Fremskrittspartiet*, *Sosialistisk Venstre* and *Arbeiderpartiet*. This means that, of the five members of the Nobel Peace Prize committee, only one represents a party that clearly opposes EU membership. Yet, as the Norwegian public broadcasting company was quick to point out, this member – Ågot Valle (*Sosial-*



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istisk Venstre and former vice president of Nei til EU) – was sick when the committee voted on the prize. In response to questions, she declared that she would not have voted for the EU. Needless to say, this caused public outcry in Norway with the leaders of Sosialistisk Venstre and Nei til EU crying foul play and demanding Jagland's resignation. In this interpretation, Norwegian Eurosceptics were outsmarted by the pro-Europeans.

An alternative, yet equally cynical scenario also emphasizes the importance of timing. It features Eurosceptics as besting pro-European Norwegians. This scenario starts out with the enormous respect many Norwegians have for the Nobel Peace Prize and its laureates. Awarding the EU with the prize might convince many Norwegians of the EU's credentials and make them think more favorably of Norwegian EU membership. Yet, the percentage of Norwegians supporting EU membership is currently at an all-time low. In other words, the question of membership is less contested now than it has been for a long time. The 'no' side has clearly won for the time being. The chance that the Peace Prize would tip the scales towards membership in Norwegian public opinion is therefore very low. So perhaps Norwegian Eurosceptics thought it might not be such a bad idea to give this year's prize to the EU. The main advantage for Eurosceptics is that, if the EU gets the prize this year, it will not get it later when it might matter more in Norwegian domestic politics. Norway's position outside the EU would not be affected and a major weapon in the hands of the 'yes' campaign is forever neutralized.

Both scenarios point to how 2012 is different from the many previous years when the EU was nominated but did not win the prize. In effect, 2012 presented a unique domestic window of opportunity combining the absence of the most outspoken Eurosceptic in the Norwegian Nobel Committee with the comparatively low politicization of the EU in Norwegian public opinion.

Whether the explanation behind the belated awarding of the Peace Prize to the EU is that Norwegian pro-Europeans outsmarted Eurosceptics, or vice versa, does not really matter for the argument of this piece. The point is that the decision leading to the Nobel Peace Prize is an entirely domestic Norwegian affair, highly influenced by the country's party politics and public opinion. At the same time, the prize enjoys global esteem and its laureates are respected far beyond Norwegian borders. Many outside Norway are either unaware that the decision of the committee is a purely Norwegian affair, or they do not mind. Similarly, there is no substantial critical voice within Norway that challenges the way the Nobel Peace Prize is organized. There was just one protest after Barack Obama received the prize in 2008. Fredrik Heffermehl, a Norwegian professor, then brought the case before the Swedish Nobel Committee and demanded that, henceforth, Stockholm should grant the prize, because Norway is too NATO friendly. His campaign failed because the will of Alfred Nobel is very explicit. Following Nobel's wishes, the prize will remain in Oslo, decided by a committee of five people appointed by the Norwegian parliament. The only thing that can be changed is the tradition of electing former Norwegian politicians. Why not demand that all committee members be prize laureates themselves? In one stroke, this would internationalize the Nobel Peace Committee and create yet another incentive to pick worthy laureates. Yet, the Norwegian parliament would have to change its tradition voluntarily. Without any pressure from inside or outside Norway, this is highly unlikely.

If the prize and its committee remain so clearly Norwegian, perhaps the rest of the world should reconsider the esteem it holds for the prize. The Nobel Peace Prize simply reflects the latest fad in Oslo, like the Oscars reflect the latest fad in Hollywood. We can value such a prize and celebrate its laureates, but we should be aware of the particularistic cultural and political background in which it is given.

Tuning the People China's Delicate Balance Between Digital Freedom and Repression

John Keane

James Madison famously remarked that a popular government without popular information, or the means of acquiring it, is but a prologue to a farce or a tragedy. Two decades ago, the government of the People's Republic of China set out to disprove this rule. Rejecting talk of farce and tragedy, its rulers now claim their authority is rooted within a new and higher form of popular government, a "post-democratic" way of handling power which delivers goods and services, promotes social harmony and roots out "harmful behavior" using state-of-the-art information-control methods more complex and much craftier than Madison could ever have imagined.

In contrast to the period of Maoist totalitarianism, the new Chinese authoritarianism does not demand total submission from its subjects. In such matters as the clothing they wear, where they work and which social company they keep, most citizens are mostly left alone by the authorities. Belief in communism is no longer compulsory; few people now believe its tenets and the ruling Party (as a popular joke has it) comes dressed in Nike trainers and a polo shirt topped with a Marxist hat. The regime officially welcomes intellectuals, foreign-trained professionals and private entrepreneurs (once denounced and banned as "capitalist roaders") into its upper ranks.

The Party is everywhere. It prides itself on its active recruitment strategy and its organisations are rooted in all key business enterprises, including foreign companies. The methods of governing are clever. Ruling by means of generalised in-depth controls, or through widespread violence and fear, mostly belong to the past. While the authorities reject both independent public monitoring of its power and free and fair general elections, they actively solicit the support of their subjects.

Protestors are crushed, but also bribed and consulted. Obsessive controls from above are matched by stated commitments to rooting out corruption and the rule of law. There is much talk of democracy with "Chinese characteristics." Top-down bossing and bullying are measured. The regime seems calculating, flexible, dynamic, constantly willing to change its ways in order to remain the dominant guiding power.

Nowhere is this trend more strikingly evident than in the field of information. China first hitched itself to the Web in 1994; the country now has an estimated 500 million users, twice as many as in the United States. Two-thirds of them are under the age of thirty. The Chinese Academy of Sciences reports that in 2008-2009 alone 90 million Chinese citizens connected to the Internet for the first time. The overall size of Internet traffic is expected to double every 5.32 years. What is not officially reported is that the sphere of text messages, bulletin boards, blogs and other digital platforms nurtures the spirit of public resistance to arbitrary power, often with remarkable vigor. According to some estimates, 60 percent of Chinese netizens have used the Internet to express opinions aimed at scrutinising government activities.

Heavy-handed government censorship methods, popularly known as the "Great Firewall of China," are still used frequently to suppress points of view that diverge from the dominant positions formulated by the information office of the

Summary: The People's Republic of China represents a frontal challenge to preconceived understandings of the multi-media communications revolution of our times. It resembles a giant political laboratory in which many crafty techniques are being developed to harness the web-structured media usage and digital resistance of citizens to the controlling dynamics of a new type of authoritarian regime.



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state council (the cabinet) and the propaganda departments of the ruling party. Yet information flows in China are not simply blocked, firewalled or censored. The productive channelling of dissenting opinions into government control mechanisms is a basic feature of the political order. Especially remarkable is the way the authorities treat unfettered online citizen communication as an instrument for improving the ability to govern, as an early warning device, even as a virtual steam valve for venting grievances in their favour.

The co-optation strategy draws upon the efforts of thousands of government employees who post anonymous online commentaries designed to support policies favoured by the Party. There is also a vast labyrinth of surveillance that depends on a well-organised, reportedly 40,000-strong Internet police force. Skilled at snooping on Wi-Fi users in cyber cafés and hotels, it uses sophisticated data-mining software that tracks down keywords on social networking sites such as Xiaonei and search engines such as Baidu, along the way issuing warnings to Web hosts to amend or delete content considered unproductive of “harmony.” A combination of URL filtering with the blanking of keywords labelled as “harmful” or “anti-social” is also a common strategy used to tamper with tens of thousands of websites.

Potentially embarrassing or confidential news is meanwhile filtered through the so-called *neican* system of internal reference reports provided on a strictly limited basis to high-ranking government officials by trustworthy official Party journalists from organs such as the *People’s Daily* and *Xinhua News Agency*. The reporting system is in effect an elaborate surveillance mechanism operated for Party members by Party members. Government officials working in “situation centres” meanwhile watch for signs of brewing unrest or angry public reactions. Reports are passed to local propaganda departments, where action is taken. The 2012 concerted campaign against Bo Xilai and his family shows that state media can be instructed to take a certain line on any particular issue; and that news websites can be told whether or how they should cover the matter, for instance by sensationalising reports in order to silence critics, or by keeping the coverage short, so as to bury it down deep memory holes.

Calls for “discipline” and “self-regulation” are commonplace. So-called “rumor refutation” departments, staffed by censors, pitch in. They scan posts for forbidden topics and issue knockdown rebuttals.

Within the China labyrinth, a pivotal role is played by licensed Internet companies. Bound by constant reminders that safety valves can turn into explosive devices, they use filtering techniques to delete or amend “sensitive” content. Much cleverer tactics are also in use, including efforts by the authorities to draw citizens into a cat’s cradle of suspicion, praise, denunciation and control. The Party state is constantly on the lookout for new and improved ways of governing its population, for instance by means of an elaborate system of government websites designed to interact with their subjects, many of whom have online access.

This makes them prime targets of government appeals. Citizens are encouraged to report anti-government conversations, or recruited as hirelings known as “50-cent bloggers.” They are routinely urged to become “Internet debaters.” There are experiments (as in Guangdong Province) with virtual petition offices, online Webcast forums where citizens can raise complaints and watch and hear officials handle them.

Organized “chats” between the authorities and citizens are flourishing. Such methods – “authoritarian deliberation” is the phrase used by some scholars – come packaged in official assurances about the need to encourage “transparency” and to “balance” online opinions for the sake of harmoniously “guiding public opinion.”

What are we to make of these techniques of repressive tolerance? They certainly confirm the paradoxical rule that the governments of authoritarian regimes are much more sensitive to popular resistance than those of democratic re-

gimes. Looking from the top down, likening the Chinese authorities to skilled doctors of the body politic, some observers wax eloquently about the new surveillance tactics of “continuous tuning” (*tiao*) of the body politic. The simile understates the ways in which the labyrinthine system of unusually well-coordinated do’s and don’ts is backed by pre-digital methods: fear served with cups of tea in the company of censors; reprimands, sackings and sideways promotions; early-morning swoops by plainclothes police known as “interceptors;” illegal detentions; violent beatings by unidentified thugs; disappearances and imprisonment, sometimes (reports suggest) in “black jails” operated by outsourced mafia gangs employed by the authorities.

Proponents of the Communist Party’s Web-monitoring tactics are typically silent about such institutionalised violence. They also overstate the efficiency, effectiveness, and legitimacy of the China labyrinth; the new democratic principle that complex systems of power are prone to failure, “normal accidents” and outright breakdown unless they are subject to mechanisms of open public scrutiny remains a forbidden topic in China. Champions of the China labyrinth also ignore the popular resentments sparked by a regulatory system that treats more than a few subjects as ticklish, or taboo. To put things simply, the Party authorities are opposed to monitory democracy (*jiandushi minzhu*), in the richest sense of free and fair general elections combined with ongoing public monitoring of their power by independent watchdogs.

It is true that many things are permitted: finance, housing markets, sports, and light entertainment inoffensive to the Party leadership’s morals. Yet other subjects are less straightforward. Blanket public criticism of the leading role of the Party and its leading figures is not permitted. Equally taboo is fair-minded analysis of “sensitive” regions such as Tibet and Xinjiang, or “sensitive” topics, such as religion and the past crimes committed by the Party.

Such restrictions breed public resentment and resistance, which (unsurprisingly) is most pronounced within the world of on-line communications. The range and depth of resistance to unaccountable power are astonishing. The regime



Repression. Police in the city of Foshan (Guangdong Province) has confiscated personal computers of illegal internet bars to have them destroyed (August 2010). [Photo: Xie Zhibiao / ChinaFotoPress /Xie Zhibiao/MaxPPP]

comes wrapped in propaganda, but counter-publics flourish. Helped by sophisticated proxies and other methods of avoiding censorship, salacious tales of official malfeasance circulate fast, and in huge numbers, fuelled by online jokes, songs, satire, mockery and code words that develop meme-like qualities and function as attacks on government talk of the “harmonious society.” An early sensational example was the “mud-grass horse” mascot, a mythical animal that fights against Party control of free expression and symbolizes a Web-savvy opponent of regime censorship. Digital media users commonly re-tweet their posts (a practice known as “knitting,” the word for which sounds like “weibo”). Messages easily morph into conversations, illustrated with pictures. The consequence: instantly forwarded posts tend to keep ahead of the censors, whose efforts at removing online material are countered by such tactics as re-tweeted screenshots.

The aggregate effect is that conversations readily go viral, causing large-scale “mass Internet incidents,” as happened (during 2010) when a citizen nicknamed “Brother Banner,” a software engineer in Wuxi, was catapulted into online celebrity overnight after holding a banner that read “Not Serving the People” outside the gate of a local labour relations office to protest its failure to intervene in his pay dispute with his former employer. The banner challenged the Party’s slogan, “Serving the People.” Officials were deeply embarrassed by a one-person protest that won national prominence through the Internet and, eventually, coverage in official media.

The great significance of citizens’ initiatives of this kind is the way they put their finger on hypocrisy. Relying heavily upon networked media, they project locally specific goals that for the moment do not challenge the state’s legitimacy as such but instead call on the government to live up to its promises of “harmony,” to listen and respond to the concerns of citizens in matters of material and spiritual well-being. The upshot is that the authorities now find themselves trapped in a constant tug-of-war between their will to control, negotiated change, public resistance and unresolved confusion. They may pride themselves on building a “post-democratic” regime which seems calculating, flexible and dynamic, willing to change its ways in order to remain the dominant guiding power. Yet they also know well the new Chinese proverb: ruling used to be like hammering a nail into wood, now it is much more like balancing on a slippery egg.

Whether the authorities can sustain their present balancing act, so proving James Madison wrong, seems at least an open question. Within the China labyrinth, the 21st-century spirit of monitory democracy is alive and well. Whether and how it will prevail, probably with Chinese characteristics, against the crafty forces of digital surveillance, is among the global political questions of our time.

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Toward the Two-Thirds Democracy Ways Out of the Participation Crisis

Alexander Petring and Wolfgang Merkel

Political participation is a key component of any democracy. It is not about arbitrary, but liberally designed and guaranteed participation in pluralist competition. Freedom through political participation should be secured against political turf or authoritarian encroachments. Jürgen Habermas has described this phenomenon as a normative as well as a functional co-originality of political and liberal rights. A substantive, and not merely formal, concept of democracy must take the practical reality of these rights into account. The reality is that most Western democracies are currently characterized by asymmetric and declining participation and representation:

Voter turnout is declining – this threatens the core of participatory democracy. Social selectivity of participation increases – this violates the democratic principle of equality. The voter turnout of catch-all parties is in decline, and thus their political integration capabilities are being reduced; this happens in a time when increasingly heterogeneous and fragmented societies are in a greater need of the integrative capacity of catch-all parties. Parties are losing members and thus their roots in a society.

What can be done? In recent years, several antidotes have been proposed against these elements of crisis. We want to take a closer look at four reform proposals:

Strengthening of Civil Society?

A decline of conventional political participation in representative democracies (that is above all participation in elections) could, in principle, be compensated by other forms of direct participation. Referenda, plebiscites, social movements, civic associations, petitions and demonstrations are examples of alternative and complementary non-conventional forms of political participation. Boycotts of certain products or a critical consumer behavior in general are examples of broadly conceived alternative forms of participation.

It turns out that social selectivity of the non-conventional forms of participation is even more substantial than social selectivity of the conventional forms of political participation. For this reason alone, civic associations and initiatives could never be a democratic compensation for the declining (catch-all) parties. Despite many positive participation impulses stemming from civil society, it generally increases the exclusion of the lower classes from the political sphere. While in general elections the middle and upper income groups participate more frequently at times; other civic activities drive a visible divide in participation to the disadvantage of the lower classes. If one includes the overwhelming dominance of well-educated young people in the NGOs to the general participation balance, the social imbalance increases. In simple terms: The growing activities of civil society exacerbate the exclusion “disease” of our democracy instead of healing it. Civil society organizations cannot be a substitute for strong political parties and trade unions; they only can compliment them.

Daring More Direct Democracy?

Are recently reawaken hopes for direct democracy justified? Our empirical knowledge about direct democracy gives us little reason for hope. Referenda produce visibly greater social bias than general elections: The more affluent and better-educated citizens represent “the people” in referenda. Exponents of an elitist democracy argue that this outcome is highly desirable. Irrational decisions by the “incompetent” part of the population are less likely because of this

Summary: Political participation in developed democracies is steadily decreasing. Voter turnout is in decline, social selectivity of political participation is on the rise. The major political parties face the challenge of dwindling membership. Strengthening elements of direct democracy or fostering alternative methods of political involvement are insufficient. On the contrary, these forms of participation are even more prone to exclude the poor and less well educated. What is needed is a broad range of preventive social, fiscal and educational policies which counteract social exclusion of a significant part of the population.



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“natural” selection. The lack of substance of this argument is obvious. Expertise does not automatically indicate a personal orientation for the common good. The better-educated voters represent their self-interests just as much as the less educated represent theirs. This can be seen in referenda on fiscal issues: The most likely outcome in the past has been reduction of tax-rates and public expenditures.

There should be no doubt that referenda can be a participatory enrichment for representative democracies. We should not overlook its legitimating function through direct voting on policies. However, direct democratic procedures cannot in anyway solve the problems of social selectivity within a democratic system; they tend to exacerbate it.

Introduction of Compulsory Election?

Voting in general elections is a form of political participation that generates the lowest social selectivity. Nevertheless, even voting is not free from social selection. The extent of an electoral abstention among different social groups translates into a socio-economic bias – especially when the turnout is low. Compulsory voting is a mechanism, which leads to a high voter turnout and reduces the strong social bias. It has been practiced in many countries in Europe, and exists until this day in: Greece, Luxembourg, Belgium and Cyprus, and worldwide in over 30 countries. We do not need draconian punishments to effectively increase the turnout. In order to make abstention an exception it would be enough to require a small monetary fee or symbolic shaming, such as a record in an appropriate nonvoter register. The very low “costs” of voting explain the high electoral participation of the citizens: A polling place is, at least in Europe, usually within a walking distance, the election process takes a little time to complete and is possible throughout an entire election day without queuing.

In addition, we can expect other positive side effects of compulsory voting. Parties do not have to invest in mobilization campaigns anymore, and instead they can put more emphasis on the content of the campaign. Citizens who were previously alienated from politics are obliged to think about which party they are going to vote on. Compulsory voting becomes, therefore, also a measure of political education. One can argue that one of the basic ideas of proportional electoral system – the Parliament as a representative mirror of the people’s interest’s and values – becomes realized only when all citizens have voted. When only a certain portion of the population casts their votes, it distorts the appropriate representation of “the people”.

But there are also arguments against the introduction of compulsory voting. Perhaps the strongest counter-argument is the encroachment of compulsory voting on individual liberties. Although the trespass is minimal, the problem cannot be entirely dismissed. However, before we postulate that the introduction of compulsory voting equals with the destruction of liberal democracy, it is worthwhile to identify the actual loss of freedom and the associated dangers. Even in a compulsory election, all citizens are free not to choose any party or cast a blank ballot. Ballots with a category of “none of the above” (none of the parties or candidates) exist and existed in some countries.

The actual “loss of freedom” comes down to a loss of merely 30 – 60 minutes of time, the cost of the ballot and the application and execution of absentee voting. These costs to freedom seem negligible when one considers the democratic equality and quality gains by the introduction of compulsory voting. The democratic exchange of goods is: minimal freedom restrictions against considerable equality gains. However, any introduction of a measure limiting any civil freedom should only be decided after an intensive public debate.

Sharpening of Programmatic Profile?

This approach does not focus on procedures and institutions like in the previous cases; instead it focuses on the supply side of the political system, i.e., political parties. Studies have shown that clear programmatic offers of the competing parties have a positive impact on mobilization of the electorate. The more parties differ, the higher is the turnout. In the past three to four decades, the tradi-

tional core constituencies of the parties have dissolved. The lack of parties will is not the only cause explaining the absence of the clear programmatic profile. Differentiation of the social milieu and heterogenization of previously relatively coherent social groups have also made it increasingly difficult for the parties to focus on their core constituency.

Insofar, parties have to deal with considerably more heterogeneous groups of voters, values and interests than thirty or forty years ago; although in recent years they have done relatively little to respond to these changing circumstances. A phrase that Angela Merkel repeated several times before Bundestag elections in 2009 is a clear manifestation of this attitude: "The CDU is liberal, Christian-social and conservative." It is an attempt to occupy the widest political space possible. The fact that there are considerable tensions, inconsistencies, if not incompatibilities between the Social, conservative and liberal orientations is considered acceptable. Uncertain is, however, whether catch-all parties consider it desirable to sharpen their contours. Clear programmatic profiles, for example in the form of concrete (and: constant!) middle range and long term goals would have certainly helped the parties in their efforts to increase voter participation. If voters have the impression they have choices and choose between clearly identifiable alternatives, they tend to engage in elections more intensively.

Perhaps formulation and implementation of such goals would be far more effective than all the legal and organizational reforms of the core democratic institutions taken altogether. Instead of waging a hopeless battle against symptoms, we must address the causes. To change the cause of the divide, first and foremost, we should change the educational, social, fiscal and economic policies. If there was evidence that politics is still able to reduce inequalities, tame markets and exercise a democratic control – in short, that politics can design the economic conditions and not vice versa – part of the citizenry would be motivated to engage politically again, and to politically defend themselves. These days, more and more these citizens have turned away, frustrated and hopeless.

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Digitalizing Urban Lighting

Technological Change Raises Political Issues by Transforming City Spaces

Nona Schulte-Römer

“The digitalization of lighting is picking up speed”, so the press release for the 2012 Light+Building, the world’s leading annual trade fair for lighting in Frankfurt/Main, Germany. Cities and municipalities are already testing so-called intelligent lighting concepts in pilot projects. In such experiments, streets or walkways are minimally lit until a vehicle or pedestrian triggers a sensor signal, thus causing the lights to peak for a brief period. The selection of conceivable systems is large, ranging from presence detectors and video cameras to inter-linked lighting and energy infrastructures that take traffic volume as well as the feed-in of renewable energy sources into account. The main aim of these new lighting concepts is to save energy.

The light emitting diode, or LED, plays a key role in any discussion about the future of public lighting. The beaming chips mark the transformation from electric lighting to electronics. While in traditional light sources gas is discharged or a glowing filament radiates light and heat, solid state lighting technology like LEDs and the organic OLEDs is based on electroluminescence. Diodes are especially advantageous for lighting control and system solutions because they can be gradually dimmed from zero to one hundred percent or quickly switched on and off. In contrast, gas-discharge lamps take minutes until they reach their full level of brightness, therefore making high switching frequencies impossible.

LEDs are also part of the European Commission’s future-oriented lighting solutions as presented in its “Digital Agenda for Europe”. In December 2011, the Commission published the Green Paper “Lighting the Future” to advance the market uptake for solid state lighting products. “Expanding LED lighting is a ‘no-brainer’”, explains Neelie Kroes, the European Commission’s Vice President. “It means more money in your pocket, and a healthier planet.” The new technology also allows the Commission to align its European innovation policy with its climate change policy. After outphasing incandescent light bulbs and high-pressure mercury-vapour streetlamps, LEDs are expected to meet high energy efficiency standards as they are laid out in the European Ecodesign Directive.

The pressure to act is complemented by national and European support schemes and incentives such as the ESOLi (Energy Saving Outdoor Lighting) programme. The initiative for intelligent outdoor lighting systems promises a 64 percent reduction in energy consumption if European cities and municipalities implement “modern street lighting”. German federal ministries have set up grants and awards for municipalities that refit their aging infrastructures with LED technology.

Summary: Recent technical developments serve to promote the digitalization of public lighting. Along with these technical innovations sociopolitical questions arise that reach far beyond such functional aspects as security, or the need for a certain light color or product design. The growing demand for ‘intelligent’ control systems and high-quality light give rise to more general questions: Which criteria should be used to evaluate public lighting, and what is the basis for discussing and negotiating the various concerns?

Despite political support and the impressive developments in solid-state technology, the digitalization of public lighting is not self-evident. The new challenges and chances in the field of public lighting raise political issues in that highly technical province of engineers and electricians. Developing sensor technology and standards for LED products is the key to commercializing innovation. Solving organizational constraints and establishing best practices is the key to the future of public lighting. How should digital electronic systems that light our cities be programmed and managed in the long term without interrupting operations and in view of staff resources and competencies?

The intelligent control of public lighting offers a great energy saving potential. However, the history of public lighting suggests that energy efficiency has never been the sole criteria for appropriate public lighting systems: were that so, the most effective solution would be to just switch off the lights! While those who prefer a dark night sky might support this step, it conflicts with security concerns, urban lifestyles, and economic and sales interests.

Thus, the new options for lighting night-time public spaces raise basic social questions that go beyond technical savvy and skill. Whose sense of security can be compromised under which circumstances to reduce public energy consumption? The new flexibility calls for new considerations and decision-making. While the criteria for switching on the lights between dusk and dawn can be determined quite objectively, 'intelligent' systems concern more heterogeneous needs. Arguments like cost- and energy-efficiency, security aspects and surveillance options now compete with more subjective quests for high quality urban spaces and atmospheres and might conflict with concerns regarding light pollution.

Measuring the value of feeling safe opposed to that of a dark sky is a difficult task. There is no universal solution, nor is there only one method to assess these different aspects of light and their relevance for a particular place. Wherever offices of city planning, city marketing and cultural heritage preservation cooperate with civil engineering authorities and energy providers, the challenge of public lighting exceeds mere technical requirements.

Meanwhile, lighting concepts and master plans have abounded in European cities and municipalities since the 1990s. A WZB survey of 38 large German cities has shown that integrated urban light planning nearly doubled between 2000 and 2010. Such cross-divisional urban policy can improve the perceived quality of urban spaces. However, existing examples differ considerably in scope and success.

"The right light at the right time in the right place", is a goal that lighting designers, city planners, manufacturers and politicians share. But it is not yet clear who is to judge and decide which light is considered to be the best suited one. Light sensitivity varies not just from person to person but also in a cultural sense. What methods should be used to identify the 'right light', and where and when it can be dimmed or even switched off?

Depending on whom you ask, the responses may differ – not only because of the opposing interests of city planners, manufacturers and lighting designers, but also because of their different approaches and their various instruments for producing knowledge.

The European road lighting standard EN 13201, for example, proposes important scientific guidelines for measuring the brightness of public spaces and lighting for various types of streets. The recommendations regarding the photometric values are based on physical and physiological findings like the scientific fact that for the human eye the sensation of brightness is highest in the green spectral range.

While this knowledge about our sight is documented by laboratory experiments, it is generally more difficult to explain other empirical findings such as northern Europeans' common preference for warmer light colors. In our regions, city administrations regularly receive complaints when more efficient –'cold' – street lighting is installed, whereas in southern European countries, lighting manufacturers' sales figures reveal greater acceptance for cold white light. Although the phenomenon has not yet been conclusively explained, the color of street lighting clearly has an effect on the perceived quality of public spaces. This is reinforced by local initiatives that campaign for preserving gas lighting in Berlin and Düsseldorf as a cultural heritage.

From the viewpoint of those concerned, the definition of appropriate light also varies at the local level. An expert workshop, held at the WZB in 2010, revealed



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that lighting designers resort to an expanded repertoire of methodologies in their effort to understand the nighttime habits and needs of residents and tourists, of adolescents and older people. Extensive on-site observations and nighttime tours with resident groups complement photometric calculations. A key to good design is the importance attached to the illumination of public squares, streets, underpasses and parks. Identifying 'scary places' or meeting places that should be better lit is as important as information about unused or over-lit spaces where lighting could be reduced.

Sociological studies on the light perception of users of public spaces take a position between scientific knowledge and far broader subjective design practices. The light evaluation EVALUM offers an example. Using an experimental research design, urban geographers at the National Institute of Applied Sciences in Lyon have confirmed the assumption that people feel uneasy with public lighting that focuses on traffic zones only while leaving facades and surroundings in the dark. They found that test persons felt uncomfortable when walking on lit streets and pathways that were surrounded by darkness. The results have implications for the use of LEDs. With the diodes it is technically possible to exactly direct the light flux to selected spaces, thereby saving energy. But with regard to a perceived sense of security and urban atmospheres a certain amount of ambient brightness is desirable – and therefore relevant to the issue of appropriate lighting.

In contrast, another field test showed that the participants did not object and sometimes did not even realize when the street lighting was dimmed in order to save energy. In this case, the discussions only begin when local feedback suggests that light levels could be dimmed below the technical standards as they are scientifically tested in laboratories and negotiated in committees. But who should have the last word? Citizens on the street who do not even notice when the lights have been dimmed and are in favor of environmental protection or experts, including manufacturers, who recommend compliance with standards for traffic safety and visual comfort?

The contestation of lighting practices and conflicts over methods for determining the quality of light in public spaces can be seen as an opportunity with regard to the proposed digitalization of light systems. They raise awareness for the variety of claims and propose an interdisciplinary and cross-divisional development of lighting concepts. New networking platforms also enable and support the productive exchange of ideas. Such a forum is offered by LUCI, the international network of cities, founded in 2002, with its regular meetings where cities present their lighting projects on site and discuss them with manufacturers, researchers and designers.

Looking at a particular urban space, the question of appropriate lighting is as complex as the specific local situation. Public lighting infrastructures can only be linked and controlled when, in addition to the organizational and technical hurdles, urban spaces are also considered as meaningful places that fulfill social functions. Aware of the challenges ahead, light planners and developers are showing an interest in social science research on the nighttime city and the nighttime activities of users of public spaces. "We need sociological research in order to develop scripts for digital lighting solutions", stated a light manufacturer at the 2012 Light+Building. Thus, the digitalization of public lighting also offers a new and challenging field for social and urban studies.

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Hoping for Higher Returns

Tuition Fees Have No Negative Impact on the Attractiveness of German Universities

Marcel Helbig and Tina Baier

For thirty years, attending university in Germany was free of charge. On January 26, 2005, the Federal Constitutional Court overturned the ban on tuition fees in the Federal Higher Education Framework Act, ruling that it violated Germany's constitution, which makes education the preserve of the 16 states, or *Länder*, rather than the federal government. Since then it has been up to each state whether to impose tuition fees. In the wake of the ruling, Bavaria, Baden-Wuerttemberg, Hamburg, Hesse, Lower Saxony, North Rhine-Westphalia, and Saarland introduced fees of up to 500 euros per semester.

The court decision polarized German public opinion, pushing hundreds of thousands of high school and university students into the streets to protest. To this day, the issue of tuition fees continues to figure prominently in almost every state election campaign. Hessen, Hamburg, and Saarland have already abolished the fees again; Baden-Württemberg and North Rhine-Westphalia recently followed suit; and even Bavaria is giving the matter a second thought.

Aside from the question of whether attending university should be free of charge throughout Germany, current debates focus primarily on possible (unintended) consequences of making university students pay for their education. The opponents of tuition fees fear that such fees might keep eligible high school graduates – especially those from families where neither parent has a degree from a university or university of applied science – from entering university.

What Do We Know about the Effects of Tuition Fees?

At this point, we still know very little about the ways in which tuition fees may have influenced the enrollment decisions of prospective students in Germany. There are two studies which suggest that tuition fees tend to deter German high school graduates from going to university. These findings need to be reconsidered, however, due to problems with the survey design and/or the availability of suitable data.

The first of these two studies is a much quoted survey conducted by the Higher Education Information System (HIS) (Heine et al. 2008). The authors asked eligible high school graduates who had already decided against attending university whether the prospect of having to pay tuition was among the reasons for making that decision. This is a problematic approach, however, because putting the question that way provides an opportunity for respondents to retrospectively justify their decision not to go to university by referring to tuition. Based on these data, the authors claim that tuition fees tend to discourage university enrollment, especially among groups who were disinclined to go to university even before the fees were introduced: students from families without a background in higher education and women.

The second study looks at whether the number of first-year university students has declined since the introduction of tuition fees (Hübner 2009). This is an analysis involving aggregate data based on the Federal Statistics Office's annual statistics on first-year university students. Again, findings suggest a slightly negative impact of tuition fees on university enrollment. In this case, it

Summary: The introduction of tuition fees in several German states has not kept eligible high school graduates – including those from families where neither parent has a university degree – from entering universities. There is evidence to suggest that eligible students consider the higher costs to be offset by greater appreciation of their university degree in their future careers.



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is the data base that is problematic. For example, the statistic includes only those students who entered university in the same year they received their university entrance diploma. This means that men are underrepresented, since many still had to complete their mandatory military or community service at the time the data were collected. (Mandatory military service has since been abolished in Germany.) The overall decline may also be due to a decline in the number of those first-year students who do not really plan to pursue a degree but enroll primarily because of the diverse benefits and discounts available to students. Having to pay a 500 euro semester fee meant that strategy was no longer profitable. Reducing the number of such students was a desired, even an intended outcome. (Tuition fees for “lifetime students”, i.e. students who take excessively long to graduate, had been introduced a few years earlier with similar effects in mind.) Since such a decline also leads to a decline in the overall number of first-year students, we may not necessarily conclude that tuition fees have a negative effect on university enrollment. Moreover, essential information could not be taken into account in that study. In the wake of the 2001 “PISA shock”, for example, a number of educational policy reforms were introduced that may also have changed the social composition of the group of individuals eligible for university study in subsequent years – and there are many studies that demonstrate the impact of social background on university attendance. That is why any comparison of German high school graduates’ inclinations to go to university before and after the introduction of tuition fees (or between states that impose fees and those that do not) has to account for a variety of individual characteristics. That, however, was not possible with the data used in the Hübner study.

How Can We Determine the Effect of Tuition Fees?

The effects of tuition fees need to be studied in a longitudinal perspective. Looking at them only at one specific point in time – that is, doing a cross-sectional analysis – fails to take into account the fact that enrollment differences between the various states existed well before fees were introduced. But if these differences coincide with the distinction between fee-charging and non-fee-charging states, they are erroneously interpreted as effects induced by tuition fees. Moreover, as mentioned earlier, possible changes in the social composition of the group of individuals eligible for university study in each state can only be determined in a longitudinal perspective. And finally, the selected method of analysis has to make an analytical distinction between a general national and a state-specific trend regarding the evolution of high school graduates’ intentions to go to university on the one hand and the effects of tuition fees on the other.

The non-uniform introduction of tuition fees in Germany allows us to apply a quasi-experimental research strategy that meets the requirements aforementioned. By applying a difference in differences analytical method (DID, see box for information on this technique) we are able to evaluate the impact of a treatment (in this case, tuition fees) in the various states. This method is often used to evaluate political reforms and is increasingly being applied in social science studies.

Do Tuition Fees Keep Individuals from Entering University?

In order to find out whether the introduction of tuition fees has had a negative impact on students’ intentions to attend university, we used representative survey data collected among high school graduates eligible for university study by the HIS institute in 1999, 2002, 2004, 2005, 2006, and 2008 (*Studienberechtigten-panel*). Not one of our analyses showed a significant decline in respondents’ intention to go to university as a result of tuition fees – neither among respondents generally nor among respondents without a family background in higher education.

So why is it that no such decline can be observed even though the costs of getting a university degree have in fact gone up? A widespread argument among

educational sociologists is that the educational decisions of individuals are the result of a rational decision-making process: The individual weighs the costs, the returns, and the subjective likelihood of successfully pursuing a variety of educational programs and then decides in favor of the one option that will yield the highest benefits relative to the investment. Since the costs of higher education have increased in the seven states that charge tuition fees, the absence of a negative effect induced by these fees can only be explained if we assume that the returns and/or the likelihood of success are expected to offset the higher costs.

Following the logic of this hypothesis, students, if they are actually made to pay for their university education, might expect a higher level of educational quality, and thus both higher returns and a higher likelihood of success. On the one hand, individuals eligible for university entrance might assume that higher levels of quality will increase the likelihood of their completing their degree successfully. On the other hand, they might assume that better quality will raise the signaling value of their degree, thus improving their prospects in the labor market. Moreover, prospective students in fee-charging states might conclude, based on the public debate, that fewer persons will actually take up university study. In their subjective assessment, this might also increase the expected returns of a university degree, assuming that they will face less competition in the labor market for university graduates.

There are two opposing trends that may help explain why negative effects of tuition fees on university enrollment cannot be observed. The higher costs, as a negative factor, could be offset by higher returns and/or a higher likelihood of success, as positive factors. In sum, then, we do not see any effects of tuition fees. Using the HIS data, we could only investigate this hypothesis with respect to returns. (In our opinion, the HIS survey does not include questions that would be suitable for determining respondents' assessment of their likelihood of successfully completing a university program.) Regarding the returns of a university degree, survey respondents were asked to rate their expected career prospects after earning a university degree and after completing an apprenticeship program on a four-point scale. Afterwards, their assessments of both career tracks were compared. If respondents believe their career prospects will be better by earning a university degree than by completing an apprenticeship program, we assume them to expect higher returns of going to university.

Do prospective students in fee-charging states have higher expectations regarding the returns of going to university than their counterparts in non-fee-charging states? The results of our analyses show that prospective students in fee-charging states do indeed have higher expectations regarding the returns of a university degree; as a consequence – the higher costs notwithstanding – their inclination to enroll isn't any smaller than that of prospective students in non-fee-charging states. The positive effect of tuition fees on the expected returns of a university education is especially noticeable among high school graduates from families where neither parent has a university degree – that is, precisely among that group for which a negative effect of tuition fees, and thus a decline in university enrollments, was suspected.

Conclusion: Findings and Open Questions

Using what is currently the most suitable set of data, the HIS *Studienberechtigtenpanel*, and applying an appropriate method of analysis, we were able to examine whether the imposition of tuition fees in several German states has led to a decline in the intention to pursue a university degree among those eligible for university entrance. Our analysis consistently demonstrates that there is no such negative effect of tuition fees on university enrollment. One explanation for this finding is that the introduction of tuition fees tends to raise students' subjective expectations regarding the prospective returns of a university degree. This is especially noticeable among the group of prospective students without a family background in higher education.



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However, our findings should by no means be interpreted as evidence that tuition fees per se do not have a negative effect on university enrollment. Our concern was only with how tuition fees of up to 500 euros per semester influence prospective students' intentions to go to university. Statements regarding the extent to which these intentions may change if tuition fees are raised may not be made based on our findings.

To further qualify our results, it needs to be pointed out that the HIS survey may not be used to study respondents' actual university enrollment but only their intention to enroll. Studies of surveys from previous years, however, suggest a high level of convergence between intention to enroll and actual enrollment: Nearly 95 percent of those who said they were planning to go to university when receiving their university entrance diploma actually wound up doing so within a period of three and a half years.

Another thing that needs to be pointed out is that the migration of prospective students from German states that charge tuition into those that do not could not be taken into account here. The possibility of such migration cannot be ruled out based on the data available. According to two earlier studies, however, interstate student mobility was low even before fees were introduced (BMBF 2010; Dwenger et al. 2009) and has only increased marginally as a result of tuition fees (Dwenger et al. 2009).

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About the method

Difference in differences (DID) is an analytical technique often used to evaluate political measures. It is a quasi-experimental estimation strategy that allows for studying the causal effects of an intervention by making a double pre-post comparison. This type of evaluation becomes possible when the intervention concerned is introduced from the outside (e.g. by passing a law) and non-uniform. Based on the differences in the introduction of the intervention, two study groups are formed: one experimental group (in our case, German states that do charge tuition fees) and one control group (states that do not charge tuition). The experimental design is then used to measure the effect of the treatment (in this case, tuition fees) on the variable of interest (in this case, high school graduates' intentions to go to university) in both groups at the two relevant points in time (before and after the treatment). Based on the assumption that both groups are subject to the same general trends in terms of prospective students' intentions to go to university (independent of whether tuition fees are introduced or not), the control group may be used to represent the hypothetical "what-would-have-happened-if (tuition fees had not been introduced)" scenario.

The Challenges of Measuring Indicators and Benchmarks in Education Are Difficult to Compare Across Borders

Jutta Allmendinger

Demographic development in Europe and the evolving demands on tomorrow's labor markets are putting pressure on the educational system and systems of basic and further education. If individual European countries and Europe as a whole want to remain competitive, then it is essential to improve both the use of educational reserves and the preservation of achieved educational levels through continued education and training. It is also necessary to grapple with emerging problems of fairness that are becoming increasingly clear and are transmitted largely through education and training. When children from low social backgrounds and those from migrant backgrounds are denied a good education, too often they are excluded for the rest of their lives from working society and become dependent on government welfare. We deny them their basic right to education. We fail to enable them to lead a life in which they can decide for themselves how to live in dignity and security.

The OECD and the EU realize that many European nations may lose their competitive edge. Both are executing an important mission through activities in educational policy and are building great momentum that would not be possible at the national level alone. The focus on educational poverty is also welcomed and countervails national trends in funding elites. Although the EU has no mandate to intervene in individual national government affairs, systematic cross-national comparison is probably not altogether ineffective. Hence, the European union developed the "Lisbon objectives" in order to apply these yardsticks and compare the state of education in various EU member states.

The Lisbon objectives are basically built on two different measures of educational achievement: certificates and competencies. Conventionally, education is measured by the duration of a person's school attendance or by the highest degree earned in the educational or training system. New types of data assessing cognitive competencies have recently become available to educational research. This data is gathered through a wide variety of surveys of persons at various age levels. The most well-known is the OECD's Programme for International Student Assessment (PISA), which measures the competencies of 15-year-old students around the world on a broad front. PISA tests have indisputably enhanced the usefulness of international comparisons, because identical tests are administered to children of the same age in each participating country. Who would have dared make statements about whether 10 years of schooling in Germany are comparable to 10 years of schooling in the United States, Finland, or the United Kingdom before these tests were administered?

A major challenge in comparative educational research arises from the fact that measurements of certificates and competencies need not converge. This means that country rankings may differ depending on the concrete standard of measure used. Countries with a high level of poverty in terms of certificates can in fact be countries with low poverty in terms of competence levels. Taking a closer look at the relationship between the two indicators, we confine ourselves to measuring the scope of educational poverty: the percentage of 20- to 24-year-olds who had not completed upper secondary education in 2006 (certificates) and the percentage of 15-year-olds six years earlier, that is, those tested in the 2000 PISA study who do not achieve competence level II.

Summary: Measuring educational outcomes and comparing results of EU member states can contribute to the development of coherent educational policies. But measuring educational achievements may produce results hard to interpret. Some countries score high when one looks at the level and number of certificates, but do not score well when actual competencies are measured. It is not clear yet how the weak connection between these two indicators can be explained.



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[Photo: David Ausserhofer]

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Plotting the member states along these two axes, it becomes evident that the correlation between the two scales is far from perfect. Using the Lisbon benchmarks, four clusters can be identified. Countries with high poverty in terms of certificates and competencies form the worst-case cluster. Most European countries, Portugal and Luxembourg being the most conspicuous examples, appear in this group. Countries with low poverty in terms of both certificates and competencies form the best-case cluster. Only Sweden, Finland Austria and Ireland belong to this minority group. For most European countries, the Lisbon criteria are challenging indeed. The remaining two clusters represent cases of crossover. The United Kingdom has high poverty rates in terms of certificates, but low poverty rates in competencies. Countries with low poverty rates with respect to certificates, but high poverty rates in competencies are Poland and the Czech Republic, among many others.

From the educational sociology and policy-making perspective, the weak connection between these two indicators of educational poverty is intriguing. The first, and most irritating point is that we simply do not know why the connection is so weak. As we understand that both measures capture different individual qualifications, the reasons why they deviate in one country more than in another are thus unknown. The structure of the educational system, teachers' training and the curricula taught could all be possible intervening variables. But we may also observe national adaptation to the Lisbon criteria that is not driven by higher performance at all. Given specific benchmarks, it seems much easier to meet expectations in terms of certificates compared to competencies. Countries simply have to lower the criteria for obtaining a given certificate. Although studying for the test has become increasingly popular, it seems harder to achieve. What we observe may be nothing but "certificate dumping" – exactly the opposite of what the Commission wants to support.

On a different level, these results have implications for matching educational credentials and labor market positions. For example, it is clear that certificates that are simple to measure may work well on some national labor markets, while on others certificates may prove a much less reliable signal of skill levels. The reason is that certificates from some countries have no predictable competence rating behind them and are therefore inappropriate guides for placing people in the labor market. For instance, employers can rarely depend on skill levels or competencies based on certificates from Poland and the Czech Republic. Hence it is necessary to measure actual competencies.

Overall, the relationship between competencies and certificates that also appears at the upper end of educational distribution has not been extensively researched. It seems clear, however, that these relationships call for increased attention from the OECD and other organizations.

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Multicultural Welfare Politics

Immigration Mostly Has No Effect on Welfare Attitudes

David Brady and Ryan Finnigan

In the past 15 years, there has been a surge in migration to the affluent democracies. For example, the percent foreign born more than doubled in Ireland and more than quadrupled in Spain over the last decade – rising to 14.8 percent of the population in Ireland and 10.6 percent in Spain. Of course, the rise of immigration has not been uniform across all affluent democracies. Only 3 percent of Finland and 1.6 percent of Japan were foreign-born in 2005. Even though Germany has a sizable foreign-born population, the percent foreign-born actually declined modestly from 12.9 to 11 percent from 1995 to 2005. The U.S. gets a lot of credit for being a “nation of immigrants,” but new immigrants actually amounted to a greater share of the population in 1996 than 2006. Thus, the most important change might actually be the remarkable diversity in the extent to which affluent democracies have experienced rising immigration.

What are the consequences of this rising immigration for the politics of social policy? Scholars, commentators and politicians have presented a variety of claims for why immigration poses a serious challenge to the generous social policies of Europe and other countries. Our research challenges these claims and ultimately concludes that rising immigration does not undermine the welfare state. We specifically investigate what we call the “public support” for the welfare state – the public’s beliefs, preferences, and attitudes favoring social policies.

The argument that immigration threatens the welfare state has emerged partly because countries with generous welfare states have traditionally been viewed as more ethnically homogenous than countries with weak welfare states. The best example of this is the U.S., with its thin social policies and greater ethnic heterogeneity. Scholars have demonstrated that ethnicity, race and religion were more important sources of identity than social class for Americans at the beginning of the 20th century. While workers in Europe were collectively mobilizing and pressuring governments to expand social insurance and healthcare, American workers were bitterly divided by race and religion. In her influential book *The Color of Welfare*, sociologist Jill Quadagno argues that ethnic and racial divisions constrained the development of the American welfare state. Social policies purposefully excluded racial minorities, and race “became embedded in the state when welfare programs were enacted,” and was the “central social dynamic” shaping the politics of social policy. Even today, Americans are more likely to oppose welfare if they reside in proximity to larger African American populations.

In his book *Why Americans Hate Welfare*, Martin Gilens argues that Americans view welfare as rewarding the undeserving poor, Blacks as lazy and undeserving, and Blacks as the primary beneficiaries of welfare. Gilens demonstrates that these perceptions are reflected in and amplified by the media, which dramatically overrepresents Blacks in depictions of the poor. The implication of this scholarship is that as other affluent democracies encounter the greater ethnic heterogeneity that results from immigration and become more like the U.S., public support for the welfare state will decline. There is already accumulating evidence that rising immigration in Europe has elevated the perception that immigrants exploit the welfare system. Such views that minorities disproportionately benefit from welfare are likely to undermine public support for welfare generally.

Summary: In recent years, there has been increased concern about the consequences of immigration on social policy. One central question is whether rising immigration undermines the public’s belief about and attitudes toward the welfare state. Current research investigating 17 affluent democracies shows that immigration mostly has no effect on public support for the welfare state. There is even evidence that flows of immigration actually increase some welfare attitudes.



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A slightly different version of the argument emphasizes what scholars call “ethnic fractionalization” in preventing solidarity among citizens. Ethnic fractionalization occurs when there is a diversity of ethnic groups, and those groups are sharply split along socio-economic lines and as a share of the population. As mentioned above, scholars have long contended that homogeneity is a key basis of solidarity in and trust of one’s fellow residents. Being the same ethnicity and speaking the same language make class-based solidarity easier and increase the sense of community in people’s minds. According to this line of reasoning, the native-born lack solidarity with immigrants and have a preference for “in-group” members who share cultural customs and physical appearances.

In fractionalized societies, people seem to be less willing to support investments in public goods like public transportation and education. Recent studies show that societies with more ethnic fractionalization have less public spending as a share of the economy. The concern with rising immigration has been that ethnic fractionalization will emerge as society becomes divided into affluent native-born residents and marginalized immigrants forming ethnic and religious minority groups. One of the most prominent accounts within this literature is provided by economists Alberto Alesina and Edward Glaeser’s book *Fighting Poverty in the U.S. and Europe*. They explicitly hypothesize that increased ethnic fractionalization due to immigration will undermine the generosity of European welfare states. According to them, right wing and even centrist politicians will use anti-immigrant rhetoric as tools to dismantle social policies. Ominously, they predict: “As Europe has become more diverse, Europeans have increasingly been susceptible to exactly the same form of racist, anti-welfare demagoguery that worked so well in the United States. We shall see whether the generous European welfare state can really survive in a heterogeneous society.”

Despite mounting claims that immigration undermines public support for the welfare state, a smaller skeptical literature has begun to emerge. Scholars in the skeptical camp point to inconsistencies in the empirical evidence supporting the arguments above. In fact, the first author of this essay authored (with Beckfield and Seeleib-Kaiser) an article in the *American Sociological Review* that showed that there is no association between increased immigration and a smaller welfare state. Others suggest that any tradeoff between ethnic heterogeneity and redistribution is overstated. While the U.S. was traditionally more heterogeneous than Europe, Australia and Canada are much more heterogeneous than Japan – yet public support for the welfare state is significantly lower in Japan than in Australia and Canada. Further, the recent concern with immigration neglects the fact that scholars have demonstrated other more powerful influences on social policy attitudes. If these established influences are the paramount predictors of welfare attitudes, immigration is likely to play a marginal role.

We entered this debate with some expectation that immigration would undermine public support for the welfare state. Our research utilized data on attitudes regarding social policy for 17 affluent democracies in 2006 and 12 in both 1996 and 2006. This public opinion data from the International Social Survey Program (ISSP) was linked with information about the stock and flows of immigration in each country. We assessed six different welfare attitudes about whether people feel it “should be the government’s responsibility to... reduce income differences between rich and poor... [or] provide a job for everyone who wants one... [or] provide a decent standard of living for the old” or remedy unemployment, housing, and healthcare. The analyses controlled for a country’s economy and history of social policy, and the individual’s social class, family characteristics, religion, age, and gender. Our sample included countries with high and low levels of immigration, with booming and struggling economies, and with meager and extensive welfare states.

Our analyses mostly failed to support the hypothesis that immigration undermines public support for the welfare state. The percent foreign-born, annual net migration, and the ten-year change in the percent foreign-born do not have consistent negative effects on welfare attitudes. There is some evidence that the percent foreign-born significantly undermines the specific welfare attitude

that government “should provide a job for everyone who wants one.” However, there is much more evidence showing that net migration and change in percent foreign-born have surprisingly positive effects on welfare attitudes. These two measures of immigration flows are associated with greater support for attitudes regarding retirement, housing, and healthcare especially.

There is even some evidence that the percent foreign-born increases support for attitudes regarding retirement. Thus, the evidence is quite mixed and mostly contradicts the literatures discussed earlier. While some countries with increased immigration have lower levels of support for the welfare state, even more countries exhibit the opposite pattern. For example, net migration amounted to less than one-tenth of a percent of Japan in 2005, and Japan had the lowest level of support for the view that government has a responsibility to provide housing (only 38 percent in favor). By contrast, Spain had the highest level of net migration (5.8 percent) and the highest support for the housing attitude (96 percent).

Why do countries with high immigration flows tend to have higher public support for the welfare state? It could be that immigration increases the perception of higher unemployment and more competition for jobs, and such perceptions tend to trigger support for the welfare state. Scholars have shown that perceptions of immigration as an economic risk or threat are positively associated with a preference for redistribution. Thus, heightened immigration could induce respondents to favor a greater welfare state to compensate for and protect themselves from what they perceive as economic competition from immigrants. Similarly, it could be that immigration flows lead residents to feel vulnerable and insecure. A sense of vulnerability and insecurity could create a perception of unmet societal needs, and lead to a desire for increased welfare state interventions. In fact, our analyses show that net migration is significantly positively associated with a preference for greater welfare spending on health, pensions and unemployment.

Our results challenge much conventional wisdom and many scholars and commentators. In the process, we encourage greater caution with bold claims about the negative effects of immigration or ethnic heterogeneity for welfare states. We show that it is essential to compare a broader set of countries, to examine those countries over time, and to get past simplistic U.S.-Europe differences. We also demonstrate that examining multiple welfare attitudes provides a more informative picture of the effects of immigration. Our research leads us to hypothesize that citizens might have a bifurcated response to rising immigration. On one hand, many citizens will prefer more extensive and generous social policies. On the other hand, there is convincing evidence that rising immigration contributes to anti-immigrant attitudes and support for extremist right-wing political parties. We even suggest that these two outcomes might be compatible for a segment of the population that has less education, is marginally employed or unemployed, and has lower incomes and more insecurity.

In sum, our study shows the value of cross-national survey research on important social problems and challenges facing modern societies. The availability of cross-national survey data and the statistical techniques to analyze such data have increased substantially in recent years. Social scientists are better poised now than ever to provide convincing answers to questions like ours. Ultimately, we find very little evidence that immigration poses a threat to the welfare state. Rather, immigration and ethnic heterogeneity may actually be compatible with generous social policies. Though many politicians and commentators provoke fear by talking about the failures of multiculturalism, these claims have little empirical support. Immigration does not clearly reduce public support for the welfare state and some aspects of immigration seem to increase the public's beliefs in and preferences for social policy.



Ryan Finnigan is a research fellow in the research unit Inequality and Social Policy. His research areas include racial stratification, demography, and urban sociology. His dissertation examines the effects of changes in urban demographic composition, and housing and labor markets on racial/ethnic inequality in homeownership, wages, and health. *(Photo: private)*

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In Focus

New Publications from the WZB

The Power of Numbers **Sebastian Botzem** This history of international accounting is focusing on the case of the International Accounting Standards Board (IASB), originally a small private organization which has become the central regulatory body in international accounting. Sebastian Botzem reveals that cross-border standards have emerged after decades of contest and political bargaining in which public and private actors were engaged, most notably accounting professionals, their associations and professional services firms. His interdisciplinary book focuses on the organizational structures and procedures that enable transnational rule setting in accounting, bringing together organization studies and works on international political economy. The study holds strong arguments for responsibility and transparency: "The financial crisis has made it clear that too much is at stake to leave the rules that determine the definition and distribution of profits to insiders alone". *Sebastian Botzem: The Politics of Accounting Regulation. Organizing Transnational Standard Setting in Financial Reporting. Cheltenham/Northampton: Edward Elgar 2012.*

How Globalization Influences Political Conflicts in Europe **Marc Helbling, Hanspeter Kriesi et al.**

What are the consequences of globalization for the structure of political conflicts in Western Europe? How are political conflicts organized and articulated in the twenty-first century? And how does the transformation of territorial boundaries affect the scope and content of political conflicts? This book sets out to answer these questions by analyzing the results of a study of national and European electoral campaigns, protest events and public debates in six West European countries. While the mobilization of the losers in the processes of globalization by new right populist parties is seen to be the driving force of the restructuring of West European politics, the book goes beyond party politics. It attempts to show how the cleavage coalitions that are shaping up under the impact of globalization extend to state actors, interest groups, and social movement organizations, and how the new conflicts are framed by the various actors involved. *Hanspeter Kriesi/Edgar Grande/Martin Dolezal/Marc Helbling/Dominic Höglinger/Swen Hutter/Bruno Wüest: Political Conflict in Western Europe. Cambridge/New York: Cambridge University Press 2012.*

Bureaucratic Politics inside the European Commission **Miriam Hartlapp, Julia Metz, Christian Rauh**

This article provides a detailed study of how bureaucratic politics in the European Commission can systematically affect the substance of the legislative agenda that makes up European integration. Based on an encompassing description of the bureaucratic policy-formulation process within the Commission, the study shows how the Commission's different elements play off against each other and thereby systematically advantage the lead department and the Secretariat-General. Empirical case studies from a sample of 48 policy formulation processes in the Commission during 1999–2008 illustrate how these structural advantages actually change the political substance of policy proposals. Against additional evidence on an uneven distribution of procedural advantages across the Commission departments, it concludes that bureaucratic politics in the Commission may account for systematic biases on the European Union's legislative agenda. *Miriam Hartlapp/Julia Metz/Christian Rauh: Linking Agenda Setting to Coordination Structures: Bureaucratic Politics inside the European Commission. In: Journal of European integration, 3 August 2012, pp. 1–17, advance access, online: <http://www.tandfonline.com/doi/abs/10.1080/07036337.2012.703663>.*

A New Education Model for Europe **Justin J.W. Powell, Nadine Bernhard, Lukas Graf**

Two cities are models for European education reform: Bologna for higher education and Copenhagen for vocational training. The effects of both reform processes are subject of heated public debates. But what are the shared fundamentals and ideas behind the reforms? Research scholars of the project “Internationalization of Vocational and Higher Education Systems” analyzed European declarations and communiqués from 1998 through 2010 to identify the new principles of European (continuing) education. In the academic journal *Sociology of Education*, the authors describe how European education models compare to German, French, British, and American models. In an innovative way, the parallel European education reforms in higher and vocational education are considered together. *Justin J.W. Powell/Nadine Bernhard/Lukas Graf: „The Emergent European Model in Skill Formation: Comparing Higher Education and Vocational Training in the Bologna and Copenhagen Processes“. In: Sociology of Education, 2012, advance access, online: <http://dx.doi.org/10.1177/0038040711427313>.*



Students in a lecture at the University Hamburg–Harburg: Their studies have been completely changed through the Bologna reform that formed a new European education model. [Photo: picture-alliance]

Excellence Initiative Fails to Produce Diversity **Tim Flink, Jan-Christoph Rogge, Simon Roßmann, Dagmar Simon**

The Excellence Initiative has not reached one of its goals: Universities have barely managed to sharpen their profiles and develop their distinguishing characteristics. A team led by WZB researcher Dagmar Simon came to this conclusion. In the publication *WZBrief Bildung*, the scholars explain that the political demands on and support of the process of developing institutional profiles does not lead to intentional differentiation, but rather to a structural equalization of the universities. The researchers refer to existing qualities that were capable of being built upon – for example knowledge transfer, creative course offerings or the promotion of young scholars. The one-sided concentration on establishing interdisciplinary and interuniversity research corresponds to the usual reputation hierarchy in the sciences: Of all the university tasks, (basic) research is of highest priority for almost all professors. No university in Germany can get around that, if the formation of a profile is to be advanced. *Tim Flink/Jan-Christoph Rogge/Simon Roßmann/Dagmar Simon: (German Universities in Search of their Profiles). WZBrief Bildung 22, June 2012.*

Citizenship Rights in the European Union **Ruud Koopmans, Ines Michalowski, and Stine Waibel**

EU influence on integration policy in European countries is marginal. States grant citizenship rights primarily following national interests and traditions. Whether a government is right or left plays no role in immigrant citizenship rights – more important to their limitation or liberalization is the influence of populist right-wing parties in combination with the number of voters of immigrant background. These are the results of the WZB study “Citizenship Rights for Immigrants” that compares integration policies in ten Western European states between 1980 and 2008. The study is one of the most comprehensive, comparative analyses of the development of immigrant citizenship rights in Europe. *Ruud Koopmans/Ines Michalowski/Stine Waibel: „Citizenship Rights for Immigrants: National Opportunity Structures and Cross-national Convergence in Western Europe, 1980–2008“. In: American Journal of Sociology, 2012, Vol. 118, No. 1, pp. 1202–1245.*

Meltdown in Valhalla Wagner's "Ring" and the Financial Crisis

Steffen Huck

What begins with the borrowing of some capital ends 14 hours later with cataclysmic disaster. It is a drama thousands and thousands in the western hemisphere watch these days – from Seattle to New York, from London to Milan, and from Munich to St Petersburg. Ticket prices are high, although sponsorship money flows in luxuriant quantities hand-in-hand with public subsidies; after all, the show (which originally was intended to be produced only once, the set consumed for ever in the last scene's flames) is notoriously expensive to produce.

The show in question is, of course, Wagner's *Der Ring des Nibelungen*, arguably the greatest and surely the longest piece in the repertoire that the opera houses of the world have to stage in order to be taken seriously. And never more so than now...with Wagner's 200th birthday looming.

In the Ring's first scene a credit relationship is established. Alberich receives some valuable capital from the Rhinemaidens, the Rhinegold, which they did not use for productive purposes, if we put aside the joy of its glimmer. The

transaction is not voluntary but from an accounting point of view this hardly matters. Alberich has some debt-financed capital and the Rhinemaidens have a new 'receivable' (an amount owed to them) in their accounts. But what really matters is that Alberich, an entrepreneurial genius of the highest order, gets the capital moving. In no time, he creates a successful industrial business that generates a massive surplus and he celebrates his success by commissioning the eponymous ring.

Same time, different place. God Wotan's new house, Walhall, is almost finished. Wotan has had a few good times but, right now, is broke. The construction company, Fasolt & Fafner Inc., had feared as much when they accepted Wotan's building contract and, fortunately for them, had insisted on some collateral, which Wotan had somewhat flippantly granted in the form of his sister-in-law, Freia. Freia, for her part, grows, as a sort of hobby, fine apples that play a crucial role in the gods' diet.

At the beginning of the second scene of part one (on the trilogy's eve, as Wagner wanted Rheingold to be known) we see Wotan's wife

Summary: Richard Wagner's „Ring“ tells of several crises. Next to political and marriage crises, a financial crisis features prominently. Wotan is indebted to Fasolt & Fafner and later acquires debt financing from Alberich who himself is indebted to the Rhinemaidens. While there is the danger of domino effects, the only party with assets refuses to avert the crisis through spending. Meltdown ensues.



Not a candidate for a genius grant – not even in zoology: Siegfried. (Photo: picture-alliance/dpa)

Fricka worried about the bills. Insolvency is imminent and so is the fatal loss of Freia. Wotan calls in his fogleman and fixer, Loge, and half an hour later there is a bailout package: Wotan's debt is to be refinanced through a loan from Alberich, an idea the lender meets with some reluctance. However, a little force (which makes for much merriment in scene three) achieves swift compliance. And so Wotan pays off his builders in scene four and moves into his new family dwelling.

Sounds plausible, familiar and financially sound? It is worth examining the main players' balance of accounts at this stage. There are the Rhinemaidens who essentially have made an asset swap and now have, instead of the gold, their claim against Alberich, all of it solid equity. Then there is Alberich, whose accounts look quite formidable in the middle of the first evening. His debits: the ring, the tarnhelm and a giant hoard of gold. The credits: his obligations towards the Rhinemaidens and quite a bit of equity. But an hour later ring, tarnhelm and gold have all been swapped for Wotan's bond. Wotan himself owns his new house but has no equity whatsoever. And, finally, there is Fasolt & Fafner Inc. who have created a substantial

surplus through their own hard labour before the opera's opening chords of E flat major. At the end of the first night they own ring, tarnhelm and the hoard of gold, all of which is covered by a sensational 100 per cent equity. Entrepreneurial conservatism at its most extreme! (It should be mentioned that the firm enters into Fafner's sole ownership after the tragic death of his brother Fasolt, shortly before the end of the first evening.)

What would an auditor say on examining these accounts after the first two hours of the Ring? Fafner Inc. looks solid, the Rhinemaidens already less so. They may not have any debts but their claim on Alberich no longer looks enforceable. The auditors should be seriously worried when examining Wotan with his single (unproductive and completely debt-financed) asset. With a London-style property bubble, yes, he might be all right, but without it, his portfolio would soon be downgraded to junk status. And what about the industrialist Alberich? Only with a gargantuan appetite for risk would one bet on him as it is entirely unclear how he would replace his lost means of production...

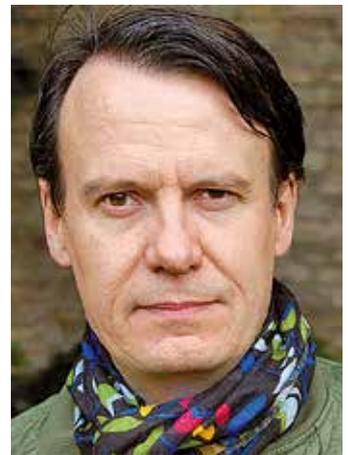
Until not so long ago, the analysis would probably have stopped there but it's 2012 and we have learnt about the dangers of contagion and become afraid of the domino effect. What if the agents in our (liquidity-poor) economy want Wotan to pay up but fear that he cannot? Things would then look bleak not only for him but also for the next domino, Alberich, and if he

were to fall, even the Rhinemaidens would seem precarious. Of course, economists will see the solution and the potential for a happy ending for the Ring, and it's not a complicated one: Fafner just needs to spend, consume or invest, and the show can go on.

Alas, Fafner just sits on his hoard. He saves and saves. We learn about this on the second evening and see it on the third. A time passes and Wotan procreates and his children procreate further (with each other), Fafner's saving habits drive the world ever closer to collapse.

Wotan's last chance is war but he has neither the financial nor political means to start it himself. So he waits for a 'free hero' who will do the deed for him: kill Fafner and free the resources. The hero is Siegfried, and Siegfried does slay Fafner and when he puts the ring on his finger there is a moment of hope. But Siegfried has none of Alberich's entrepreneurial mettle, nor is he director of the IMF. He explores new countries, learns foreign languages, signs contracts, loans the ring and takes it back again; but he does all this aimlessly, without a goal or intent. His negation of economic rationality might make him a rather sympathetic figure in the play but it does lead, during the fourth and final evening, straight into the twilight of the gods. In debt up to his gills Wotan sits and waits for the end that Brünnhilde, his most beloved daughter, finally ignites.

The world goes up in flames and Brünnhilde hands the Rhinegold back to its maidens. By erasing the first scene's loan there is a tiny spark of hope for a new beginning: capitalist Alberich is still alive, of course.



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[Photo: Udo Borchert]

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The Social Science Research Center Berlin (Wissenschaftszentrum Berlin für Sozialforschung, WZB) is housed in the historic building of the Reich's Insurance Council (Reichsversicherungsamt), which was the highest supervisory and legal authority of social insurance of the German Empire. At the end of World War II, the building was severely damaged. The British architects James Stirling, Michael Wilford & Associates renovated the main part of the building in the 1980s and added a complex of colorful annexes inspired by classical forms from architectural history: amphitheater, campanile, stoa, and basilica. When the building was completed in 1988, it was located close to the Berlin Wall. Today, it is part of the vibrant Potsdamer Platz city center. (Photo: David Ausserhofer)