

Should Countries Host the Olympics?

The Impact on Host Countries' Economy, Poverty, and Inequality

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Abstract

This paper researches the effect of hosting the Olympics on the host country's economy, poverty levels, and inequality levels in the ten years after hosting the event. The research is conducted using difference-in-differences and matching methods comparing host countries to countries who bid to host the games but were not selected. The results show that there is no statistically significant impact on economic measures such as Gross Domestic Product (GDP) per capita, Foreign Direct Investment or trade in the ten years after the games. In addition, the research also finds that there is a statistically significant negative impact in the GDP growth rate ten years after hosting. In regard to social implications, the matching results show a statistically significant impact in rising inequality levels of the host countries compared to bid countries, as well as an increase in the poverty gap. The paper concludes by addressing some policy recommendations in order to ensure hosting the Olympics does not lead to an increased inequality.

Keywords: Olympics, economy, inequality, poverty

I. Introduction

Once every two years, the sporting world turns its eyes to the major sporting event that is the Olympics. Alternating between winter and summer events, the Olympics aspire to promote social development, among other principles, through sport.¹ The financial implications of hosting the Olympics are enormous and can be seen as an investment risk. This has been demonstrated through the most recent events of the Covid-19 pandemic delaying the estimated \$12.6 billion (USD) Tokyo Olympics to 2021 and adding \$2.7 billion (USD) to the cost.^{2,3} Notwithstanding this considerable financial risk, countries continue to submit bids to host the games citing both the direct and indirect economic benefits the Olympics will bring. Pairing this economic question with the aspired ideal of the games, the research question for this paper is, "Does hosting the Olympics affect the economy, inequality, and poverty of the host country?"

In 2015 the United Nations introduced their Agenda 2030, and with this agenda, the 17 Sustainable

Development Goals (SDGs).⁴ These 17 SDGs are a way for countries to focus on various aspects of sustainable development by incorporating clear targets set for each goal.⁵ This particular research question directly examines the impacts of the Olympics on SDG 1: No Poverty, SDG 8: Decent Work and Economic Growth, as well as SDG 10: Reduce Inequalities.⁶ As the Olympics state that their values include social development, and countries seek to host the games primarily for the perceived economic growth, it is important to verify if growth does occur and if it does, who in the country is benefitting. SDG 17 is Partnerships for the Goals, which targets utilizing the synergies between the goals while minimizing the negative impact, or "trade-offs."⁷ It is, therefore, important to investigate the impacts of the games on poverty and inequalities for social and sustainable development. These questions are important to investigate for countries that seek to further their development through hosting the games and may not understand the social and economic implications.

2. Research Argument

¹ International Olympic Committee, "Olympic Values & Ideals - Olympism In Action", International Olympic Committee, 2020, <https://www.olympic.org/the-ioc/promote-olympism>.

² International Olympic Committee, "Joint Statement From The International Olympic Committee And The Tokyo 2020 Organising Committee - Olympic News", International Olympic Committee, 2020, <https://www.olympic.org/news/joint-statement-from-the-international-olympic-committee-and-the-tokyo-2020-organising-committee>.

³ Mike Ozanian, "Postponement Of Tokyo Olympics Expected To Increase Games' Cost By \$2.7 Billion", Forbes, 2020, <https://www.forbes.com/sites/mikeozanian/2020/03/25/postponement-of-tokyo-olympics-expected-to-increase-its-cost-by-27-billion/#1af904091b7c>.

⁴ United Nations, "Transforming Our World: The 2030 Agenda For Sustainable Development .. Sustainable Development Knowledge Platform", Sustainable Development Knowledge Platform, 2015, <https://sustainabledevelopment.un.org/post2015/transformingourworld>.

⁵ United Nations, <https://sustainabledevelopment.un.org/post2015/transformingourworld>.

⁶ United Nations, <https://sustainabledevelopment.un.org/post2015/transformingourworld>.

⁷ United Nations, <https://sustainabledevelopment.un.org/post2015/transformingourworld>.

The Olympics have long been subject to debate about whether or not the financial risk and investments do, in fact, pay-off in the future. Previous research has been divided on this argument, with various studies taking different stances.

A paper by Overmyer (2017) concludes that there are overall positive economic impacts on hosting the Olympics through increased foreign investment.⁸ This paper was limited in scope; however, only focusing on the summer Olympic games from 1996 in Atlanta to 2012 in London.⁹ The paper "The Olympic Effect" by Rose and Spiegel (2009) also notes the positive effect of the games, particularly in the area of trade and trade openness.¹⁰ Rose and Spiegel (2009) argue, however, that this increase of trade openness is also shown in countries that bid to host the games but do not win the bid.¹¹ The authors feel that this may be due to the signal this bid sends to the rest of the world about their openness for trade opportunities.¹² Research conducted by Brückner and Pappa (2013) also notes that most of the positive economic impacts occur between two to five years before hosting the games.¹³

8 Michael P. Overmyer, "Economic Impact Analysis On Olympic Host-Cities", Honors Projects 647 (2017), <http://scholarworks.gvsu.edu/honorsprojects/647>.

9 Overmyer, <http://scholarworks.gvsu.edu/honorsprojects/647>

10 Andrew K. Rose and Mark M. Spiegel, "The Olympic Effect", *The Economic Journal* 121, no. 553 (2009): 652-677, doi:10.1111/j.1468-0297.2010.02407.x.

11 Rose and Spiegel, 652-677

12 Rose and Spiegel, 652-677

13 Markus Brückner and Evi Pappa, "News Shocks In The Data: Olympic Games And Their Macroeconomic Effects", *Journal Of Money, Credit And Banking* 47, no. 7 (2013): 1339-1367, doi:10.1111/jmcb.12247.

The findings mentioned above contrast those in a paper conducted by Billings and Holladay (2012), which notes that "regression results provide no long-term impacts of hosting an Olympics on two measures of population, real Gross Domestic Product per capita."¹⁴

Based on the conflicting results from the literature cited above, this research paper hypothesizes that hosting the Olympics will positively impact the economic measures of the host country. This argument is due to the level of competition that surrounds hosting the Olympics, and the literature that has shown positive results, especially in terms of trade openness and foreign direct investment. The hypothesis that hosting the Olympics will positively impact the economic measures of the host country opposes the study by Billings and Holladay (2012) that showed no long-term effects on GDP or population at a city level.¹⁵ This research paper will also aim to fill some of the gaps of previous work by widening the scope to investigate both the Summer and Winter Olympic games from 1950-2008. Additionally, this paper hypothesizes that the inequality and poverty levels of the host country will be negatively affected as any benefits that are observed would be observed by businesses and investors in the country and would, therefore, raise inequality and effect the poverty levels of the country.

3. Research Design

14 STEPHEN B. BILLINGS and J. SCOTT HOLLADAY, "SHOULD CITIES GO FOR THE GOLD? THE LONG-TERM IMPACTS OF HOSTING THE OLYMPICS", *Economic Inquiry* 50, no. 3 (2012): 754-772, doi:10.1111/j.1465-7295.2011.00373.x.

15 Billings and Holladay, 754-772

In order to determine if hosting the Olympics affects the economy, inequality, and poverty of the host countries, a series of tests will be conducted utilizing difference-in-differences methodology as well as matching. Data for the research will be analyzed for years 1950-2018, encompassing sixteen different Olympic games (Figure 1).

Utilizing the difference-in-differences method, the effect of hosting the Olympic games will be compared between a control group and a test group. The control group for the research will be comprised of countries that submitted a bid to host the Olympics but were not successful. The test group for this research will be comprised of the host countries for the Olympics. Data on the host countries and bid countries was compiled from both the Olympic Games website and a Game Bids website.^{16,17}

The bidding process generally begins around ten years before the games, subsequently, data will be analyzed from ten years before each Olympic event, to ten years post the event.¹⁸ Data from 1950-2018 will be included in the analysis, standardizing the time for each event so that they can be compared.

For example, for the games held in 1968, the year 1958 will be given the value of -10, 1968 will be given the value of 0, and 1978 will be given the value of +10. The decision to begin the analysis for the 1968 games

16 International Olympic Committee, "Olympic Games | Winter Summer Past And Future Olympics", International Olympic Committee, 2020, <https://www.olympic.org/olympic-games>.

17 "Past Bid Results | Gamesbids.Com", Gamesbids.Com, 2020, <https://gamesbids.com/eng/past-bid-results/>.

18 Billings and Holladay, 754-772

was due to the uncertainty of the data surrounding World War II and the years that followed.

The following equation (1) was utilized for the difference-in-differences method regression, derived in the Annual Review of Public Health by Wing et al. (2018), and modified for this study.¹⁹ The variable Y_{gt} is the interested outcome for the country (g) and time period (t).

$$Y_{gt} = \beta_0 + \beta_1 H_g + \beta_2 T_t + \beta_3 (H_g \times T_t) + \beta_4 P_{gt} + \epsilon_{gt} \quad (1)$$

The outcome variables tested will include the GDP per capita, the growth rate of GDP as a percentage, the amount of trade as a percent of the GDP, foreign direct investment, the Gini coefficient for inequality, and the poverty gap. The data for each of these variables will be obtained from the Quality of Government Institute.²⁰

The variable H in equation (1) represents a dummy variable for whether or not the country is a host country, and the variable T indicates the treatment period or years from +1 to +10. The coefficient β_3 is the value in question, as this will determine the

19 Coady Wing, Kosali Simon and Ricardo A. Bello-Gomez, "Designing Difference In Difference Studies: Best Practices For Public Health Policy Research", Annual Review Of Public Health 39, no. 1 (2018): 453-469, doi:10.1146/annurev-publhealth-040617-013507.

20 "Qog Standard Data - QOG, University Of Gothenburg, Sweden", Göteborgs Universitet, 2020, <https://qog.pol.gu.se/data/datadownloads/qogstandarddata>.

difference-in-differences effect of the host country and treatment time on the outcomes tested.

Population was added as a control as the population of a country can impact the GDP growth

In equation (1) a control variable was added, P_{gt} which represents the population of the host country.

Table 1: Olympic Bid Countries and Host Countries Analyzed ^{21,22}

| Year of the Olympics | Bid Countries | Host Country |
|----------------------|---|--------------|
| 1960 Summer | Belgium Hungary Switzerland | Italy |
| 1960 Winter | Germany Pakistan | USA |
| 1964 Summer | Belgium | Japan |
| 1964 Winter | Canada Finland | Austria |
| 1968 Summer | Argentina | Mexico |
| 1968 Winter | Canada Finland Norway | France |
| 1972 Summer | Canada Spain | Germany |
| 1972 Winter | Finland | Japan |
| 1976 Summer | | Canada |
| 1976 Winter | Finland Switzerland | USA |
| 1984 Winter | Japan Sweden | |
| 1988 Summer | Japan | Canada |
| 1988 Winter | Italy Sweden | South Korea |
| 1992 Summer | Netherlands United Kingdom | Spain |
| 1992 Winter | Bulgaria Italy Sweden West Germany | France |
| 1994 Winter | Bulgaria | Norway |

21 International Olympic Committee, <https://www.olympic.org/olympic-games>

22 "Past Bid Results | Gamesbids.Com", Gamesbids.Com, 2020, <https://gamesbids.com/eng/past-bid-results/>.

| | | |
|-------------|---------------------|-----------|
| | Sweden | |
| 1996 Summer | United Kingdom | USA |
| 1998 Winter | Sweden | Japan |
| 2000 Summer | Brazil | Australia |
| | Germany | |
| | Turkey | |
| | United Kingdom | |
| | Uzbekistan | |
| 2002 Winter | Austria | USA |
| | Russia | |
| | Slovakia | |
| | Spain | |
| | Sweden | |
| | Switzerland | |
| 2004 Summer | Argentina | Greece |
| | Brazil | |
| | France | |
| | Russia | |
| | South Africa | |
| | Spain | |
| | Sweden | |
| | Turkey | |
| 2006 Winter | Austria | Italy |
| | Poland | |
| | Slovakia | |
| | Switzerland | |
| 2008 Summer | Cuba | China |
| | France | |
| | Japan | |
| | Malaysia | |
| | Spain | |
| | Thailand | |
| | Turkey | |
| 2010 Winter | Austria | Canada |
| | Bosnia- Herzegovina | |
| | South Korea | |
| | Spain | |
| | Switzerland | |

rate, poverty, and inequality of a country, but hosting the Olympics has not proven to have an impact on

population or population growth.²³ Lastly, the term ϵ_{gt} represents omitted variable error in the equation.

Utilizing this difference-in-differences method, regressions will be run for each of the outcomes in question. Additional regressions will then be run with an added dummy variable, as shown in equation (2).

The term S_g is an additional dummy variable where 1 indicates Summer Olympic events and 0 Winter Olympic events.

Table 2: Variables

These tests will be run to determine if there is a significant difference in the outcome when data is segregated between winter and summer events.

$$Y_{gt} = \beta_0 + \beta_1 H_g + \beta_2 T_t + \beta_3 (H_g \times T_t) + \beta_4 P_{gt} + \beta_5 S_g + \epsilon_{gt} \quad (2)$$

A second methodology, matching, will also be utilized for this research. Data from the control group will be matched with data from the test group, based upon the matching criteria of country population, and country GDP ten years before the Olympics.

| Name | Definition | Source |
|------------------------------|--|---------------------------------------|
| Dependent Variables | | |
| wdi_gdpcapcon2010 | GDP per capita in 2010 USD <small>University Of Gothenburg,</small> | QoG Standard Data, 2020 ²⁴ |
| wdi_gdpgr | GDP growth rate, annual % <small>2020, wnloads/qogstandarddata.</small> | QoG Standard Data, 2020 |
| wdi_trade | Trade as a % of GDP | QoG Standard Data, 2020 |
| wdi_fdiin | Foreign direct investment, net inflow as % of GDP | QoG Standard Data, 2020 |
| wdi_gini | Gini Coefficient <small>ls.Com",</small> | QoG Standard Data, 2020 |
| wdi_povgap190 | Poverty gap at \$1.90 USD a day (PPP) % <small>Reverty/</small> | QoG Standard Data, 2020 |
| Independent Variables | | |
| wdi_pop | Total population | QoG Standard Data, 2020 |
| Host | Dummy variable 1 if host, 0 if bid city | Past Bid Results, 2020 ²⁵ |
| time | Standardized time in years from the Olympic event | Past Bid Results, 2020 |
| Summer.Olympics | Dummy variable 1 if summer, 0 if winter event | Past Bid Results, 2020 |

Matching will result in sixteen pairs, as the test group contains sixteen host countries, whereas the control group contains fifty-three bid countries. Matching will be completed using the “nearest” method in order to match pairs with the closest propensity scores.²⁶ Based on these propensity scores, denoted as distance, the top pairs will then be captured in a separate data set based on their pair number. Regression tests will then be completed on the countries that matched in these top pairs, applying the data from the entire treatment time period, once again utilizing the difference-in-differences method to determine if there is an effect of hosting the Olympics on the outcomes in question. The equation for this regression is the same as equation (1) shown previously.

Due to the several factors that may impact economic growth, inequality, and poverty as well as if a country is to host the Olympics, there is some concern regarding omitted variable bias. One example of this could be the corruption levels in the country. Corruption could impact both economic growth and corruption could impact if a city was to host the Olympics or not, although omitted variable bias cannot be eliminated by utilizing propensity score matching (PSM) methodology assists in balancing any bias between the control and treatment groups.^{27 28} The PSM

addresses endogeneity by matching control and test groups with similar variables such as the original GDP and country population. This can help balance some of the bias in the system, although there is still a risk of unobserved omitted variable bias.^{29 30} In addition to matching, this research will also conduct regression tests with the top matched pairs based upon their differences in propensity score, which again should aid in endogeneity and offer an indication of robustness.³¹

4. Results

As outlined in the Research Design section, the first set of tests were conducted using all of the data for host and bid countries and employing the difference-in-differences method. OLS regressions were then run for each of the dependent variables listed in Table 2. While this section will highlight the main results from the study, results for the OLS regressions run can be found in Appendix A.

The OLS regression demonstrated that hosting the Olympics had a statistically significant negative impact on the annual growth rate of GDP, with a p-value of 0.005. In contrast, the regression results for all other dependent variables did not show a statistically significant difference for countries that hosted the Olympics versus those who only placed bids.

26 Simon Ejdeymer, "R Tutorial 8: Propensity Score Matching", Sejdemyr.Github.Io, accessed 7 April 2020, <https://sejdemyr.github.io/tutorials/statistics/tutorial8.html#executing-a-matching-algorithm>.

27 Laurence Ball, "The Performance Of Alternative Monetary Regimes", Handbook Of Monetary Economics, 2010, 1303-1343, doi:10.1016/b978-0-444-53454-5.00011-6.

28 Michael R. Roberts and Toni M. Whited, "Endogeneity In Empirical Corporate Finance1", Handbook Of The Economics Of Finance, 2013, 493-572, doi:10.1016/b978-0-44-453594-8.00007-0.

29 Ball, 1303-1343

30 Roberts and Whited, 493-572

31 Ball, 1303-1343

32 Roberts and Whited, 493-572

Figure 1 illustrates the increase in GDP over time for both host and bid countries. As mentioned above, the regression results did not indicate a statistically significant difference in the trend of the host countries versus the bid countries. Looking at the figure, it can also be noted that host countries tend to have a higher GDP than bid countries. In all figures, “TRUE” denotes the trend for host countries, and “FALSE” denotes the trend for bid countries.

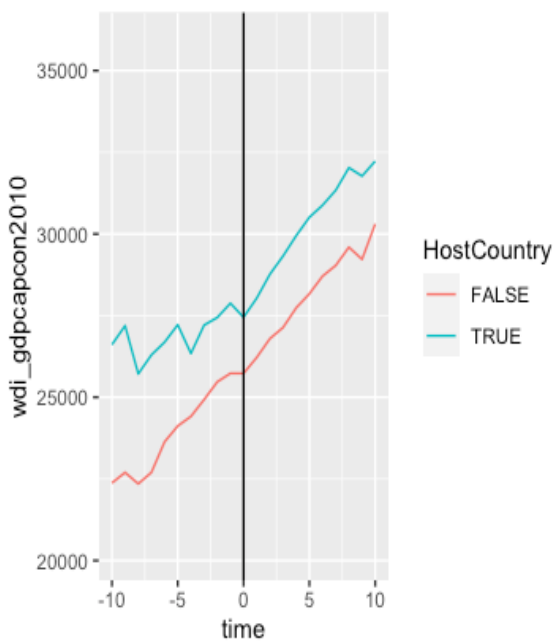


Figure 1: GDP per capita

The regression results show there is a statistically significant relationship between hosting the Olympics and the GDP growth rate. This relationship is negative. It is interesting to note that while bid countries' growth rate fluctuated between 2.5 and 4 percent, after year 0 the Olympic event, host countries fluctuated from 5 to below 2.5, with an overall negative slope.

The next step in the research was to investigate the difference in effect, if any, when segregating the data

into Summer and Winter Olympics. The results for these regressions did not change any of the conclusions, and there was little variation between the results for Summer and Winter Olympic games, in regard to the growth rate of GDP.

A second method applied during this research was matching. Host countries and bid countries were matched using their population and GDP at year -10, or when the bid was placed. Figure 2 shows the resulting propensity scores from the matching analysis for the eleven pairs that matched the closest. A table of matched results for all sixteen pairs can be found in Appendix B. The pairs shown in Figure 2 alternate by color, with the host country on the left, and it has paired bid country on the right. For example, the first pair is host country South Korea '88 and bid country Finland '76.

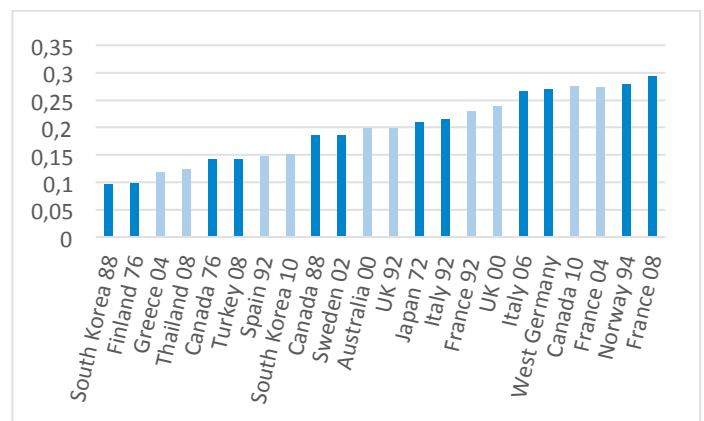


Figure 2: PSM Paired Host Countries and Bid Countries

These matched pairs were then entered into an OLS regression, applying the difference-in-differences method. The matched results for the economic variables remained consistent with the original conclusions from utilizing the entire dataset. The GDP annual growth rate returned statistically significant results, while for the other economic variables, GDP

per capita, trade, and foreign direct investment, no statistically significant relationships were found.

Figures 3 and 4 illustrate the trends in host countries and bid countries for GDP per capita and GDP growth rate using the matched data.

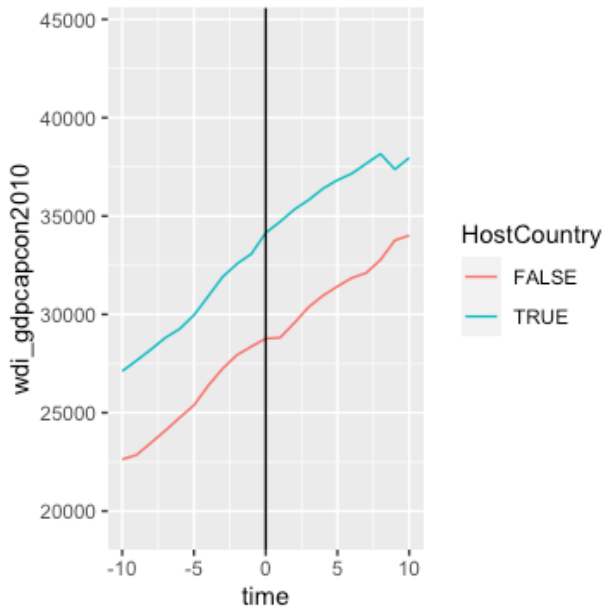


Figure 3: Matching - GDP per capita

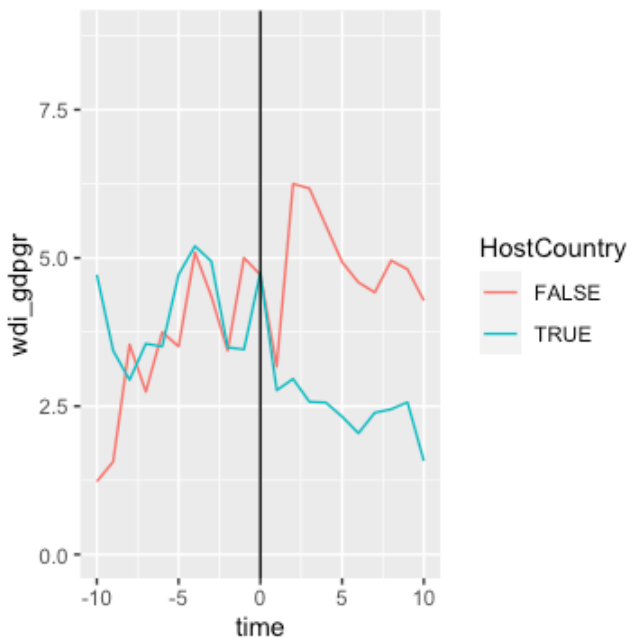


Figure 4: Matching- GDP growth rate %

As shown in Figure 4, the growth rate for bid countries had a positive trend in the years following the Olympic event, whereas for host countries, the percent growth of GDP decreased. The regression results indicate that this trend is statistically significant. The regression results for GDP per capita, however, did not show statistically significant results.

The results for the economic variables demonstrate findings that go against the research hypothesis. The economy of a host country does not appear to be statistically significantly impacted in the ten years after hosting the Olympics, compared to countries that placed bids to host the Olympics but were unsuccessful in their bids and negative impacts were observed in the GDP growth rate. This aligns with the work completed by Billings and Holladay, however, their study was completed at the city level and not the country level, and the growth rate of GDP was not discussed.³³

Utilizing only the difference-in-differences method without matching, there were no statistically significant results found for the measures of inequality and poverty; however, when matching is applied, this is no longer the case. The regression results show the significant findings for the Gini Coefficient of host countries versus bid countries.

These results indicate a positive relationship between hosting the Olympics and the Gini Coefficient, with a p-value of 0.01. The higher the Gini Coefficient, however, the greater the inequality. It can, therefore, be inferred from these results that in the ten years after hosting the Olympics, the inequality in the host country increases a statistically significant amount more than

33 Billings and Holladay, 754-772

the inequality in bid countries. Figure 5 below shows that the fluctuation in inequality for host countries varies from 32 to 36 in the ten years following the Olympics, while the bid countries fluctuate from approximately 30-35.

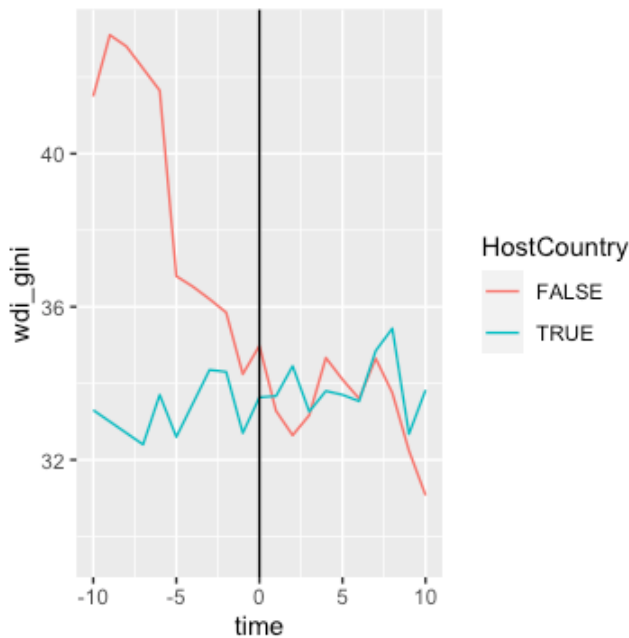


Figure 5: Matching- Gini Coefficient

Additionally, when applying the matching methodology, the difference-in-differences OLS regression results for the poverty gap return statistically significant results.

The p-value of the regression above is 0.005, indicating statistical significance, which in Figure 6 translates to less than one percent difference. The coefficient also denotes a positive relationship, which in this case indicates an increase in the poverty gap in host countries.

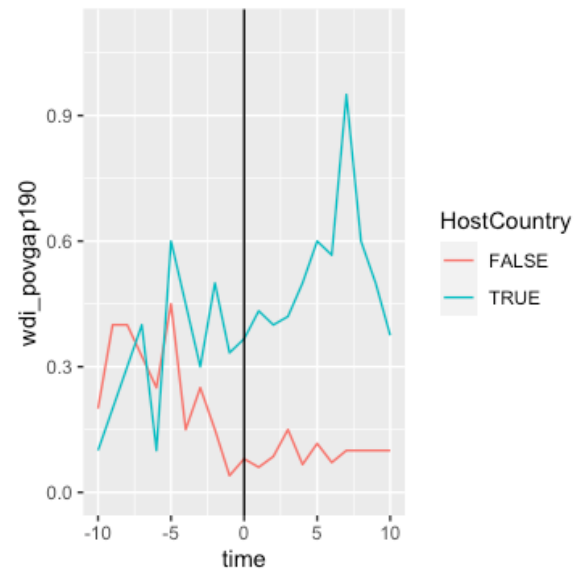


Figure 6: Matching- Poverty Gap

The results for the inequality and poverty variables agree with the hypothesis that the Olympics negatively affect inequality and poverty in the host country. However, the hypothesis predicted that this was due to the economic impact of the games only affecting the wealthy in the country. Based on the conclusion that hosting the Olympics does not appear to have positive long-term impacts, and the growth rate of GDP is lower than those that did not host, other reasons need to be considered for why poverty and inequality would be negatively affected. Reasons for this could be; the GDP growth is lower than what it was before the Olympics, or it could be due to the allocation of funds by the government of these countries. Often when hosting the Olympics, significant investments need to be made into infrastructure, which may take away from funding for social programs.³⁴

5. Policy Recommendations and Conclusion

³⁴ Rose and Spiegel, 652-677

Research has shown mixed reviews as to whether hosting the Olympics garners economic growth for the host country. The results of this research conclude that long-term economic impacts are not statistically significant in terms of GDP per capita, trade, and foreign direct investment. It was demonstrated, however, through matching and difference-in-differences methods that the GDP annual growth rate is negatively impacted by hosting the Olympics in the ten years after the games. This is a compelling finding as the economic benefits are often cited for the reason that countries leap to invest in such a mega-event.

The Olympic committee also states that their values include promoting social development through the avenue of sport.³⁵ This research study focused on social development through indicators of inequality and poverty. Through the matching and difference-in-differences techniques employed to study this data, the results showed statistical significance in the impact of hosting the Olympics on the Gini coefficient and poverty gap. In the ten years succeeding the games, the Gini coefficient was shown to rise significantly compared with the bid countries, which indicates greater inequality in the country. Similarly, the poverty gap was observed to increase on a statistically significant level for host countries as opposed to bid countries. These again are interesting findings as they contradict the ideal set forth by the Olympic organization.

The hypothesis for this research predicted that equality in the host countries would be negatively impacted due to economic gains, but the previous

35 International Olympic Committee, <https://www.olympic.org/the-ioc/promote-olympism>.

conclusion regarding economic factors displays that this is not the case. The reason behind this increased level of inequality and poverty may be due to the number of resources allocated to hosting the games, and how governments decide where this money comes from, and if social programs are the victim. An article in the Economist implies that this may have been the case for the London 2012 Olympics, stating that there were “cuts to public services.”³⁶ The government of Brazil also received much criticism for spending so much money on the Olympics while their schools and hospitals were in disrepair contrasting the ideal of social development through sport.^{37 38} Moving forward, these are important things to consider from a policy perspective. If a country wishes to host the Olympics as a way to further development they will need to adopt policies that promote the games without sacrificing the budget for social programs. It is the recommendation of this paper that host country governments and the International Olympic Committee seek to reform the bidding process of the games in a way that is more sustainable. In being more sustainable through means such as the encouragement of reusing existing facilities, the cost of the games could be reduced, lessening the economic burden of host countries which in the past have taken money from social services funding. It is

36 T, W., "Why Would Anyone Want To Host The Olympics?", *The Economist*, 2013, <https://www.economist.com/the-economist-explains/2013/09/08/why-would-anyone-want-to-host-the-olympics>.

37 International Olympic Committee, <https://www.olympic.org/the-ioc/promote-olympism>.

38 Michael Powell, "Officials Spent Big On Olympics, But Rio Natives Are Paying The Price", *Nytimes.Com*, 2016, <https://www.nytimes.com/2016/08/15/sports/olympics/rio-favelas-brazil-poor-price-too-high.html>.

also the recommended that both the Olympic Committee and host country governments seek to form partnerships with various corporations, charities, and social impact organizations. These partnerships can bring publicity to the social development agenda through the games, while also assisting corporations with their marketing and alleviating funding concerns for both the social impact organizations and host countries.

The limitations of this study are surrounding the complicated relationship that hosting the Olympics has to many aspects of the economy and the government. Additionally, data regarding inequality and poverty has also been relatively recently collected, and so there is limited data in these areas as opposed to economic data. In order to improve this study, moving forward matching could also be applied to cities within the same country as the Olympic host to determine if there are varied effects within the country. This research could also be expanded upon by investigating government corruption levels, transparency, and media freedom in relation to Olympic host countries. This study could provide some enlightenment if countries have alternative motives for hosting the games, and the impact of the games on the freedom of the press. In the future, it could also be beneficial to expand this study to more social development factors such as impacts on gender equality in a country to see if the games positively influenced women and young girls in the country to engage in sport.

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Appendix A: Regression Results

OLS Regression Results: Difference-in-differences Effect of Hosting on GDP Growth

Call:

```
lm(formula = wdi_gdpgr ~ Host + treatment_time + did + wdi_pop,
    data = mydata_a)
```

Residuals:

| Min | 1Q | Median | 3Q | Max |
|----------|---------|---------|--------|---------|
| -17.9768 | -1.6483 | -0.0985 | 1.5214 | 30.3754 |

Coefficients:

| | Estimate | Std. Error | t value | Pr(> t) | |
|----------------|------------|------------|---------|----------|-----|
| (Intercept) | 2.889e+00 | 1.520e-01 | 19.007 | < 2e-16 | *** |
| Host | 1.016e+00 | 3.172e-01 | 3.204 | 0.00138 | ** |
| treatment_time | 1.822e-01 | 2.132e-01 | 0.854 | 0.39299 | |
| did | -1.197e+00 | 4.290e-01 | -2.791 | 0.00531 | ** |
| wdi_pop | 3.747e-09 | 6.394e-10 | 5.860 | 5.53e-09 | *** |

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 3.842 on 1722 degrees of freedom

Multiple R-squared: 0.03128, Adjusted R-squared: 0.02903

F-statistic: 13.9 on 4 and 1722 DF, p-value: 3.654e-11

OLS Regression Results: Difference-in-differences Effect of Hosting on GDP per Capita

Call:

```
lm(formula = wdi_gdpcapcon2010 ~ Host + treatment_time + did +
    wdi_pop, data = mydata_b)
```

Residuals:

| Min | 1Q | Median | 3Q | Max |
|--------|--------|--------|-------|-------|
| -27888 | -14578 | 569 | 11623 | 53120 |

Coefficients:

| | Estimate | Std. Error | t value | Pr(> t) | |
|----------------|------------|------------|---------|----------|-----|
| (Intercept) | 2.505e+04 | 6.601e+02 | 37.948 | < 2e-16 | *** |
| Host | 5.198e+03 | 1.362e+03 | 3.816 | 0.00014 | *** |
| treatment_time | 4.218e+03 | 9.258e+02 | 4.556 | 5.58e-06 | *** |
| did | -6.582e+02 | 1.858e+03 | -0.354 | 0.72313 | |
| wdi_pop | -2.312e-05 | 2.795e-06 | -8.270 | 2.61e-16 | *** |

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 16820 on 1752 degrees of freedom
 Multiple R-squared: 0.05487, Adjusted R-squared: 0.05271
 F-statistic: 25.43 on 4 and 1752 DF, p-value: < 2.2e-16

OLS Regression Results: Difference-in-differences Effect of Hosting on Trade

Call:

```
lm(formula = wdi_trade ~ Host + treatment_time + did + wdi_pop,
    data = mydata_e)
```

Residuals:

| Min | 1Q | Median | 3Q | Max |
|---------|---------|--------|--------|---------|
| -57.754 | -19.092 | -6.077 | 14.230 | 159.133 |

Coefficients:

| | Estimate | Std. Error | t value | Pr(> t) | |
|----------------|------------|------------|---------|----------|-----|
| (Intercept) | 6.194e+01 | 1.154e+00 | 53.661 | < 2e-16 | *** |
| Host | -1.981e+01 | 2.371e+00 | -8.356 | < 2e-16 | *** |
| treatment_time | 6.837e+00 | 1.615e+00 | 4.233 | 2.43e-05 | *** |
| did | -5.193e+00 | 3.232e+00 | -1.607 | 0.108 | |
| wdi_pop | -2.881e-08 | 4.859e-09 | -5.929 | 3.67e-09 | *** |

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 29.23 on 1742 degrees of freedom
 Multiple R-squared: 0.146, Adjusted R-squared: 0.144
 F-statistic: 74.46 on 4 and 1742 DF, p-value: < 2.2e-16

OLS Regression Results: Difference-in-differences Effect of Hosting on Foreign Investment

Call:

```
lm(formula = wdi_fdiin ~ Host + treatment_time + did + wdi_pop,
    data = mydata_f)
```

Residuals:

| Min | 1Q | Median | 3Q | Max |
|----------|---------|---------|--------|---------|
| -12.2327 | -1.6899 | -0.6612 | 0.7123 | 23.4068 |

Coefficients:

| | Estimate | Std. Error | t value | Pr(> t) | |
|----------------|------------|------------|---------|----------|-----|
| (Intercept) | 2.316e+00 | 1.268e-01 | 18.256 | < 2e-16 | *** |
| Host | -1.069e+00 | 2.715e-01 | -3.937 | 8.62e-05 | *** |
| treatment_time | 3.205e-01 | 1.738e-01 | 1.845 | 0.0653 | . |
| did | -2.463e-01 | 3.614e-01 | -0.681 | 0.4957 | |
| wdi_pop | 4.334e-10 | 4.950e-10 | 0.876 | 0.3814 | |

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 2.94 on 1488 degrees of freedom
 (1 observation deleted due to missingness)
 Multiple R-squared: 0.02909, Adjusted R-squared: 0.02648
 F-statistic: 11.14 on 4 and 1488 DF, p-value: 6.568e-09

OLS Regression Results: Difference-in-differences Effect of Hosting on Gini Coefficient

Call:

```
lm(formula = wdi_gini ~ Host + treatment_time + did + wdi_pop,
    data = mydata_c)
```

Residuals:

| Min | 1Q | Median | 3Q | Max |
|---------|--------|--------|-------|--------|
| -13.107 | -5.707 | -1.296 | 3.414 | 29.548 |

Coefficients:

| | Estimate | Std. Error | t value | Pr(> t) | |
|----------------|------------|------------|---------|----------|-----|
| (Intercept) | 3.801e+01 | 6.640e-01 | 57.243 | < 2e-16 | *** |
| Host | -6.115e+00 | 1.830e+00 | -3.341 | 0.000899 | *** |
| treatment_time | -3.439e+00 | 8.005e-01 | -4.296 | 2.1e-05 | *** |
| did | 3.728e+00 | 2.155e+00 | 1.730 | 0.084339 | . |
| wdi_pop | 1.424e-08 | 2.030e-09 | 7.013 | 7.7e-12 | *** |

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 7.852 on 494 degrees of freedom
 Multiple R-squared: 0.1244, Adjusted R-squared: 0.1173
 F-statistic: 17.55 on 4 and 494 DF, p-value: 1.765e-13

OLS Regression Results: Difference-in-differences Effect of Hosting on Poverty Gap

Call:

```
lm(formula = wdi_povgap190 ~ Host + treatment_time + did + wdi_pop,
    data = mydata_d)
```

Residuals:

| Min | 1Q | Median | 3Q | Max |
|---------|---------|---------|--------|---------|
| -3.7583 | -0.8609 | -0.4533 | 0.0247 | 21.6638 |

Coefficients:

| | Estimate | Std. Error | t value | Pr(> t) | |
|----------------|------------|------------|---------|----------|-----|
| (Intercept) | 1.363e+00 | 2.008e-01 | 6.788 | 3.27e-11 | *** |
| Host | -5.928e-01 | 5.536e-01 | -1.071 | 0.284782 | |
| treatment_time | -9.259e-01 | 2.421e-01 | -3.825 | 0.000148 | *** |
| did | 5.406e-02 | 6.519e-01 | 0.083 | 0.933942 | |
| wdi_pop | 2.961e-09 | 6.140e-10 | 4.822 | 1.90e-06 | *** |

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 2.375 on 494 degrees of freedom
 Multiple R-squared: 0.07883, Adjusted R-squared: 0.07137
 F-statistic: 10.57 on 4 and 494 DF, p-value: 3.187e-08

OLS Regression Results: Effect of Hosting Summer Olympics on GDP Growth

Call:

```
lm(formula = wdi_gdpgr ~ Host + treatment_time + Summer.Olympics +
    did + wdi_pop, data = mydata_a)
```

Residuals:

| Min | 1Q | Median | 3Q | Max |
|----------|---------|---------|--------|---------|
| -17.8392 | -1.5849 | -0.0937 | 1.5334 | 30.5016 |

Coefficients:

| | Estimate | Std. Error | t value | Pr(> t) | |
|-----------------|------------|------------|---------|----------|-----|
| (Intercept) | 2.776e+00 | 1.728e-01 | 16.064 | < 2e-16 | *** |
| Host | 1.036e+00 | 3.175e-01 | 3.264 | 0.00112 | ** |
| treatment_time | 1.812e-01 | 2.132e-01 | 0.850 | 0.39536 | |
| Summer.Olympics | 2.585e-01 | 1.886e-01 | 1.370 | 0.17086 | |
| did | -1.204e+00 | 4.289e-01 | -2.807 | 0.00506 | ** |
| wdi_pop | 3.580e-09 | 6.508e-10 | 5.501 | 4.35e-08 | *** |

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 3.841 on 1721 degrees of freedom
 Multiple R-squared: 0.03234, Adjusted R-squared: 0.02952
 F-statistic: 11.5 on 5 and 1721 DF, p-value: 6.062e-11

OLS Regression Results: Effect of Hosting Winter Olympics on GDP Growth

Call:

```
lm(formula = wdi_gdpgr ~ Host + treatment_time + winter.Olympics +
    did + wdi_pop, data = mydata_a)
```

Residuals:

| | Min | 1Q | Median | 3Q | Max |
|--|----------|---------|---------|--------|---------|
| | -17.8730 | -1.6081 | -0.0932 | 1.5145 | 30.4701 |

Coefficients:

| | Estimate | Std. Error | t value | Pr(> t) |
|-----------------|------------|------------|---------|--------------|
| (Intercept) | 3.005e+00 | 1.876e-01 | 16.023 | < 2e-16 *** |
| Host | 1.029e+00 | 3.174e-01 | 3.241 | 0.00122 ** |
| treatment_time | 1.813e-01 | 2.132e-01 | 0.850 | 0.39543 |
| winter.Olympics | -2.007e-01 | 1.892e-01 | -1.060 | 0.28912 |
| did | -1.202e+00 | 4.290e-01 | -2.802 | 0.00513 ** |
| wdi_pop | 3.615e-09 | 6.515e-10 | 5.549 | 3.32e-08 *** |

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 3.842 on 1721 degrees of freedom

Multiple R-squared: 0.03191, Adjusted R-squared: 0.0291

F-statistic: 11.35 on 5 and 1721 DF, p-value: 8.662e-11

OLS Regression Results: Matching- Effect on GDP Growth

Call:

```
lm(formula = wdi_gdpgr ~ Host + treatment_time + did + wdi_pop,
    data = match_a)
```

Residuals:

| | Min | 1Q | Median | 3Q | Max |
|--|----------|---------|---------|--------|---------|
| | -11.6353 | -2.6197 | -0.5309 | 1.4801 | 28.7286 |

Coefficients:

| | Estimate | Std. Error | t value | Pr(> t) |
|----------------|------------|------------|---------|-------------|
| (Intercept) | 1.216e+00 | 6.532e-01 | 1.861 | 0.06334 . |
| Host | 1.179e+00 | 6.543e-01 | 1.802 | 0.07221 . |
| treatment_time | 1.240e+00 | 6.604e-01 | 1.877 | 0.06118 . |
| did | -3.036e+00 | 9.331e-01 | -3.253 | 0.00123 ** |
| wdi_pop | 4.523e-08 | 9.155e-09 | 4.941 | 1.1e-06 *** |

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 4.984 on 453 degrees of freedom

Multiple R-squared: 0.07862, Adjusted R-squared: 0.07048

F-statistic: 9.663 on 4 and 453 DF, p-value: 1.659e-07

OLS Regression Results: Matching- Effect of Hosting on GDP Growth Rate

Call:

```
lm(formula = wdi_gdpgr ~ Host + treatment_time + did + wdi_pop,
    data = match_a)
```

Residuals:

| | Min | 1Q | Median | 3Q | Max |
|--|----------|---------|---------|--------|---------|
| | -11.6353 | -2.6197 | -0.5309 | 1.4801 | 28.7286 |

Coefficients:

| | Estimate | Std. Error | t value | Pr(> t) |
|----------------|-----------|------------|---------|-----------|
| (Intercept) | 1.216e+00 | 6.532e-01 | 1.861 | 0.06334 . |
| Host | 1.179e+00 | 6.543e-01 | 1.802 | 0.07221 . |
| treatment_time | 1.240e+00 | 6.604e-01 | 1.877 | 0.06118 . |

```

did          -3.036e+00  9.331e-01  -3.253  0.00123 **
wdi_pop      4.523e-08  9.155e-09   4.941  1.1e-06 ***
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 4.984 on 453 degrees of freedom
Multiple R-squared:  0.07862, Adjusted R-squared:  0.07048
F-statistic: 9.663 on 4 and 453 DF,  p-value: 1.659e-07

```

OLS Regression Results: Matching- Effect of Hosting on GDP per capita

```

Call:
lm(formula = wdi_gdpcapcon2010 ~ Host + treatment_time + did +
    wdi_pop, data = match_b)

```

```

Residuals:
    Min       1Q   Median       3Q      Max
-28534 -10836   1897   9938  42821

```

```

Coefficients:
            Estimate Std. Error t value Pr(>|t|)
(Intercept)  3.605e+04  1.755e+03  20.536 < 2e-16 ***
Host         1.776e+03  1.758e+03   1.010  0.313033
treatment_time 6.528e+03  1.775e+03   3.678  0.000263 ***
did         5.780e+02  2.508e+03   0.230  0.817815
wdi_pop     -2.029e-04  2.460e-05  -8.245  1.8e-15 ***
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

```

```

Residual standard error: 13400 on 453 degrees of freedom
Multiple R-squared:  0.192, Adjusted R-squared:  0.1848
F-statistic: 26.91 on 4 and 453 DF,  p-value: < 2.2e-16

```

OLS Regression Results: Matching- Effect of Hosting on Trade

```

Call:
lm(formula = wdi_trade ~ Host + treatment_time + did + wdi_pop,
    data = match_e)

```

```

Residuals:
    Min       1Q   Median       3Q      Max
-30.159 -12.350  -4.488   7.181  85.066

```

```

Coefficients:
            Estimate Std. Error t value Pr(>|t|)
(Intercept)  6.945e+01  2.515e+00  27.618 < 2e-16 ***
Host        -1.407e+01  2.519e+00  -5.585  4.04e-08 ***
treatment_time 7.912e+00  2.542e+00   3.112  0.00198 **
did        -2.544e+00  3.592e+00  -0.708  0.47915
wdi_pop     -2.116e-07  3.524e-08  -6.003  3.97e-09 ***
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

```

```

Residual standard error: 19.19 on 453 degrees of freedom
Multiple R-squared:  0.1721, Adjusted R-squared:  0.1648
F-statistic: 23.55 on 4 and 453 DF,  p-value: < 2.2e-16

```

OLS Regression Results: Matching- Effect of Hosting on Foreign Direct Investment

```

Call:
lm(formula = wdi_fdiin ~ Host + treatment_time + did + wdi_pop,
    data = match_f)

```

Residuals:

| Min | 1Q | Median | 3Q | Max |
|---------|---------|---------|--------|---------|
| -5.5375 | -1.2425 | -0.4877 | 0.6486 | 19.6698 |

Coefficients:

| | Estimate | Std. Error | t value | Pr(> t) |
|----------------|------------|------------|---------|--------------|
| (Intercept) | 2.787e+00 | 3.121e-01 | 8.930 | < 2e-16 *** |
| Host | -1.115e+00 | 3.030e-01 | -3.679 | 0.000264 *** |
| treatment_time | -6.348e-03 | 2.839e-01 | -0.022 | 0.982172 |
| did | 4.830e-01 | 4.095e-01 | 1.179 | 0.238866 |
| wdi_pop | -1.131e-08 | 4.575e-09 | -2.472 | 0.013838 * |

 Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 2.127 on 429 degrees of freedom
 Multiple R-squared: 0.04089, Adjusted R-squared: 0.03194
 F-statistic: 4.572 on 4 and 429 DF, p-value: 0.001262

OLS Regression Results: Matching- Effect of Hosting on Gini Coefficient

Call:

```
lm(formula = wdi_gini ~ Host + treatment_time + did + wdi_pop,
    data = match_c)
```

Residuals:

| Min | 1Q | Median | 3Q | Max |
|--------|--------|--------|-------|-------|
| -9.006 | -1.879 | -0.306 | 2.450 | 7.694 |

Coefficients:

| | Estimate | Std. Error | t value | Pr(> t) |
|----------------|------------|------------|---------|--------------|
| (Intercept) | 3.105e+01 | 1.235e+00 | 25.134 | < 2e-16 *** |
| Host | -7.736e-01 | 1.297e+00 | -0.596 | 0.552021 |
| treatment_time | -2.867e+00 | 8.399e-01 | -3.413 | 0.000865 *** |
| did | 3.767e+00 | 1.445e+00 | 2.606 | 0.010271 * |
| wdi_pop | 8.943e-08 | 1.607e-08 | 5.565 | 1.52e-07 *** |

 Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 3.586 on 125 degrees of freedom
 Multiple R-squared: 0.2798, Adjusted R-squared: 0.2568
 F-statistic: 12.14 on 4 and 125 DF, p-value: 2.272e-08

OLS Regression Results: Matching- Effect of Hosting on Poverty Gap

Call:

```
lm(formula = wdi_povgap190 ~ Host + treatment_time + did + wdi_pop,
    data = match_d)
```

Residuals:

| Min | 1Q | Median | 3Q | Max |
|----------|----------|----------|---------|---------|
| -0.43207 | -0.09096 | -0.07578 | 0.11036 | 0.91248 |

Coefficients:

| | Estimate | Std. Error | t value | Pr(> t) |
|----------------|------------|------------|---------|------------|
| (Intercept) | 2.247e-01 | 7.644e-02 | 2.939 | 0.00392 ** |
| Host | 1.414e-01 | 8.027e-02 | 1.761 | 0.08062 . |
| treatment_time | -8.349e-02 | 5.197e-02 | -1.606 | 0.11069 |
| did | 2.531e-01 | 8.944e-02 | 2.830 | 0.00542 ** |
| wdi_pop | -7.933e-10 | 9.944e-10 | -0.798 | 0.42653 |

 Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 0.2219 on 125 degrees of freedom
 Multiple R-squared: 0.3862, Adjusted R-squared: 0.3666

F-statistic: 19.66 on 4 and 125 DF, p-value: 1.415e-12

Appendix B: Matching Results

| Pair Number | Countries | Year of Olympics | Distance |
|-------------|--------------------|------------------|----------|
| 1 | South Korea (H) | 1988 | 0.096492 |
| | Finland (B) | 1976 | 0.097492 |
| 2 | Greece (H) | 2004 | 0.117834 |
| | Thailand (B) | 2008 | 0.123553 |
| 3 | Canada (H) | 1976 | 0.141464 |
| | Turkey (B) | 2008 | 0.142438 |
| 4 | Spain (H) | 1992 | 0.146335 |
| | South Korea (B) | 2010 | 0.150016 |
| 5 | Canada (H) | 1988 | 0.184927 |
| | Sweden (B) | 2002 | 0.185503 |
| 6 | Australia (H) | 2000 | 0.1991 |
| | United Kingdom (B) | 1992 | 0.198666 |
| 7 | Japan (H) | 1972 | 0.209628 |
| | Italy (B) | 1992 | 0.213787 |
| 8 | France (H) | 1992 | 0.228524 |
| | United Kingdom (B) | 2000 | 0.237608 |
| 9 | Italy (H) | 2006 | 0.266199 |
| | West Germany (B) | 1992 | 0.268793 |
| 10 | Canada (H) | 2010 | 0.274561 |
| | France (B) | 2004 | 0.272523 |
| 11 | Norway (H) | 1994 | 0.279384 |
| | France (B) | 2008 | 0.293061 |
| 12 Excluded | Japan (H) | 1998 | 0.45316 |
| | Brazil (B) | 2004 | 0.344845 |
| 13 Excluded | USA (H) | 1976 | 0.561574 |
| | Japan (B) | 1988 | 0.346711 |

| | | | |
|-------------|----------------------------|--------------|----------------------|
| 14 Excluded | USA (H) Switzerland (B) | 1996 2002 | 0.755101 0.346745 |
| 15 Excluded | USA (H) Switzerland (B) | 2002 2010 | 0.806955 0.390732 |
| 16 Excluded | China (H) Japan (B) | 2008 2008 | 0.999993 0.517477 |

Are ECB policies leading the Eurozone's economy towards 'Japanisation'?

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Abstract

This paper examines how Quantitative Easing and the ultra-lax Monetary Policy implemented by the ECB in 2015 affected the Eurozone's economic recovery. Additionally, the paper analyses the ECB's response to the Covid-19 crisis and how it worsened the economic stagnation of the Euro Area, leading to a "Japanisation" that seems inevitable. This analysis explores the structural conditions that led the European economy to stagnation that are comparable to Japan's experience. The Secular Stagnation Theory posed by Hansen, and later Summers, explains the Eurozone's economic stagnation. The ECB's response to the Covid-19 crisis includes the defence of a supply-side approach to undergo a structural adjustment that prevents the "Japanisation" trend from aggravating.

Keywords: Quantitative Easing; ECB; Covid-19 crisis; "Japanisation"; Secular Stagnation Theory; Structural Adjustment; Pandemic Emergency Purchase Program (PEPP), Coronabonds.



I. Introduction

In 2015, the ECB introduced an ultra-lax expansionary monetary policy, lowering interest rates to zero and introducing an aggressive QE to prevent sub-zero inflation to recover from the eurozone debt crisis. These policies have prevented necessary adjustments in many countries after the crisis; which, combined with low growth, low inflation, an ageing population, and rising levels of public debt, have led to a stagnation that ‘mirrors Japan’s experience’¹. Moreover, the answer to the Covid-19 crisis might aggravate the stagnation that was already affecting the Eurozone’s economy. Is there a way out? Can the Euro Area avoid the “Japanisation” of its economy and at the same time mitigate the effects of the Covid-19 crisis?

The paper will start by exposing the signs of “japanisation” that the Eurozone has shown during the last years by looking at macroeconomic indicators. Secondly, the essay will explore Summers’s thesis on secular stagnation and how the ECB’s policies have led to a ‘zombification’ of the economy. Finally, the paper will analyse how the Covid-19 crisis forced the ECB and the Eurogroup to take extraordinary actions that, while helpful in the short run, might magnify stagnation and hinder the recovery after the recession.

2. What does “Japanisation” mean?

After the asset price bubble burst in 1992, Japan suffered from stagnation and deflation. This situation was unprecedented for an advanced economy. The Bank of Japan answered by dropping the nominal interest rates, that reached zero in 1999, and with a program of QE

from 2001 until 2006. Nevertheless, the global financial crisis of 2008 forced the Bank of Japan to lower rates again, which was coupled with a large QE program among other stimuli, as part of the so called ‘Abenomics’. Despite these measures, Japan’s economy has not abandoned stagnation, turning these short-term solutions into a long-term condition.

In order to analyse the extent of “japanisation” in the Eurozone, although there is no consensus on its exact definition, there are some facts listed by professor Takashi Ito that characterise this phenomenon: stagnant growth, nominal zero bound, deflation and secular stagnation², to which it is necessary to add the impact of demographics and the rising levels of public debt.

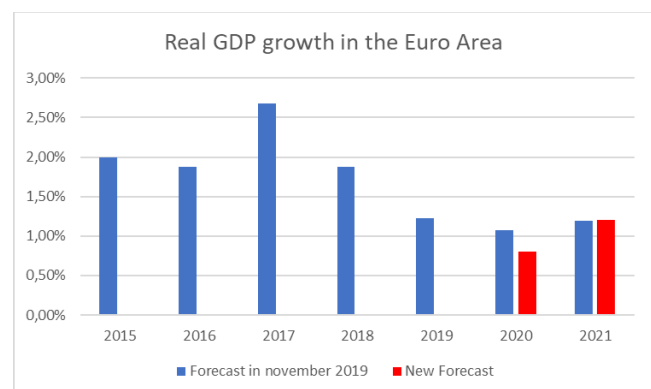


Figure 1: ‘Real GDP Growth in the Euro Area including predictions for 2020 and 2021 pre- and post-Covid19 crisis’, OECD.

The Eurozone economy has slowed over the last three years. According to the new projections of the OECD, the forecasted growth of 1.1% will contract at

¹ Summers, L. H. ‘Secular Stagnation and Macroeconomic Policy’, IMF Economic Review, 2018, p.231

² Ito, T. ‘Japanization: Is it endemic or epidemic?’, National Bureau of Economic Research, 2016, pp. 5-6.

least 0.3 points in 2020 due to the Covid-19 crisis³ (Figure 1). Moreover, the ECB has been unable to reach the inflation target of 2% in the last six years⁴ and to raise nominal interest rates, which dropped to zero in 2015 (Figures 2, 3). In terms of public debt levels, although there has been a steady drop in the entire Eurozone since 2014, there are big asymmetries among members. For instance, while Germany's debt-to-GDP ratio has decreased since 2013, countries in the south have not managed to reduce their debt levels despite the slow but persistent growth of recent years (Figure 4).

Furthermore, the economies most affected by the Covid-19 crisis will have much higher debt-to-GDP levels than forecasted. According to the European Commission, Spanish debt-to-GDP level will reach 115% by the end of the year, which implies an increase of 20 points when compared to the levels prior to the outburst of the crisis. In the case of Italy, according to Fitch, the debt-to-GDP ratio will also suffer an increase of 20 points, reaching a level of 156% by the end of 2020.

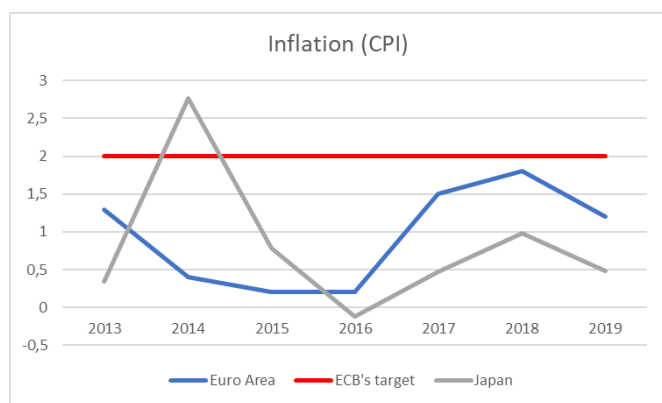


Figure 2: 'Inflation (CPI) levels for the Euro Area and Japan', OECD.

³ OECD, 'Real GDP Forecast', 2020.

⁴ OECD, 'Inflation (CPI)', 2020.

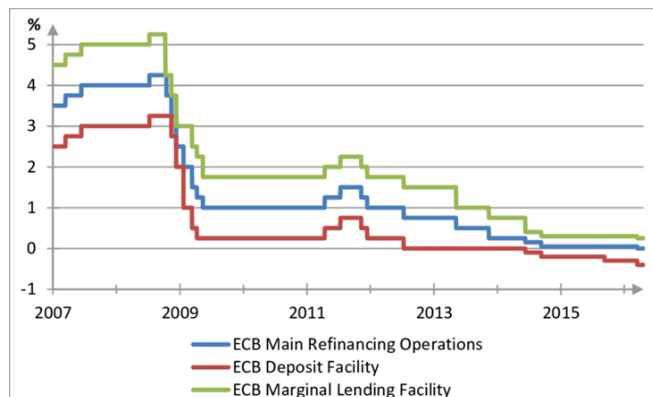


Figure 3: 'Key ECB Interest Rates', ECB.

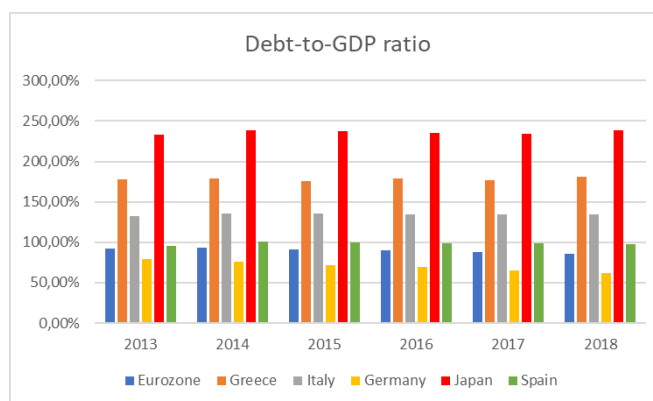


Figure 4: 'Debt-to-GDP ratios of the Eurozone, Greece, Italy, Germany, Spain and Japan', OECD.

This stagnation is reinforced by demographics too: there is a clear downwards trend of the working age population since 2009, which, according to Eurostat, will keep declining by 0.4% every year at least until 2040⁵ (Figure 5). Apart from the direct effects on productivity and growth, wage growth will be subdued even if low levels of unemployment are reached, as it has already happened in Japan⁶ (Figure 6).

⁵ Eurostat, 'Employment Statistics', 2019.

⁶ Arsov, I. & Evans, R. 'Wage Growth in Advanced Economies', Reserve Bank of Australia, 2018, pp.9-10.

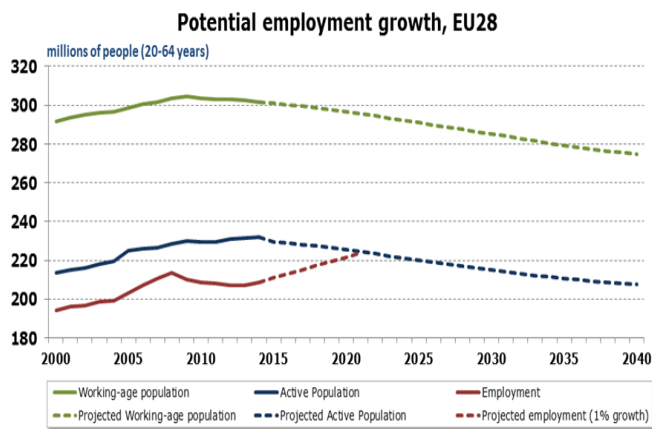


Figure 5: ‘Potential employment Growth in the EU’ (including the UK), European Commission.

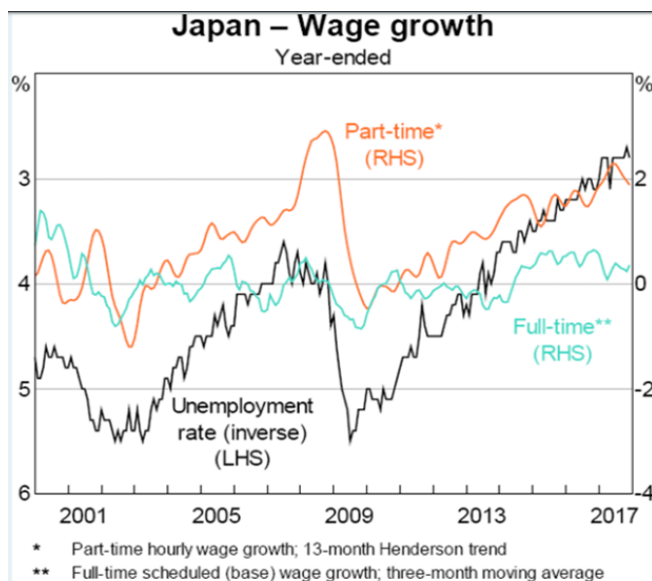


Figure 6: ‘Japanese Wage Growth’, Arsov, I. & Evans, R. ‘Wage Growth in Advanced Economies’, Reserve Bank of Australia, 2018.

3. The Secular Stagnation Theory

These economic conditions reinforce the presence of secular stagnation, characterised according to Summers by persisting low levels of aggregate demand compared to aggregate supply, which brings the natural interest rates consistent with full employment to the negative

while real interest rates always stay above⁷. The primary cause of secular stagnation is insufficient private investments at the normal interest rate to absorb private savings⁸. (Figure 7). This circumstance explains the consistent trend of low interest rates in the Eurozone, in which an appearing short-term solution turns into a long-term condition. Like Japan, the Eurozone's condition remains at a low equilibrium rate of interest semi-permanently.

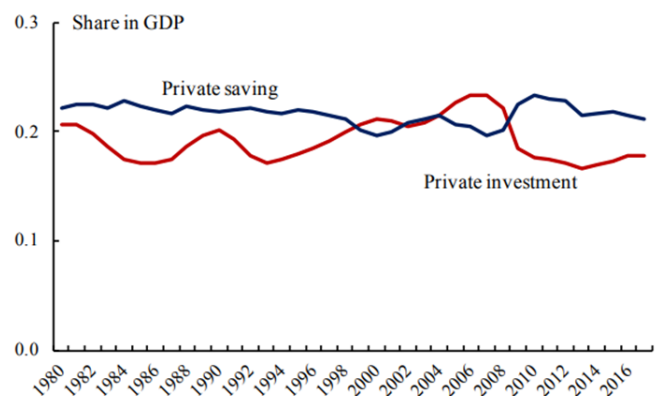


Figure 7: ‘Private sector saving-to-GDP and investment-to-GDP ratios in advanced economies’, Lukasz, R. Summers, L.H. ‘On Falling Neutral Rates, Fiscal Policy, and the Risk of Secular Stagnation’, BPEA Conference Drafts, 2019.

Nevertheless, as long as the net present value is positive and interest rates are kept at zero, there is no apparent reason for investments not to grow. Therefore, it might make more sense to study the economic landscape from a supply perspective rather than as a demand problem. When the ECB introduced its ultra-lax monetary policy in 2015, it managed to prevent the fall of

⁷ Summers, L. H. ‘Secular Stagnation and Macroeconomic Policy’, IMF Economic Review, 2018, p.231.

⁸ Lukasz, R. Summers, L.H. ‘On Falling Neutral Rates, Fiscal Policy, and the Risk of Secular Stagnation’, BPEA Conference Drafts, 2019, p.24.

the Eurozone's economy at the expense of a strong and stable recovery. Due to the drop in interest rates and the aggressive QE, a lot of structural reforms necessary in many member states were paralysed. Spain and Italy are two examples of the relaxation of structural adjustments since 2015, as both member states implemented expansionary fiscal policies against the recommendations of the European Commission and the ECB. In fact, in the fifth 'post-programme' surveillance report after the banking rescue published by both institutions, it is stated that 'after considerable structural adjustment in 2012-2013, the fiscal consolidation effort was relaxed. In 2015 Spain has adopted an expansive fiscal policy that has reversed part of the structural adjustment implemented in previous years'⁹. These ultra-lax monetary policies motivated the delay and even the reversion of these structural adjustments. As a result, governments of Eurozone's Member States started to save companies and industries which should have been restructured or simply substituted. This would have made room to more efficient and profitable corporations that would have attracted the investment that the economy now lacks (Figure 8). In Europe, as in Japan, many 'zombie' companies have survived with no incentive to undertake new investments, causing a secular stagnation much closer to the one initially described by Hansen: 'sick recoveries which die in their infancy and depressions which feed on themselves'¹⁰.

⁹ RTVE, 'La CE y el BCE confirman que España relajó en 2015 su consolidación fiscal tras los ajustes de los años previos', Europa Press, 2016.

¹⁰ Hansen, A.H. 'Economic Progress and Declining Population Growth', The American Economic Review, 1939, p.4.

Policy Responses, Limitations and Collateral Effects Payback Time – Prepare to Pay for QE

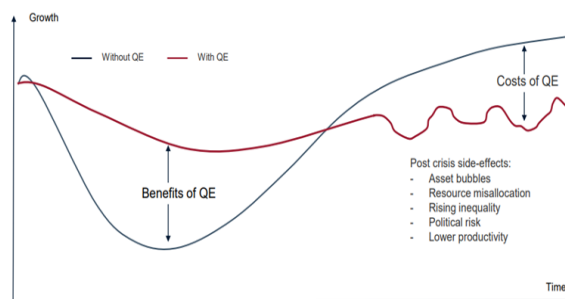


Figure 8: 'QE's collateral effects', Gallo, A. 'Escaping the QE Infinity Trap', ECMI Annual Conference Algebris Macro Credit Fund, 2016.

4. Covid-19 crisis and EU's response:

Furthermore, the coronavirus crisis which recently hit Eurozone economies threatens to virtually paralyse the activity in many member states, as it has already happened in Italy and Spain. Even though the ECB's President Christine Lagarde assured that it was not the Central Bank's duty to control sovereign yield spread. She recently expressed her 'full commitment' to save the Euro, which alludes to Dragui's famous 'whatever it takes' back in 2012. The ECB's answer has evolved gradually until reaching the "war economy" stage in the face of the severity of the crisis. In its aim to guarantee liquidity, on March 18, the governing council of the ECB approved a €750 billion Pandemic Emergency Purchase Program (PEPP) of both public and private assets to last until the end of 2020. In terms of key ECB rates, they remained unchanged and it is expected that they continue at their present or even lower levels: the MRO rate is currently at zero, the marginal lending facility at 0.25%, and savings are penalised with the deposit facility rate at -

0.5%¹¹. However, the price of money does not seem useful as a tool with already abnormally low rates, as proven by the inability of the ECB during the last six years of limited growth to reach the inflation target.

Further measures to stimulate affected economies include the activation by the European Commission of the escape clause of the Stability and Growth Pact, which limited debt levels to 60% of GDP and budget deficit to 3%. In fact, according to estimations, budget deficits this year will reach 10% in Spain and Italy¹².

Moreover, in the Eurogroup meeting of March 24, the ministers of finance approved that governments might benefit from a credit line worth 2% of their GDP from the ESM bailout fund¹³. The so-called Enhanced Condition Credit Line (ECCL) will still involve some conditionality, reflected in a Memorandum of Understanding. Despite being financed at negative real rates and the implementation of the PEPP, the affected southern heads-of-state claim it is necessary to mutualise debt through the issuance of 'coronabonds'. This proposal, backed by the Commission, was rejected by Germany and The Netherlands, both known for their fiscal orthodoxy.

More recently, Spain and Italy seemed to have persuaded Germany to support the development of a reconstruction fund financed through European debt. In an agreement signed by Angela Merkel and Emmanuel Macron, both France and Germany have proposed to provide 500 billion euros exempt of repayment but with conditions based on the implementation of responsible economic policies and reforms, including a big emphasis

on investment in digital transformation and the European Green Deal. Despite being far from the 1.5 trillion requested by Italy and Spain, this agreement seems to be a first step towards the mutualisation of debt, something taboo for Germany just one month ago. In order to avoid sovereign debt from piling up in both southern countries which are already experiencing very high levels, the proposal claims that the European Commission should be indebted, instead of the national treasuries, with the guarantee of the EU's budget.

However, consensus seems far from being reached as the group of northern Member States, including Denmark, Sweden and The Netherlands, have already rejected the mutualisation of debt and instead propose loans to tackle the effects of the crisis.

5. The need for a structural adjustment:

Although these policies, mainly focused on ensuring liquidity, are tackling this as a demand shock, the Covid-19 crisis constitutes a *supply* shock. European economies are not producing less due to a fall in spending levels, but because the dramatic fall in production, like in the case of Italy and Spain. However, this supply shock inevitably leads to a demand shock as consumption and investment shrink due to lower or no income. Market behaviour reflects this preference for liquidity: Investors escape the volatility of stock markets and seek refuge in safer assets such German government bonds, raising yield spreads in Italy and Spain at a disquieting pace (Figures 9, 10). Therefore, the measures implemented are necessary and helpful in the short term. An expansionary monetary policy will make it easier for companies to refinance and rollover debt, and fiscal stimuli will help fight the lower levels of consumption. These expansionary policies stimulate spending. However, if economic activity has

¹¹ European Central Bank, 'Key ECB interest rates', 2020.

¹² Goldman Sachs, 'Top of Mind: Roaring into Recession', Global Macro Research, 2020, p.2

¹³ European Council, 'Remarks by Mário Centeno following the Eurogroup videoconference of 24 March 2020', Press Releases, 2020.

stopped, promoting nominal spending will not tackle this supply shock and therefore will not raise real GDP.



Figure 9: 'Italian vs German 10-year Sovereign bond yields', Investing.com



Figure 10: 'Spanish vs German 10-year Sovereign bond yields', Investing.com

Moreover, precedent of the last recession showed how expansionary monetary policies and the delay of the necessary adjustment in the economy to mitigate the effects of the crisis also meant the constant rescue of unproductive parts of the economy. This crisis and the response given are leading towards higher debt levels, less productivity and as a result, less growth. In other words, the effects of the recession might be mitigated, but the trend of long-term stagnation will be enhanced. Because the entire Eurozone is affected by the crisis, member

states will rely on debt to keep fighting the virus and pay for the necessary imports to compensate for production stoppages, making them even more dependent on favourable liquidity conditions, thus enhancing stagnation. Although far from Japanese figures, the rising debt levels in the Eurozone, especially in the cases of Spain and Italy, will hinder its recovery to a bigger extent. While in the case of Japan, 90% of its sovereign debt is held by domestic creditors¹⁴, in the case of Spain, around 50% is owned by international creditors (excluding the ECB's purchases)¹⁵. This means a bigger exposure to investors' fear of insolvency, which could raise the cost of sovereign debt during the recession as it happened during the last recession when, for instance, 10-year Spanish bond yields reached a maximum of 6.8% in 2012 (Figure 11). This makes it very difficult to maintain the rollovers and the flow of liquidity, both crucial to overcome the crisis.



Figure 11: 'Evolution of Spanish 10-year bond yields', Investing.com

¹⁴ Kobajashi, K. 'The Tenuous Myth of Japan's Fiscal Infallibility', The Tokyo Foundation for Policy Research, 2018.

¹⁵ Secretaría General del Tesoro y Política Financiera, Ministerio de Asuntos Económicos y Transformación Digital, 2020.

Therefore, further economic stimuli, while helpful in the short run, might hinder a strong and consistent economic recovery. As illustrated by the example of Japan and the Eurozone's experience after the Great Recession, these measures do not foster a sustained economic growth, but they hide the real situations of an economy that needs structural adjustment of its production model. In the case of the Euro Area, the reform of its production model was stopped by the ultra-lax monetary policies implemented in 2015. Liquidity injections and expansionary policies aggravated the stagnation conditions that are leading the Eurozone towards a "Japanisation" of its economy. Hence, from a supply-side perspective, the proper answer to the crisis should be to foster economic freedom and reduce the size of the public sector to ensure a proper restructuring of the European economy. This is the only institutional framework that guarantees the flourishing of long-term investment that enables a sustainable and steady economic growth that improves our living standards. Despite the extraordinary situation due to the Coronavirus outburst, the alternative is to keep hindering new entrepreneurship to hide the structural problems of a 'zombified' economy.

6. Conclusion

The perpetuation of economic disequilibria and hiding structural problems under monetary policies have just delayed the necessary adjustment. Ignoring the demographic challenge and low productivity while benefiting from favourable monetary conditions to increase deficit and debt to sustain unproductive sectors has created a bubble during the last years that would eventually burst. The Covid-19 crisis has bounced into this panorama leading to a recession which makes

structural adjustments even more unlikely. The ECB's and Eurogroup's answer, while necessary to mitigate the pain of the recession, might turn stagnation into an endemic condition of the economy. In other words, the "japanisation" of the Eurozone may turn from a potential risk into an inexorable fate that will hinder the recovery of the economy, making it unstable and fragile.

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Water diplomacy and water security in the Israeli-Palestinian conflict

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Abstract

This paper investigates the role of water diplomacy in ensuring water security in Israel and Palestine, as well as its potential to advance peacekeeping in the protracted conflict between the two. The analysis starts by defining water security from the perspective of both Israel and Palestine, and then delves into possible ways in which water diplomacy could solve water insecurity, along with an analysis of water management mechanisms including the role of international institutions and international law. The primary finding is that Israel and Palestine are interdependent within the context of transboundary water sources, and that according to strategic realism, Israel and Palestine will achieve greater water security by using water diplomacy. Lastly, a set of policy recommendations is elaborated, emphasizing present issues refraining water diplomacy from ensuring water security, as well as what would help ensure it.

Keywords: water diplomacy, water security, Israeli-Palestinian conflict, peacekeeping.



I. Introduction

At the Paris Peace Conference in 1919, the Zionist delegation stated that what was then the West Bank, Golan Heights, and river Litani (now Lebanese territory) are “what we consider essential for the necessary economic foundation of the country. Palestine must have its natural outlets to the seas and the control of its rivers and their headwaters.” Yet, water access and distribution has been a central element in the Israeli-Palestinian conflict.

Israel and Palestine currently share three main transboundary water bodies, namely the Mountain Aquifer, the Coastal Aquifer and the Jordan River (Figure 1).

Figure 1: Water resources in Israel and Palestine¹



¹Koek, E. (2013, September 12). *Thirsting for water, 20 years after Oslo*. Retrieved from The Elders: <https://www.theelders.org/news/thirsting-water-20-years-after-oslo>

Following the 1967 Six-Day War, Mekorot, Israel’s national water company, gained exclusive control over the Sea of Galilee and the water resources in the West Bank, making it a national security concern for both sides. Later, the Oslo II Accords signed in 1995 included an interim agreement on water, and, more specifically, on: the allocation of water between Israel and Palestine, the obligation of both sides to ensure water management, and the establishment of a joint body to ensure cooperation and coordination of water management, the Joint Water Committee (JWC).² However, due to the fixed quantitative allocation of water decided during the Oslo Accords along with the lack of consideration given to demographic, natural and socio-economic developments that have affected the supply and demand of water, water resources are disproportionately allocated, reflecting significant inequalities, including Israel’s control over 80% of the West Bank’s water reserves.³ While water issues are still regulated under Article 40 of the Oslo II Accords, the population in Gaza and the West Bank has doubled, considerably increasing the demand for water. Moreover, climate change has had a multiplier effect on water scarcity, challenging the adaptive capacity of states to maintain socio-economic development and political stability.⁴

This article contributes to the existing extensive literature on water in the Israeli-Palestinian conflict

² The Israeli-Palestinian Interim agreement on the West Bank and the Gaza Strip Annex 3 art. 40, Sep. 28, 1995.

³ Lazarou, E. (January 2016). *Water in the Israeli-Palestinian conflict*. European Parliamentary Research Service.

⁴ Carry, I. (2019). *Climate Change, Water Security, and National Security for Jordan, Palestine, and Israel*. Amman: EcoPeace Middle East.

and expands our understanding of the interplay between water diplomacy and water security within the context of the Israeli-Palestinian conflict. The article proceeds in three central parts. First, water security is defined and explored within the context of the Israeli and Palestine National Authority discourse. Second, water diplomacy is analysed as an opportunity to solve water insecurity using game theory, along with an analysis of water management mechanisms including the role of international institutions and international law. Last, this paper lists an elaborate set of policy recommendations for a successful establishment of water diplomacy to ensure water security.

2. Water security

The UN defines water security as “*the capacity of a population to safeguard sustainable access to adequate quantities of acceptable quality water for sustaining livelihoods, human well-being, and socio-economic development, for ensuring protection against water-borne pollution and water-related disasters, and for preserving ecosystems in a climate of peace and political stability.*”⁵ Given the prominent water scarcity in the region and the shared transboundary nature of its water resources, both Israel and Palestine have given great importance to water security in their national security agenda.

2.1 Israeli Discourse

Since its creation in 1948, Israel regards water as a crucial element in the development of the country and has pursued strong state control policies to

maximize the utilization of water resources to further the country’s economic development⁶. Furthermore, Israel has used water issues to shape its relations with riparian countries in two contrasting ways: either as a zero-sum game, gaining more control over water resources; or as a positive-sum game, through negotiations and cooperation. The former has been used with Palestine since 1967 and was exacerbated by the Hamas takeover of Gaza in 2007, which led Israel to violate the terms of the Oslo II Accords stating it had to increase water sales to Gaza from 5 to 10 mcm/ year.⁷ However, a UN report published in 2012 raised international attention to the living conditions in Gaza and stated it would be an unliveable place by 2020, and that “the aquifer could become unusable as early as 2016, with the damage irreversible by 2020.”⁸ Following this, in 2015, Israel decided to reverse its no-sale water policy to Gaza, based on the understanding that growing water insecurity in Gaza would worsen the humanitarian situation and fuel radicalization of the population. It therefore became in Israel’s national security interest to increase water sales to Gaza. Yet, public support for this policy change among Israeli citizens only increased when the crises in Gaza directly threatened public health and water security in Israel⁹. Indeed, in 2016 the

⁵United Nations. (2013, May 8). *What is water security?* <https://www.unwater.org/publications/water-security-infographic/>

⁶ M., P., Tal S., Yeres J., & Ringskog, K.. (2017). *Water Management in Israel: Key Innovations and Lessons Learned for Water-Scarce Countries*. World Bank, Washington, DC.

⁷Eran, O., Bromberg, G., & Giordano, G. (2018). *Israeli Water Diplomacy and National Security Concerns*. Tel Aviv: EcoPeace Middle East.

⁸ UNRWA. (2012). *Gaza in 2020 a liveable place?* occupied Palestinian territory: United Nations.

⁹ Eran, O., Bromberg, G., & Giordano, G. (2018). *Israeli Water Diplomacy and National Security Concerns*. Tel Aviv: EcoPeace Middle East.

Israeli Ashkelon desalination plant, supplying 15% of potable water in the country, was shut down for several days due to high sewage flows out of Gaza.¹⁰ This led to a greater understanding of water security and the impact of water policies, reflected in Israeli Prime Minister Benjamin Netanyahu's statement in 2016: "*When there is not enough water in Gaza, and Gaza is in the process of gradually drying up, the aquifers become polluted and when the aquifers become polluted, this is not limited to the Gaza side of the aquifer but also passes over to the aquifer on our side. Therefore, it is in Israel's clear interest to deal with the water problem in the Gaza Strip.*"¹¹

2.2 Palestine National Authority's Discourse

The Palestinian Water Authority (PWA) stated that "the water sector is one of the most vital sectors for the sustainable development at the national level", reflecting the equally important role water security plays for Palestinian national security.¹² Palestine has relied on Israel for water since 1967, as Israel has gained control over most of its water resources and issued a military order requesting a necessary permit from the Israeli army for the construction of new Palestinian water installations. Moreover, despite the Joint Water Committee (JWC) being made up of equal amounts of experts from both sides, until 2017, Israel still had a veto power over Palestinian water resource projects in all Areas, restricting the PWA in the development of its projects¹³. In 2017 the JWC was revived and modified, reflecting loosening Israeli control in Area

A and Area B, but still requires approval from the Israeli Civil Administration for projects in Area C, which comprises 60% of the West Bank.¹⁴ The Palestinian's Water Authority Strategic Plan of 2016-2018 outlines several challenges faced in achieving water security, as well as strategic goals to ameliorate it, revolving around the establishment of institutions capable of providing good governance for the water sector, as well as water laws to regulate the sector and improve its services.¹⁵ Moreover, the PWA has established a set of 15 principles, titled "Elements of a Water Policy", meant to guide Palestinian governance in the water sector in the future. Interestingly, as analysed by Dr. Rouyer¹⁶, "*Elements of a Water Policy*" is strikingly similar to the Israeli Water Law established in 1959, including a shift in water management. Indeed, presently, water sources are separately managed by villages and communities, and are privately owned. However, Article 1 of the guiding principles states that "all sources of water should be the property of the state", which is a key principle also found in the Israeli law.¹⁷ Moreover, the PWA recently shifted its arguments of water scarcity from solely blaming it on the Israeli occupation and its control over water sources, to arguing that the lack of financial resources required to develop the water sector and infrastructures, the lack of proper institutions and governance to support the water sector, along with

¹⁰ *Ibid.*

¹¹ *Ibid.*

¹² State of Palestine Water Authority. *Water Authority Strategic Plan 2016-2018*.

¹³ Eran, O., Bromberg, G., & Giordano, G. (2018). *Israeli Water Diplomacy and National Security Concerns*. Tel Aviv: EcoPeace Middle East.

¹⁴ *Ibid.*

¹⁵ State of Palestine Water Authority. *Water Authority Strategic Plan 2016-2018*.

¹⁶ Rouyer, A. R. (1999). The Water Accords of Oslo II: Averting a Looming Disaster. *Middle East Policy Council*.

¹⁷ *Ibid.*

climate change acting as a multiplier effect, are also factors affecting water scarcity.¹⁸

3. Water diplomacy

According to the UN, “*water diplomacy is a branch of diplomacy, applied to bilateral and multilateral negotiations on water issues between and among states. Water diplomacy is about dialogue, negotiation and reconciling conflicting interests among riparian states. It involves the institutional capacity and power politics of states.*”¹⁹

Water has shown promising signs in past negotiations between Palestine and Israel, as seen in the Oslo II Accords in water was the first agreed upon item. However, the Oslo II Accords was designed to be an interim agreement which should have been re-negotiated within 5 years following its signature to be effective, as it was designed according to 1995 demographics of the population and did not reflect a comprehensive conclusive agreement²⁰. Moreover, Israel’s relaxation of its veto over Palestinian water projects in 2017 also mirrors a step forward towards a more equal system of water management, despite its remaining veto power over Area C covering most of the West Bank.

3.1 Prisoner’s Dilemma

The transboundary nature of the three main water bodies (Figure 1) combined with the mutual importance of water security as a national security concern creates a state of interdependence between

Israel and Palestine, reflecting a mutual interest. Ultimately, both sides are better off when using water diplomacy, illustrated by an iterated prisoner’s dilemma model (Figure 2). In this game theory model, rational actors (in this case Israel and the Palestinian National Authority) can choose to either use water diplomacy and cooperate, or defect, thereby maintaining their existing policies or using a more offensive approach. Two necessary conditions must be satisfied for the iterated prisoner’s dilemma game to function:

firstly, $Temptation\ to\ defect > Reward\ for\ mutual\ cooperation > Punishment > Sucker's\ payoff$

and secondly: $2\ (Reward\ for\ mutual\ cooperation) > Temptation\ to\ defect + Sucker's\ payoff$

The first condition is satisfied in the short run, but not in the long run when the game is iterated. This is because cooperation through water diplomacy is the most rational strategy to achieve the mutual national interest of Israel and Palestine. Indeed, in the short run, the temptation to defect would be easier and greater for either side but would not solve the compelling water insecurity which would be prominent in the long run. Accordingly, this strategy is aligned with the theory of strategic realism in the sense that actors will act in their own self-interest, which in this case, due to their state of interdependence within the context of transboundary water bodies, means cooperating through water diplomacy.

¹⁸State of Palestine Water Authority. *Water Authority Strategic Plan 2016-2018*.

¹⁹ Hefny, D. M. (2011). *Water Diplomacy: A Tool for Enhancing Water Peace and Sustainability in the Arab Region*. Cairo: UNESCO.

²⁰ Eran, O., Bromberg, G., & Giordano, G. (2018). *Israeli Water Diplomacy and National Security Concerns*. Tel Aviv: EcoPeace Middle East.

Figure 2: Prisoner's Dilemma Matrix

| | | | |
|-----------|-----------|---|---|
| | | Israel | |
| | | Cooperate | Defect |
| Palestine | Cooperate | Water Security (Israel will benefit in long run, Palestine will benefit in long run) | Water Insecurity (Short-run benefit for Israel, deterioration for Palestine) |
| | Defect | Water Insecurity (low short-run benefit for Palestine, deterioration for Israel) | Water Insecurity (less time and effort for Israel and Palestine but no water security) |

- If both actors defect, choosing to follow their present policies, it will cost both actors less time and effort, which is beneficial in the short run. However, in the long-run, water insecurity will persist, increasing water scarcity and pollution issues, which is largely unsustainable.
- If Israel cooperates and Palestine defects, it would benefit Palestine in the short term if it uses a successful offensive strategy, increasing its direct water supply, but would be detrimental in the long run, as Israel would adopt tighter water policies thus preventing the achievement of water security for either side.
- If Palestine cooperates and Israel defects, it would be more beneficial for Israel in the short run, considering the amount of water sources it controls, but would not resolve the issue of the increasing water insecurity (including pollution). Moreover, in the long run, it would strongly impact Palestinian society, worsening the humanitarian situation in Gaza and fuelling radicalization of the population, causing unrest and increasing insecurity for Israel.

- If both actors chose to cooperate using water diplomacy, Israel and Palestine will obtain mutual gains, namely, greater water security for both.

However, there are several flaws and external factors to take into consideration when using such a simplistic game theory model. Firstly, the longstanding protracted conflict has led to mutual distrust between Israel and Palestine, which may cause them to fall in a spiral of mutual retaliation, thus blinding the long-term mutual benefits. Secondly, this model may hold true to the relation between Israel and the Palestinian National Authority but may not hold true to the Hamas in Gaza, which needs to be considered a completely separate actor, with a different notion of rationality and different relations with Israel. Thirdly, from a Machiavellian perspective, leaders on either side will take actions considering they must avoid being resented by their people, and so must ensure they have public support. In the past, the lack of public support jeopardized peace talks. In 1995, Israeli Prime Minister Yitzhak Rabin was assassinated by an Israeli ultranationalist opposing Rabin's peace initiative and the Oslo Accords.

3.2 Regional Cooperation

*“Just as conflict over water can fuel instability, sound water management and regional cooperation on water issues can bolster harmony. The importance of regional efforts to integrate water issues in national and international policies is indispensable.”*²¹ Water diplomacy can ensure water

²¹ Shay, D. C. (2017). Israel's Strategic balance: Opportunities and Threats. *Regional Water Security*:

security through different levels of water management mechanisms. At the macro level, international institutions as well as international law play a role in advancing water diplomacy and regional cooperation. In addition to being one of the largest aid donors to Palestine, the EU has been increasingly engaged with the aim of achieving lasting peace in the region.²² The Regional Initiative Programme (RIP) takes action on several levels, engaging the civil society as well as regional actors. It has provided support to the EU Water Initiative regarding the Mediterranean and Middle East, including the management of transboundary water sources and river basins²³. Moreover, the EU finances external initiatives which promote trilateral water cooperation between Israel, Jordan and Palestine, such as the Regional Water Data Banks Project (RWDBP) that works in partnership with national water agencies, as well as the Good Water Neighbours Project (GWN), which uses mutual water concerns to further transborder cooperation.²⁴

Palestinian water rights under international law have been extremely ambiguous and subject to debate as they directly raise the question of Palestinian sovereignty and whether Palestine qualifies as a 'state'. This being said, customary international law characterizes riparian states as those that "arise as an incident of ownership to land adjacent [to a] river" and lies on the principle of *sic utere tuo ut alienum non laedas*, based on property law, forbidding riparian states to use their 'property'

in a way that would harm the property rights of their neighboring riparian state.²⁵ Hence, under customary international law, the lower part of the Jordan River should be equally shared amongst Israel, Palestine and Jordan. The United Nations Convention on the Law of Non-Navigational Use of International Watercourses (UNWC) was adopted by over one hundred nations in 1997 and entered into force in August 2014, establishing a legal framework for the cooperation on shared water sources, which Palestine ratified in 2015.²⁶ Article 40 of the Oslo II Accords declares that "Israel recognizes the Palestinian water rights in the West Bank" and that these should be more precisely defined and negotiated in the Permanent Status Agreement. However, the interim agreement has never been renegotiated, and consequently, Palestinian 'water rights' have not been explicitly defined nor has an integral set of rights for all shared water sources been drafted, restricting these rights to the West Bank part of the Mountain Aquifer.²⁷

4. Policy recommendations

As seen previously, water diplomacy is not doomed to fail and shows substantial opportunities for cooperation. The subsequent recommendations draw light on present issues refraining water diplomacy from ensuring water security for riparian states in the Israeli-Palestinian conflict, as well as what would help ensure it.

Challenges and Opportunities in the Middle East.

Herzliya: IDC Herzliya.

²² Office of the European Union Representative, West Bank and Gaza Strip, UNRWA. (2016, May 16). The European Union Assistance to Palestinians.

²³ Kramer, A. (2008). *Regional Water Cooperation and Peacebuilding in the Middle East*. Adelphi Research.

²⁴ Ibid.

²⁵ Niehuss, J. *The Legal Implications of the Israeli-Palestinian Water Crisis*. Sustainable Development Law & Policy, Winter 2005,13-18, 76.

²⁶ Niehuss, J. *The Legal Implications of the Israeli-Palestinian Water Crisis*. Sustainable Development Law & Policy, Winter 2005,13-18, 76.

²⁷ Eran, O., Bromberg, G., & Giordano, G. (2018). *Israeli Water Diplomacy and National Security Concerns*. Tel Aviv: EcoPeace Middle East.

4.1. Address water security as an individual matter

Water must stop being used in other political agenda arguments and must not be seen as a national security weapon against the other party. The Water and Energy Minister of Israel, Yuval Steinitz, stated at an international conference in 2016: “*Water is water, regardless of the political situation [...] Regardless of the political situation we have to resolve the water problem and we have to prepare already today to supply enough water to everybody.*” Which exemplifies the mindset required to achieve water security for both Israel and Palestine. Indeed, only now is Israel starting to understand that Palestinian water insecurity threatens both Israel and Palestine’s national security and that they are interdependent when it comes to water.

4.2. Use the gradualism model of sequencing in conflict resolution

The gradualism model of sequencing in conflict resolution is the most appropriate here and promises the best results. The rationale behind it is to address small issues before the most complex ones to build trust or, at least, foster a positive atmosphere. Thus, in this case, water security must be addressed on its own, without looking at complex and intractable issues such as Jerusalem or the sovereignty of Palestine as a separate state. This approach was used for the Oslo Accords which were arguably the most advanced peace processes between Israel and Palestine. Therefore, whether the Oslo II Accords are re-negotiated to achieve a permanent status agreement, or whether a new water agreement is formed, the gradualist approach must be used for a sound agreement on water to be effectively achieved.

4.3. Establish a comprehensive legal framework

A meticulous legal framework must be established, in the continuation of the Oslo II Accords of 1995, either through the re-negotiation of the Oslo II Accords as a permanent agreement, or through the signing of a new water agreement. It is crucial to clearly define Palestinian water rights and clarify them under customary international law to provide a legal basis for further agreements regarding water sources.

4.4. Take into account future changes in the environment

Both meteorological and demographic changes must be strongly taken into consideration. The Middle East is considered a ‘climate hotspot’, being one of the most affected regions by climate change, and it is estimated that the yearly level of precipitation will decrease by 40% across Jordan, Palestine and Israel over the next one hundred years²⁸. In addition, changing demographics will also need to be taken into account when forming a new water agreement or when re-negotiating the Oslo II Accords, to ensure a fair allocation of water resources to meet the needs of the populations and avoid future water scarcity impacting one side more than the other, as it happened with the Oslo II Accords.

4.5. Consider the Fatah-Hamas split

Considering the differences between Israeli-Hamas relations and Israeli-Fatah relations (Palestine National Authority), water diplomacy

²⁸Carry, I. (2019). *Climate Change, Water Security, and National Security for Jordan, Palestine, and Israel*. Amman: EcoPeace Middle East.

must be addressed asynchronously to the PNA on one side, and to the Hamas in Gaza on the other side. The Fatah-Hamas split must be taken into close consideration as Israel cannot continue to isolate the Hamas in Gaza, but neither can it engage in talks or negotiations with the Hamas in an identical way as with the PNA. This implies a possible negotiation between the PNA and the Hamas prior to engaging with Israel, or a completely different water agreement between Israel and the Hamas to address the issues in Gaza.

Palestine, which could spill over to other subjects, by contributing in building greater trust.

5. Concluding Thoughts

Israel and Palestine have failed so far in establishing a common strategy that would serve both their national security interests and would be mutually beneficial. However, water diplomacy shows promising signs in addressing water issues and achieving water security. The growing understanding of interdependence between Israel and Palestine within the context of transboundary water sources is crucial to advance water diplomacy and peacebuilding.

It is now essential for the population of both sides to realize this state of interdependence in order to increase public support for water diplomacy and achieve mutually beneficial water policies. For this to happen, on the one hand, Israeli politicians must stop denying that water insecurity in Palestine, such as the fairly recent water crises in Gaza, are largely due to extreme Israeli restrictions of access to water. On the other hand, Palestinian politicians must stop blaming all their water security issues on the Israeli occupation, thereby acknowledging their own deficiencies in water management.

If successful, water diplomacy could pave the way for future peacebuilding between Israel and

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Should Kantian Morality be the Aim of International Relations?

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Abstract

To guide actions within their societies, men have equipped themselves with different means: morality, which inscribed in the consciences the values relating to good and evil; the law, which enacts the rules distinguishing what is permitted from what is forbidden and sanctioned; and politics, which organizes and directs the community.

This paper examines the duality between ethics and international relations. The analysis starts by focusing on how the former shapes the latter and raises questions regarding their coexistence and dependency. This is done when questioning whether ethics ought to be the aim of international relations. The paper firstly delves into whether justice can ignore morality and how Kantian ethics influenced the contemporary answer to the question. The paper then examines whether international relations can conform to morality, by looking at logical and societal organization around ethics.

Keywords: morality, justice, law, international relations, politics, ethics.

I. Introduction

To guide actions within their societies, men have equipped themselves with different means: morality, which inscribed in their consciences the values relating to good and evil; the law, which enacts the rules distinguishing what is permitted from what is forbidden and sanctioned; and politics, which organizes and directs the community. These three areas have not always been clearly differentiated, but in modern societies, each are regarded as independent; so that today it is easy to distinguish an immoral political decision from a crime under the law or moral fault. For example, a political leader who has failed to reduce unemployment will respond politically to the electing masses. But if he has committed abuses of power by transgressing laws, he might have to answer them legally in court. As to whether he acted out of lack of respect or as a man inspired by the public good, it is a matter of morality. Yet, it would be difficult to admit that a measure can be justified on one plane and not on another, and in particular, that moral requirements are not always applicable in law or in politics. Yet, should not justice also inspire the law? In fact, the confusion of these domains carries risks of abuse of power which leads to a sort of “separation of powers.” But, if each field has its own objectives and rules, is it necessary to separate them completely and consider that the law does not have to worry about morality, that politics do not have to respect the law, or even that morality cannot judge politics? This article will look at Kantian ethics in international relations and evolve around the central question: should Kantian morality be the end goal of international relations? This article will proceed in two parts. Firstly, it will discuss whether justice can

ignore morality. Then, part two will discuss whether internationality relations can conform to morality. Finally, a conclusion will put together all the findings.

2. Can justice ignore morality?

This question can seem misguided, after all isn't justice a paradigmatic moral term? Justice is here to be understood as organizational justice. The sense of justice is largely based on the ethical assumptions as to how other human beings should be treated. When something is said to be unfair, it is often asserted that the event has transgressed some normative standard of appropriate conduct. Consequently, the perception that an injustice has occurred can trigger a strong emotional response. This raises a fundamental aspect, a judge whose job would be to prescribe a moral decision to satisfy justice is also inclined to emotional responses. As a result, the link between injustice and immorality includes strong emotions and behaviors that at times transcend the interest of justice and may be subject to individual interests. Speaking of organizational justice, this is evident when looking at the US incarceration system for instance, which is the world's largest prison population with 698 people incarcerated per 100,000.¹ The US managed to capitalize on mass incarceration by privatizing prison contracts which generated \$3.5 billion in 2015.² The fact that the US prison system has become a profitable industry makes the idea that justice, and the judicial system, always serves morality questionable. Hence asking whether justice can ignore morality is relevant.

¹ Capitalizing on Mass Incarceration: U.S. Growth in Private Prisons, The Sentencing Project, August 02, 2018

² Ibid

The theories of international relations see its dynamics influenced by the different theories often resulting from the zeitgeist. Indeed, theories are in fact directly influenced by the cultural values and belief systems of their times. The paradigm of the interwar period (1919-1939) gives an insight on how society psychologically affected the way in which people saw the world. This historical period is marked by Idealism, one of IR's prevailing theories. This leads to a fundamental question: can international relations ignore morality? It is evident how moral values are at the center of idealism.

Idealism seeks to transcend the international anarchy and to create a sort of cosmopolitan and harmonious world order.³ Moreover, idealism emphasizes the importance of growing interdependence amongst nations as well as the unity of mankind. For idealists, the power of reason overcomes the prejudice and counteracts the machinations of "sinister forces".^[1] Idealism sees war as a disease of the international body politic and believes the crude power search can be eliminated from international relations when substituting national armies by "research, reason and discussion."⁴

Now, the history of political theory is written in light of the hypothesis stating that theories of politics are themselves a part of politics. The theories do not refer to an external reality but are produced as a normal part of the social milieu in which politics itself has its being. As such, the idea that moral ideas are part of political justice, and to the grander scheme of international relations, makes sense since the overall hope and moral leaning of idealism first resulted from its spirit of the times.

The horrors of WWI emphasized the impossibility of ignoring ethics in political decision-making processes for elected and electing minds.

Idealism believes that "the struggle of power could be tamed by international law" and that "the pursuit of self-interest could be replaced by the shared objective of promoting security for all."⁵ Drawing on Kant's Perpetual Peace published in 1795, idealists believe that humans are fundamentally altruistic, and that collaboration is achievable through reason. Human concern for people's welfare hence making progress possible. At its core, this general principle of idealism lies on two core ideas – solidarity and generosity, which emerge from Immanuel Kant's theory called "social unsociability."⁶

According to Kant, the unsociable sociability of men is the natural instinct of men to gather together because it is easier to live, evolve and develop in a group than alone. This however comes with a natural desire in men to dissociate from the social group and to do things alone. For Kant, this natural disposition to associate allows men to develop their natural dispositions, that is, teamwork, but also the fundamental human qualities: fraternity, sharing, the ability to like etc. Moreover, by associating with his fellow men, a man feels more man because he is surrounded by his peers. It also allows him to observe himself through others, something that is impossible for him in the state of nature where he lives and evolves alone. However, this sociability of men is inevitably linked to an unsociability that pushes men once associated with a group to detach from it through desire for independence and autonomy. According to Kant, the

³ Wilson, Peter. "Idealism in International Relations." *LSE Research Online*, 2012

⁴ Ibid

⁵ Immanuel Kant, Perpetual Peace: A Philosophical Sketch, 1795

⁶ Allen W. Wood, Unsociable Sociability: The Anthropological Basis of Kantian Ethics, 1991

“unsociable sociability of men” is a natural disposition that pushes men to enter society while pushing it away. Although this antagonism seems to be negative, it is not. On the contrary, it is the source of social progress that leads men to develop their own abilities. Indeed, this unsociability that drives men to do everything on their own creates an individualism and desire for success. The latter will consequently lead to a competition pushing men to give the best of themselves, motivated by the desire to climb the social ladder. Without this, says Kant, all the excellent natural dispositions that are in humanity would slumber forever without developing: “Without social competition, men would not be worth more than sheep”.⁷ For him, reason and thought will push him to surpass himself, in order to surpass others. Thus, men first develop their reason as intelligence and search for efficiency, before this same reason, further developed, allows them to think of laws, then moral values. By doing so, mankind transcends the roughness of nature. The ruse put in place by nature is hence what the author calls “the unsociable sociability of men.”⁸

It is evident how Kantian philosophy is at the roots of idealism as their own core principles emerge from Kant’s essay Idea of a Universal History with Cosmopolitan Purpose (1784). The idea of justice and equality for all seems to be applicable, even at the early beginnings of civilization in the Kantian model. The human essence results in being a determinant factor and gives an insight on how human instincts and behaviors seem to shape international relations due to decision-making processes encoded in the human condition. This

⁷ Immanuel Kant, Perpetual Peace: A Philosophical Sketch, 1795

⁸ Immanuel Kant, Ideal of a Universal History with Cosmopolitan Purpose, 1784

oversimplified representation of society stated above is for Kant the beginning of how the State and laws came to life. Idealism seeks to transcend evil institutions and the violence they engender. Idealists believe war and anarchy are avoidable as long as political reforms are inspired in morality, human rights and liberties. As a result, the State needs to be moral for international relations to be moral, as “a state should make its internal political philosophy the goal of its foreign policy.”⁹

Now, the State is the authority of the law, it prescribes justice, in a positive sense, applies it and ensures its respect – it is said that the State is first the positive law, that is to say the set of rules that govern it. A positive right will then be just in accordance with natural law, it will be recognized as moral with respect to the dignity of man. Moreover, in a democratic state, the men constituting the elected government remain equal to any citizen before the law. According to Charles-Louis de Montesquieu, democracy is the power of the people, for the people and by the people.¹⁰ It is this state that Rousseau advocates for. He defines the state as a “social contract to restore to men the lost freedom”¹¹, in which the people would give themselves their own law. Therefore, following Rousseau’s vision of the state, it would be a vision with positive rule of law, not only because the people are sovereign: “The state must be all citizens”¹² and that the law applies to all, but also because “we must respect the law because violating it is immoral.”¹³ Moreover, for Rousseau, the law is the tool of liberty, if it is equal for all, equality would then be the

⁹ Ibid

¹⁰ Charles-Louis de Montesquieu, De l’Esprit des Loix, 1748

¹¹ Jean-Jacques Rousseau, The social contract, 1762

¹² Ibid

¹³ Jean-Jacques Rousseau, The social contract, 1762

condition of liberty, and in the democratic and sovereign republican state that Rousseau preaches, all men are equal. As a result, the state is neither above nor violating the law because it advocates equality, which is the first condition of the law. Since the representatives of the state are equal to every citizen, the state is similarly equal before the law and must itself abide by it. Hence following these principles, Rousseau's vision of the state would be one where the law and morality meet and coexist. Moreover, in the modern Republican State Rousseau advocated for, any citizen can drag the State to justice before the Constitutional Council if it judges that its law is not constitutional, that is to say, that this law does not conform to the principles of equality between rulers and ruled.¹⁴

According to Kantian philosophy, without laws and a state, men naturally return to conflict and violence ensues. Thus, a natural need arises to create laws capable of changing the customs and little by little rationalize the behaviors. Thus, according to Kant, politics must become moral, and to do this no one can disobey the law, hence the famous quote: "Contest as much as you want but obey."¹⁵ Indeed, according to Kant, respect for the laws, even by the State, does not mean submission to it, because to challenge and obey are the pillars of democratic life, but on the contrary: the State must guarantee the expression of public disagreement with the law without suffering personal reprisals. But the state has the right and the duty to demand obedience to the law, because it protects individuals from the violence of the state of nature. It allows the change of customs, the rationalization of behaviors, the development of culture and refinement.

¹⁴ Ibid

¹⁵ Immanuel Kant, An Answer to the Questions: What is Enlightenment? 1784

Kant does more than promote a republican state, i.e. a state of law, where citizens and public authorities must all respect the law; he also prescribes the need for international law to avoid the violence of the state of nature between states. It would then be necessary to govern by stabilizing conflicts not only within states but also between them.

3. Can international relations conform to morality?

The human condition naturally shapes international relations as one's natural instincts appear to be at the roots of foreign policy behaviors. As a result, a fundamental problem arises – the human nature does not seem to be moral by nature. This is evident as idealism took a turn only once WWI occurred. The grossness of human nature and its violent tendencies result in being as determinant in international relations as any other instinct. This leads to idealism's mortal enemy – realism. By 1945, the world political situation was at its worst, no one believed in idealism and the pragmatism of realism dominated¹⁶. Realism is the oldest theory of international relations. Departing from Hobbes' "Homo homini lupus"¹⁷ and The Prince (Machiavelli, 1532), realism believes that men are bad by nature. Their selfishness and desire for power result in natural conflicts, due to the ethically flawed components of human nature.

Conflicts between men have existed throughout all recorded human history. What changed however, was the focus of these conflicts. From 1648 onwards, conflicts

¹⁶ John J. Mearsheimer, E.H. Carr vs. Idealism: The Battle Rages On, 2004

¹⁷ Thomas Hobbes, The Leviathan: Or the Matter, Form and Power of the Commonwealth, Ecclesiastical and Civil, 1651

were between Princes and their kingdoms. In 1789, according to R.R. Palmer “the wars of kings were over; the wars of peoples had begun.”¹⁸ 1919 was a shift as conflicts evolved around ideologies – the world started splitting in two, torn between capitalism and socialism. Finally, as argued by Huntington, 1989 marked a tipping point as conflicts changed their focus onto civilizations, i.e. cultures and religions. In his essay Clash of Civilizations, Huntington exposes the new dynamics of world conflicts; and on September 11th, 2001 history seemed to unfold like some sort of self-proclaimed prophecy.

Violence seems to be intrinsic to the human condition. The notion of violence itself is key as, unlike morality, the law must use constraint to achieve its objectives. This is what Hobbes advocated for with his famous saying “Auctoritas nec veritas fecit legem”¹⁹ – Authority makes law not truth, which became a political dictum of the Modern State. Hence, can violence always serve the law? Is it possible to avoid that political powers, under the pressure of particular interests, make an arbitrary use of this force if it is the holder? Worse, is it possible to remove the suspicion that the law is nothing but the disguise of force? Étienne de La Boétie warns the public against the State and more precisely against the tyranny, another form of the state where the tyrant and his “tyrannos” abuse their political power. Indeed, according to La Boétie, tyranny is not the government of one, but a system of hidden pyramidal corruption. The tyrant, wishing to place himself not only at the head of the state but above all the laws, will establish himself by corruption. He will give power, a right pass to a handful

which in turn will give power to some others, in order to remain in power and so on.²⁰ Corruption will give undeserved power to someone who will be indebted to him and who will be fond of it, enslaved to his own passion for domination. Hence, the moral aspect that accompanies the legitimacy of the state does not apply when the corrupted wrongfully use force.

However, if it is admitted that it is in people’s rights to defend their rights in the face of the oppression from their State, who may feel empowered to intervene when another State oppresses its own people? Shouldn’t this be a valid right beyond the borders of States?

The vices of human nature exposed by global conflicts raise an underlying question – can international relations conform to morality? To this query, the philosopher Sartre seems to offer a solution: “the essence precedes existence”²¹ – hence international law would appear by necessity to give the world the power needed to regulate the naturally violent human behaviors that prevail in the international realm, *such as genocides and other crimes against humanity*. If the law has been able to be i.e. a peace-making in some societies, why can it not do it on a whole-of-humanity scale? Like all rights, a supranational right would presuppose three conditions: common legislation, independent tribunal and effective police. The first condition is partially fulfilled with the conventions that regulate the facts of war, the UN resolutions and the 1948 Human Declaration of Human Rights. The second condition is put in place with the international criminal tribunals, including the Court of The Hague. As far as an international police force is concerned, Interpol is still far from the mark.

¹⁸ Samuel P. Huntington, Clash of Civilizations, 1996

¹⁹ Thomas Hobbes, The Leviathan: Or the Matter, Form and Power of the Commonwealth, Ecclesiastical and Civil, 1651

²⁰ Étienne de la Boétie, Discours de la servitude volontaire, 1577

²¹ Jean Paul Sartre, L’existentialisme est un humanisme, 1946

But it is the very project of a “cosmopolitan” right, which would make the whole world a single city, which meets with objections of principle.²² This project is old: The Stoics, especially Epictetus (50-130), considered that each man was a citizen of the same world ordained by divine reason. Proponents of the absolute sovereignty of states contest the principle of foreign interference in their internal affairs; they believe that people must solve their own problems, as it has always been the case in history, through clashes and compromises; especially as the “interventionist” states who present themselves as the advocates of the law are suspected of being self-proclaimed vigilantes and in fact pursue their personal, i.e. national interests. According to Kant: “The problem of establishing a perfect civil constitution depends on the problem of establishing a legislation that regulates the external relations of states and cannot be solved without it.”²³ As a result, is it necessary to conclude that each state must remain master at home when it flouts the requirements of law and morality, or think with Kant, that history is necessarily heading towards the reign of law over states? According to Rousseau: “laws are the expression of the general will.”²⁴ To conclude, an international rule of law could then emerge if the global community wants and asks for it, that is, if there is a global community and a global state.

4. Conclusion

To guide actions within their societies, men have equipped themselves with different means: morality

which inscribed in the consciences the values relating to good and evil; the law, which enacts the rules distinguishing what is permitted from what is forbidden and sanctioned; and politics which organizes and directs the community. Since Montesquieu first advocated for the separations of powers in *Spirit of the Laws*, justice has enacted as moral guardian for human behaviors. Can justice ignore morality? Morality cannot exist in practicality without the establishment of a justice system. It is through the rationalization of human behaviors defined by customs and laws that society maintains core foundations as to keep its sense of morality. Asking whether international relations can conform to morality seems like diplomacy’s million-dollar question. And although this hasn’t been attained in practicality it doesn’t mean it isn’t something to aspire to and work towards. According to Kant’s theories, moral international relations between nations is achievable through international cooperation and unison. To some, global governance seems like a socialist ideal, yet in some ways contemporary actions have enacted taken the first steps towards it. International institutions such as the EU or the International Court of Justice of the Hague are in a way pieces of a puzzle yet to be completed.

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²² Epictetus, *The Enchiridion of Epictetus*, AD c.125

²³ Immanuel Kant, *Perpetual Peace: A Philosophical Sketch*, 1795

²⁴ Jean-Jacques Rousseau, *The social contract*, 1762

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