



A DIGEST OF NEWS AND VIEWS ON BRITAIN'S ECONOMY
AND OUR ROLE IN OVERSEAS TRADE AND PAYMENTS

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THE RETURN OF STAGFLATION BACK TO THE 1970S?

A talk given by Joachim Fels, Managing Director and co-head of Morgan Stanley's European Economics Team, to members of the Economic Research Council on Wednesday 2nd February 2005

The title of my talk is 'Back to 1970s'. Different people may associate different images with the 70s. Yes, the 70s was the time of bell-bottom trousers and platform shoes, of disco and Saturday Night Fever, of John Travolta and Olivia Newton-John, of orange-flowered wallpaper and transparent plastic chairs. Closer to home, Kevin Keegan and the Bay City Rollers also spring to mind. I grew up with all of this and, despite some fond memories, I have to say I'm glad that all of this is history. But these fashions, fads and people are not really what I have in mind when I talk about a possible return of the 1970s. In fact, most of them have already had their comeback, some of them even multiple ones.

What I rather have in mind when I talk about a return of the 70s is the macro-economic and, perhaps, political environment that prevailed in that decade. In short, it was a terrible decade in macro-economic terms, for the UK, for Europe, and for the United States. The 1970s saw an unfortunate combination of weak or no economic growth and high inflation. Economic stagnation and accelerating inflation – this is the worst of all worlds except for deflation. It is a combination which we economists call 'stagflation'. Stagflation was a new experience, at least in post-war history, because economic stagnation was usually associated with lower inflation, and high inflation was usually associated with economic booms. Well, not so in the 70s. So this is what I have in mind when I talk about a possible return of the 1970s: a prolonged period of slow growth and higher inflation.

Most people think this is a crazy idea. Most of our clients – institutional investors around the world who manage big sums of money – find it crazy. Most of the central bankers I talk to find it crazy – some of them even take it as a personal insult that I believe they would let such a thing happen again. And most of my own colleagues at Morgan Stanley find it crazy, too. But, all of them – investors, central bankers, and my colleagues understand that if I'm right and the world economy were to slip back into stagflation, this would have severe consequences for our economic well-being and for financial markets.

I guess the reason why people find it difficult to imagine a return of the 70s is that we are all conditioned by our experiences of the past 20 years or

so, when something like a virtuous circle of declining inflation and higher economic growth developed in the world economy. In the UK, this was particularly true of the 1990s, which Mervyn, the King of central banking, recently called the ‘nice’ decade – ‘nice’ being an acronym for ‘non-inflationary, consistently expansionary’ – I think only an economist – and Mervyn King is an excellent economist – could come up with such an acronym, but it nicely describes what I have in mind. The buzz words here for the UK and for the world economy at large are globalization, deregulation, disinflation, fiscal consolidation and, in general, macro-economic stability. These describe the economic environment that we have lived in for quite some time now. Against this backdrop, it is of course difficult to imagine that this state of the world could give way to rising protectionism, re-regulation, inflation and fiscal profligacy. But that’s exactly what I fear will happen in the rest of this decade: a re-play, even though a muted one, of the 70s and early 80s: a period of high macroeconomic instability and non-cooperative domestic and international economic policies. The standard response that I get whenever I utter such dour thoughts is that this world is truly different: globalization and productivity gains are here to stay, inflation is forever dead, and governments, left or right, won’t dare to interfere with markets – history never repeats itself, they say. Well, I’ll let Mark Twain respond to this, who famously said: History never repeats itself, but it rhymes. In fact, the longer I think about it and go through the archives and statistics, the more similarities I find between then and now. Let me just point out the most important similarities.

For starters, I think everything moves in long cycles, especially economies. As I see it, the macro-economic instability of the 70s was the response to the long economic boom of the 50s and 60s in America and Europe. And in many ways, the boom of the 50s and 60s resembles the one of the late 80s and 90s. Economic growth in the 1950s was initially propelled by a rebuilding of the infrastructure and the capital stock after a devastating war in Europe, but also – and this holds especially for the United States – by scientific and technological innovations made before and during the war that were then put to civilian uses. Similarly, much of the technological revolution of the 1990s can be traced back to the race for military supremacy during the cold war, which culminated in President Reagan’s Star Wars program of the 1980s. There were massive government-funded research and development projects in military technology and many of the innovations and the bright minds in Silicon Valley that were behind the IT revolution were direct or indirect off-springs of these programs.

There is another parallel that I find interesting: Some economic historians have pointed out that the productivity gains of the 1990s, which were associated with the decline in communication costs due to the spread of the internet, were comparable to those derived from the decline in transportation costs resulting from the building of the interstate highway system in North America in the late 50s and early 60s. This analogy is nice and relevant, I think. The improvements in the road infrastructure reduced the costs of transporting and exchanging goods and thus produced productivity gains. Similarly, the improvements in IT and communication infrastructure reduced the costs of transporting and exchanging information and thus produced productivity gains. Productivity is key in these long economic cycles, and I'll come back to this crucial point later.

Just as in the 1990s, strong economic growth in the 1960s went along with low and stable inflation and sound public finances. Trade policies were benign, with several multilateral rounds of tariff reductions allowing the world to reap gains from a growing international division of labour.

Exchange rate policies are another parallel. In a way, the exchange rate policies pursued by China and several other Asia economies today closely resemble Europe's exchange rate policies during the 50s and 60s. Back then, the European countries pegged their currencies to the US dollar at a competitive exchange rate, which allowed them to pursue an export-led growth strategy. Capital flows were highly restricted so that Europe's trade surpluses found their reflection in an accumulation of US dollar denominated assets, almost exclusively Treasury bonds, in the portfolios of central banks here in Europe. There is really nothing new in the 'I buy your bonds if you buy my goods' strategy that China follows vis-a-vis the US – China is doing today what we Europeans did (successfully) for more than two decades until the early 70s. As an aside, it strikes me as ironic that many European policy makers are criticising the Chinese development strategy of pegging to the dollar and developing the economy via exports – that's exactly what Europe did for nearly three decades after World War II.

So much for the comparison between the booming 90s and the booming 60s. As we all know the cosy 60s gave way to the unpleasant 1970s, and this is not only because the Fabulous Four from Liverpool broke up in 1970. But, in a way, the end of The Beatles as a band mirrors the changes that occurred on the economic and political front. Already during the late 1960s, more and more strains became apparent in the cosy macro-environment. In America, the Vietnam war, which went terribly wrong, fundamentally changed both the political climate and the fiscal and monetary

policy backdrop. Budget surpluses turned into budget deficits and the Federal Reserve started to pursue an expansionary policy to keep the economy going. In Europe as in the US, students took to the streets to protest against the war and, at the same time, workers took to the streets demanding stronger wage increases as the post-war chronic unemployment had long turned into over-employment. The political pendulum swung to the left, governments embarked on expanding the welfare state, and a naive belief in the ability of fiscal and monetary policies to fine-tune economic growth gained currency. The dollar shortage of the 1950s turned into a dollar glut during the late 1960s and early 70s, culminating, first, in the decision by President Nixon to close the gold window in 1971 (effectively ending the by-then largely symbolic link of the dollar to gold) and, two years later, in 1973, in the breakdown of the Bretton Woods system of fixed exchange rates, which John Maynard Keynes had helped to devise in the 1940s. Then, the first oil shock hit, when the producers of oil massively restricted supply and the recession of 1974 effectively marked the end of two golden decades. With hindsight, 1973/74 marked the beginning of the great productivity slowdown, and it marked the beginning of a previously unknown phenomenon: stagflation – slow growth coupled with high inflation, which prevailed for much of the 70s and well into the 80s.

It is not difficult to spot the parallels between the late 60s/early 70s and today. Like the Vietnam war, the war against terrorism today is weighing down on the public coffers and has led to a serious political discord both within Europe and across the Atlantic. The dollar shortage of the 1990s, which propelled the greenback from high to high until the year 2000, has turned into a dollar glut, with central banks around the world accumulating dollars to prevent the dollar from falling further. Rising oil and other commodity prices are taking their toll on consumers and industrial users (although, admittedly, the 1970s situation was much more severe as there was a *physical* shortage of oil). Also, just as Japan and Korea emerged as new competitors for the established industrialised countries in the 70s, China and India are increasingly seen as a competitive threat and the calls for protectionism are becoming louder. Monetary policy around the globe is highly expansionary and a naive belief in the ability of policy makers (especially the Fed) to achieve whatever result they want to achieve is widespread. I just cannot help the feeling of *déjà vu*.

I think what we are looking at here is a perfect recipe for a return of stagflation – weak economic growth and rising inflation: as in the early 70s we are seeing an unhealthy combination of what we economists call negative

supply shocks on the one hand, and expansionary demand policies on the other hand. What are the negative supply shocks? There are at least three of them:

First, sharply higher oil prices and commodity prices – they work like a tax on profits and consumption, so bad news for consumers and companies, except of course for the oil majors.

Second, the competitive shock from China and India – which leads to dislocation in Europe and America as production and jobs get outsourced to these low-cost and fast growing economies.

Third and this is the most important negative supply shock, productivity slowdown is beginning in the US after several years of exceptionally strong productivity growth. The easy productivity gains have now probably been made. Companies have fully reaped the benefits deriving from the implementation of new technologies. This has allowed them to produce more output with fewer workers. In other words, companies have learned to squeeze more juice out of the lemon with the help of IT. But the lemon has run dry and increasingly, companies find that they cannot raise output further without hiring more workers. As a consequence, productivity growth looks set to slow again, unless a new technological revolution comes along. The slowdown in productivity has already started, by the way, if I look at recent data for the US economy. But I think this slowdown has much further to go.

So much for the negative supply shocks. But to explain stagflation, we also need to look at the demand side. And what we see there, worries me a lot. We are seeing a combination of expansionary monetary and fiscal policies. Real short term interest rates in the US and in Europe (though not the UK) are zero or negative and thus at their lowest point since the 70s and budget deficits (including the UK) are rising. It is exactly this combination of negative supply shocks and expansionary demand policies that will produce both slower economic growth and higher inflation.

However, there are also some important differences between now and then, which are worth highlighting. Let me just mention what I think are the two most important differences:

First, an important ingredient of the burst of inflation in the 70s was a wage push, as workers, who were backed by aggressive unions and leftist governments, managed to push through big wage increases .. this is definitely not what we are seeing today, not even in the UK, where the labour market looks extremely tight. For that reason alone – the lack of wage push,

inflation will be more benign than in the 70s. More benign, but still rising, I think.

Second, financial markets are much less regulated and more highly developed today, so that much of the excess liquidity that central banks have pumped into the economy may just continue to circulate in the financial markets, pushing asset prices higher rather than spilling over into the real economy and pushing consumer prices higher. This is why I have started to talk about a new kind of stagflation – I call it, somewhat clumsily, ‘Type II stagflation’ which consists of economic stagnation and *asset* price inflation, as opposed to consumer price inflation. I think that’s precisely what we are seeing in the euro area today. So, inflation there still is, but it is happening in the asset markets rather than in the markets for goods and services.

So, there are good reasons to expect the return of stagflation to be a bit more benign than the one we had in the 1970s. Yet, these differences do not necessarily imply that the macro outcome in the next several years will be a happy one. Let me, before I conclude, just explain where I see the main risks over the next several years. In good old tradition, there are three of them.

First, I think slower economic growth will lead to more social and political conflicts within countries and between countries – re-regulation, protectionism, plenty of scope for policy mistakes. If the pie is not growing, redistribution becomes more of an issue. The region I worry most about is Europe in that regard. If Europe remains trapped in its economic stagnation, I think we’ll see more and more conflicts between the EU members on all kinds of issues: EU budget contribution, agricultural and regional subsidies, defence policies, fiscal policies, taxes and so on and so forth. I don’t find it inconceivable that the EU and the euro could break apart over this one day. I have written about this last year in a piece entitled ‘Euro Wreckage’ which caused quite a stir, but that’s probably an issue for another time.

The second worry I have is where will all this excess liquidity that is floating around in financial markets end up? The issue here is financial instability – record low interest rates have led to a search for yield among investors, and central banks have thus helped to pump up bubbles in housing markets, equity markets, bond markets, emerging markets, commodity markets and so on and so forth. Also, the search for yield has led to an explosive growth of the hedge fund industry in recent years – funds that often take big bets using a lot of leverage. Financial bubbles can result in either inflation – when people feel richer and spend the paper

gains – or it can result in deflation when the bubbles burst and asset prices fall sharply – Japan is a prime example of what can go wrong.

Third, and this is related to the second risk, I worry about the high indebtedness of the private sector, which bears significant risks. The higher level of indebtedness, in my view, raises the demand for inflation. If you are highly indebted, you will benefit from inflation, and the same holds if you have a large chunk of your assets in real estate and equities, both of which typically do well when inflation is rising. So, there will be political pressure on central banks to engineer somewhat higher inflation over time. And because even the most independent central banks do not live in a vacuum, I think our societies will get, over time, what they long for – higher inflation. It supposedly greases the wheels and makes high debt more bearable.

IMPENDING ELECTIONS US AND UK

Extracts of a talk given by Sir Robert Worcester, Chairman of MORI (market and Opinion Research International), to members of the Economic Research Council on Monday 1st November 2004

Premise

I was recently asked to write the Encyclopedia Britannica's next entry on the subject of public opinion and I started by giving a short definition (in contrast to the Oxford English, unabridged English Dictionary which used 1358 words) of this as 'a collective view of a defined population'. It follows that a public opinion poll is 'a collective view of a representative sample of a defined population at a point in time'. The important points to remember are that the representative sample is necessarily small implying a margin of error and that we measure perceptions, not facts.

Plus or minus 3% is the usually quoted margin of error. This is, of course a simplification because the margin of error is enormously complicated and I won't go into it in detail, but as a frame of reference you should expect, all other things being equal, a perfectly done survey 95 times in a hundred to be within 3%, 85 times in a hundred to be within 2%, and 67 times in a hundred to be within 1%. The way I learned to tell this

on British television is to say ‘tell you what. I’ll give you a 19 to 1 bet it will be within 3%, I’ll give you a 2 to 1 bet it will be within 2%, and I’ll give you evens it will be within 1% of the General Election’ or whatever it is. I think that is the way the British, being a betting nation, can best understand it. And to illustrate the small numbers involved in the sampling process perhaps you will allow me to report the occasion when I was seated next to the Queen Mother at a luncheon down in Kent when she was at her Cinque Port three weeks before her 101st birthday. She said to me ‘you know, I’ve never been polled’ and I could not resist saying ‘Well ma’am, we figured out several years ago that on average we’ll poll everyone in the country once every 140 years, so, if we haven’t been there yet, hang on – we’re coming!’

There are five things that we measure with the tools of our trade; we measure people’s behaviour – what they do – which is pretty darn accurate; we measure their knowledge – what they know – or in many cases what they think they know because often they are wrong; and then we measure what I call three levels of views. I define these levels first as ‘*opinions*’ – the ripples on the surface of the public’s consciousness, easily blown about by the media, the politicians – whatever is going on at the moment. Opinions are things that people have thought about or care about or have discussed how something might affect them and their family. The second, below the surface views, we call ‘*attitudes*’ and those are things that have been thought about and talked about, that people have a view on but that view can be changed with a combination of information that is new to the person who holds the attitude. If the source of the new information is one that they respect and they can say ‘well, I didn’t know that’ then you have got a pretty good chance of getting an attitude changed. The third and deepest of all are people’s ‘*values*’ – those things that are really core gut views that we carry about with us and which we have mostly determined by the age of 25 are unlikely to change. These may be on moral issues such as the death penalty, euthanasia or abortion or it may be to vote the way their parents did or the way their class does or the way their age cohort does. So that is the premise upon which the work that I do has been determined.

The US presidential election

In the year 2000 US presidential election Bush (just) won in the electoral college (271 to 267) whilst Gore had a majority (just) of the popular vote (47.8% to 47.6%). Now ALL the opinion polls at the end showed a very

close position . A few were only within 2% to 2¹/₂% but many were within 1% of the outcome. When I was asked, on the night, who was going to win I could only flip a coin and say ‘It is too close to call – but the states to watch are Florida and New Mexico’. Well ... we all know what happened.

Let’s step back and note a few points of interest for tomorrow’s 2004 presidential election. We can start by noting that 4 people in ten in the United States own guns and seven in ten gun owners voted Republican in 2000. 95% of the National Rifle Association rank and file vote in a country where there was a 50.5% turnout, so that effectively, if you carried an NRA card you had 2 votes in that election. Bush in 2000 would not have been elected without those NRA members – and 92% of NRA congressional campaign contributions went to the Republicans.

Next, note that 8 in 10 Americans are white whilst 14% are Latino and 7% Blacks. I remember when the Latino figure was about 2% – not that long ago. Only 9% of Blacks who voted, voted for Bush in 2000. If the Latinos and Blacks vote at the same level as the white voters, there would be a Kerry victory. And the involvement of religion is changing too. Six people in 10 in America think God is important in their life, 4 in 10 (39%) assess themselves to be Born-Again Christians, and 33%, 1 in 3 are white Evangelical Protestants, I mention the race and they’re white because Black Evangelical Christians are heavily Democratic, but there are not very many of them, by comparison.

Now something that I find stunning is that half the people in America now think it is OK to talk politics in church. When I was growing up and going to church in America in the Midwest, you would have been shouted out of the congregation for mentioning politics. There was a separation of church and state that was complete and it would have unheard of in the churches that I grew up in, as a boy and as young man, for politics to have been spoken. Today it is being addressed from the pulpit. Republicans favoured Israel over Palestine by 68 to 8 in a Gallup survey a couple of years ago. 24% now think Iraq is the most important issue – and I thought you’d like to know that one third of the public in America know who the Chief Justice of the United States is, one third know that John Ashcroft is Attorney General, but two thirds know that Tony Blair is Prime Minister of Great Britain and if Tony Blair were a native born American, George Bush would be running well behind, I suspect, in this election.

To return now to tomorrow’s election. The current poll standings as of this morning are Bush 47.68 and Kerry 47.00. It is nonsense to carry out opinion polls to two decimal places – and yet this is what differentiates

them today. One sixth of Americans are strong Democrats – one sixth of Americans are strong Republicans, one sixth of Americans are weak Democrats one sixth of Americans are weak Republicans. Three in 10 say they are independent and 5% don't know, don't care and are going to be very glad when it is over. So who is going to win tomorrow? Remember that polls don't forecast anything. Polls are a snapshot at a point in time and don't read crystal balls or tea leaves. But pollsters do, or at least I do, so if you ask me who is going to win, I have to say that it is too close to call – I'm a 'don't know'.

The Coming UK Election

The UK electoral scene is heavily influenced by constituency boundary changes and support concentrations – and by the strength of the third main party, the Liberal Democrats. August 2004 polls showed a Labour lead of 4% (36% to 32%) over the Conservatives which would give Labour a landslide majority of 104 seats. The September 2004 polls showed only a 1% Labour lead which would give Labour a 24 seat majority.

If we ask a couple of hypothetical questions we can get a better focus. To the question 'what would happen to get you to a hung parliament?' Well, a 3 point Tory lead would get you a hung parliament – just – but Blair would still be in office presumably. 'What would it take to get to a Tory victory (holding Liberal Democrats constant at 25%)? Well if Labour dropped to 26% and the Conservatives rose to 40% then that 14 point lead would give them just a 2 seat majority. That is the steepness and the height of the mountain that the Conservative Party has to jump. But if the support for Liberal Democrats fell, the Tories would be in much better shape. If support for the Liberal Democrats fell to 19% or 20% they would only need an 8% or 9% lead over Labour. Of the 70 most marginal seats of the Tories, Liberal Democrats are second in 23 of them. In the Labour 70 most marginal seats, Liberal Democrats are second in only 7, so that is working against the Conservative Party and means that if the Liberal Democrats do well, the Conservatives will end up winning some seats from Labour but losing others to the Liberal Democrats.

The next point is to notice what a small proportion of the electorate actually determines the outcome of the election. The natural core vote for Conservatives and Labour is about 30% each and the Liberal Democrats 20%. So only 20% of the electorate are 'swing voters'. Since only about 20% of seats are marginals the swing voters in marginals are only 4% of

the total electorate who will determine not only who wins the election, but by how much.

But we should look at the issues which electors feel will be ‘very important’ to them in helping to decide which party to vote for. Top of the list is healthcare followed by education, law and order, pensions, immigration and taxation. If you take the 54% who say they care about healthcare you’ve got a 29% to 17% Labour lead – it’s now 12 points (29 minus 17) but at the time of the last General Election it was a 35 point lead, so the Tories are making big inroads in healthcare. In education Labour now leads by only 4 points where it was 34 so again, huge inroads. And the Conservatives have improved their positions on law and order and on pensions. Even on managing the economy Brown has dropped from a 34 point lead to only 3. So from these few sample figures one can say that the Conservatives are making some progress, but is it enough?

As I said, polls don’t forecast but some pollsters do, like now – so who is going to win? My answer is Blair, with a majority of 40 or 50 unless Howard and his friends blow it and then it could be another Labour landslide of 100 to 120 and in *that* case maybe Howard goes after the election – and David Davis takes over as Tory leader (*laughter etc*). You heard it here!

The Coming Election – an Editor’s Note

Robert Worcester suggested that one likely outcome of the coming election is a Labour victory despite the Conservatives receiving more votes than Labour. He has estimated that even if the Conservatives had as much as a 3% lead, Labour may win more seats than the Conservatives. Such an outcome has only occurred twice before – in 1951 and in 1974 but on both of these occasions the losing party’s lead in votes cast was tiny.

<i>1951 Conservative victory</i>	<i>1974 Labour victory</i>
Con M.P.s 321 Con % 48.0	Lab M.P.s 301 Lab % 37.2
Lab M.P.s 295 Lab % 48.7 (Lib % 2.6)	Con M.P.s 297 Con % 37.9 (Lib % 19.3)

A Labour victory in 2005 in the face of a Conservative lead in votes of as much as 3% would truly be ‘unprecedented’.

THE ENERGY DEBATE

*By Dan Lewis**

Worldwide energy consumption is really made up of three roughly equal sectors; heat, electricity and transport fuel. These proportions then vary quite a bit depending on the country. Generally, the richer and the larger the country, the more transport fuel is consumed, as in America. But countries with extreme climates such as Saudi Arabia and Norway, are very high consumers of electricity for air conditioning and heating. In the developing world, particularly in Africa, home made fires play a huge role, usually from the combustion of local biomass for domestic heating and cooking.

In short, the energy debate is really about which fuel to use to create heat, generate electricity and power transport. Because depending on that choice, there are huge variations in the environmental, financial and security implications.

Nearly 20% of global electricity comes from nuclear power. But the nuclear base was built largely in the 60s and 70s, 90% of it in the developed world. These plants typically have a life-span of 40 years. That's why governments are being forced to decide now; replace nuclear plants with nuclear or take the renewable option?

With environmental commitments such as the Kyoto Protocol to reduce greenhouse gas emissions, governments will have to choose one, the other or possibly both. In the last 10 years, many countries have tried, with some success, shifting coal burning to cleaner gas burning plants to meet emission targets. But there are natural limits to this approach. Now it's crunch time for the nuclear industry.

Some governments like America and Finland, are making a concerted effort to increase nuclear power. America under Bush has decided to build up to 1900 new power plants (although not all nuclear) in order to meet energy requirements for the next 20 years. Finland has decided they want the independence from Russian gas that a national nuclear power station would afford them. And the French have announced plans to build a new generation of Pressure Water Reactors.

* Author of 'Recharging the Nation – the cost and challenge of Renewable Electricity Generation', published by The Economic Research Council.

Japan, which has had substantial problems with their nuclear plants, as well as the most expensive electricity in the world, is embarking on a huge subsidised solar roof programme. Britain for the time being appears committed to no nuclear replacement but is rapidly trying to ramp up wind power, as well might a country with 30% of Europe's wind resources. Italy, the largest importer of electricity in the world, decided in the 1970s they wouldn't build any more power plants. So they just buy energy from France and Switzerland instead. Since the recent power cuts, this appears to be under review.

Yet for the first time, top down pressure is growing for renewable energy as the favoured alternative. The main reason is that many politicians see it as more voter friendly than a nuclear replacement programme. It would also meet environmental commitments and security of supply. But how far can we really go with renewables and what about the cost?

Renewables incorporate solar, hydro, wind, tide, geothermal, combustible plants and waste and wave energy. It's a common misperception that renewable energy is free, like wind or solar, because the energy is just there to be collected. But the plant has to be built to extract that power, and that is what costs money. And extraction costs constitute the biggest obstacle for renewables. In fact, the cost of fuel overall is just one variant of many out of the total cost of power, as low as a tenth.

And yet despite all the new interest surrounding renewables, their impact remains minimal. According to the International Energy Association, in 2000, renewables accounted for just under 14% of world total energy supply, (although ahead of nuclear at 7%). The surprise is that broken down further, tide, wind, solar and geothermal, which many see as the energy future, account for less than half a percent of that. Only 2% is hydropower and the remaining 11% is made up of combustible plants and waste. The big story here is that fully two-thirds of this 11% is produced by the developing world, the world leaders therefore in renewables.

Clearly, the big picture tells us we are some way from large-scale renewable production.

Still, rather than face up to the huge cost of nuclear replacement, governments in the nuclear world are trying instead to push voter-friendly yet possibly more expensive renewable power. Japan is embarking on the world's largest subsidised solar roof programme, no doubt influenced and encouraged by their very own companies like Sharp and Kyocera who make them. In Europe, Denmark and Germany lead the way with their

native wind turbine industries which export and make them billions of euros. And the European Union itself has set a target of 20% renewable electricity by 2010.

What we have then is a polarised debate. Can renewables deliver tomorrow the levels of power generated by the nuclear industry today?

Not everyone is convinced, and not just the nuclear industry. *The Economist* once said that renewables were a pet project for bearded vegetarians in sandals. Yet huge strides have in recent years been made and the suits are beginning to move in, particularly in wind power. Countries like Germany and Spain have been able to add gigawatts of wind turbines in a few years. It is the only scaleable and available source of renewable electricity in quantity off the shelf today. For now though, until we discover how to store massive amounts of electricity to cope with its not very predictable intermittency of supply, it must run in conjunction with a backup supply of gas or nuclear.

All power stations need backup as none of them work at a 100% availability rate. Nuclear and wind are in the 80 – 90% range. Other renewables run much lower. Tidal at 40% and solar at 25% or less. Marine turbines, effectively windmills on the seabed powered by sea currents, conceivably could work at 100%, but they are not yet on tap.

Land resources also play a big part in the power debate. To have a 90% availability of 1 MW of electricity, a wind farm would require 2 acres of land. A 10m square solar panelled roof would give you 2kw of power, when the sun is shining and 1000 acres (and perhaps much more) of energy crops like coppiced willow, would give you a megawatt of electricity all the year round.

But it is on cost, where renewables really start to diverge. Solar panels at the domestic level are running at just under 10,000 dollars an installed kilowatt. Industrial sized wind turbines are one tenth of that price and keep working when the sun stops shining. Although the costs have fallen, manufacturers have found it hard to produce silicon cheaply, which makes up 60% of solar installation costs. And prices the last 3 years have stopped falling. The production costs of electricity from energy crops are low, but there is a huge opportunity cost in land resources. For example, to obtain just 10% of Britain's electricity from energy crops, would necessitate the use of more at least 10% of its land.

The Kyoto Protocol was progressive in that it was a multilateral approach to dealing with environmental issues. Yet America and China (the world's

second biggest polluter), refused to sign up. And no one wanted to criticise China and other countries in the developing world, which might have volunteered to be part of it. Whatever one makes of that, the political reality is that President Bush rejected the Kyoto Protocol, with the full knowledge that no one in the Clinton administration would have supported it either.

It's certainly true that renewables in their current form are far from being a 100% solution. In their current form, it is not clear that they could replace nuclear's baseload capacity. But they can be a valuable part, even if only a smallish one. Renewables would have come of age already if the Club of Rome's 1972 report *Limits to Growth* promised resource shortages had materialised. Instead, more reserves of coal, gas and oil have been found and their extraction costs have fallen, lowering the cost of conventional generation.

Until the numbers and the technology improve for renewables, nations that have a substantial nuclear generating capacity will need to hold onto it. Reliable baseload generation, the greatest strength of nuclear, remains critical for a modern economy. However, it's folly to ignore the unresolved long-term costs of nuclear waste and decommissioning. Perhaps we're all looking for a magic bullet for energy policy, a holy grail even. But for now, energy that is clean, cheap, popular and secure remains elusive. Maybe going forward, governments will be more careful not to polarise the energy debate between the renewables and nuclear lobbies. The good news is that any energy agenda should recognise that the long term trend is very positive. Energy always gets cleaner and cheaper. And we will always want more.

THE ROLE OF FEAR IN POLITICS AND IN THE ECONOMY

By David Fifield

Over the last fifty years, alongside growing prosperity, there has been a growth of 'fear'. This growth in fear, both collectively and for individuals has in part both a political and an economic link.

At the collective level (as the late Professor Strauss pointed out), liberal minded elites may use notional fears to encourage selfish and individualistic

societies to come together – for the wrong reasons. For example, fear generated by the gross exaggeration of the threats of weapons of mass destruction was recently used to achieve the collective action of war. In the economic sphere, fear generated through ‘management by targets’ leads via defensive postures to reduced flexibility, slower responses to changing needs and misdirected resources – witness both recent experience here and events in all communist countries. In the social sphere it seems quite unethical to provide an inadequate national pension thus using fear to promote private savings.

There is an alternative. In part, this must simply be to keep government as small and limited as possible. Avoiding temptation must be more reliable than resisting it. More importantly, there is a need to take a leaf from good management practice – where the best employee/employer relationship is said to be a mature one, where each party understands, shares and trusts common objectives. This concept, while reducing the role of fear, would establish a more creative relationship between politicians and electors and form a natural extension to today’s widening provision of education.

At the individual level, two fears exist, being *excluded* and being *in thrall to debt*. Over the years the balance between the two has moved in the direction of the latter. An example taken from Belgium in the early 60s demonstrates a way of thinking that has found general acceptance in the UK. An employer was heard to express the following on seeing an employee leave work in a new car. ‘I know X’s financial circumstances. He must have taken out a loan so now he will be more pliant and interested in overtime.’ This employer, an American, had imported an alien mode of thinking.

Before moving to the present, 50s UK provides a starting point. During the 50s most young people held ‘local’ employment expectations. Those of a practical bent sought apprenticeships, while aspiring professionals opted for an articulated route. While some studied locally for HNCs a small number left for fully funded university studies. In career terms low job mobility was thought desirable. Those marrying often had local backgrounds, expected to stay together for life, often close to ‘home’. For some there was social housing, while those seeking home ownership were limited to a borrowing level of two and a half times one income. Hire purchase for many was in general disapproved of, saving was seen as more important than having now. In summary, with low borrowing and locally established lifestyles and reputations, those who did not conform ran the risk and fear of exclusion.

During the intervening fifty years society has transformed itself. Families are often started by couples coming together from further afield. Those

opting for marriage now enjoy lower tax benefits, with separation more common. Education has received a large political input. A much expanded university system is no longer free to students and is becoming more expensive. Soon almost 50% of those entering work will carry sizable debt. Careers for many have moved from a long term commitment to an employer, to one of a series of opportunities. Hire-purchase, once avoided, is now encouraged through the mass use of credit cards. The housing market has seen significant change. Politicians have encouraged private ownership and sold off council houses. Family planning has become easier via the 'pill' and changes to the abortion law. This has allowed mortgage lenders to use two incomes, plus more generous borrowing multiples. Endowment mortgages have moved from lending against an insured capital sum, suited to the better off, to one of wider appeal by including an estimate of profits to come. The combined effect of these changes, along with planning regulations, has made houses valuable, sought-after, tradeable assets. Words that may be thought to summarize the present, leaving to one side technology, are mobility, borrowing, self-gratification politics and prosperity.

Compared with the 1950s, encouraged by competitive consumerism and a greater reliance on debt, there has been a cultural shift from 'belonging' to that of the 'individual'. With individuals making much greater use of borrowing (as with company gearing) there are risks. While sensible gearing brings benefits, during volatile times individuals may experience added pressures and increased fears.

In summary, individual fear has moved from not belonging to where, either purchasing power does not support self-esteem, or, through excess debt, one is put under threat. With self-esteem built around owning the right house, having a degree, driving a status car, taking regular holidays, etc. debt has become a way of achieving now rather than later. In return, debt means commitment to work, not going on strike, and voting for the political party that promises protection for that all-important 'self-esteem'.

Supported by a steady improvement in living standards, a stable economy, debt induced fear, for the moment, is low. But it could easily escalate. To remain low it requires sustained astute political and economic management and, one might add, both luck and continued reductions in the terms of trade! Otherwise, increased fear can only lead to a dangerous but insistent clamour for debt reduction – through inflation.

MEMORIES OF EDWARD HOLLOWAY

By Jim Bourlet

Edward Holloway was my predecessor as Hon Secretary of the Economic Research Council – a position he held from 1954 to 1985 when he unexpectedly died at the age of 79. He had been a founder member of the Economic Reform Club (the original name for the embryo ‘economic think tank’ which later became the ERC) in 1932. His autobiographical account ‘Money Matters’ (published posthumously in 1986) gives a vivid account of the personalities and enthusiasm which accompanied these events – suffice to point out that in 1932 Edward was a young man co-ordinating a group of senior and much older statesmen whereas when I first met him in 1969 he was an older man whose experience I greatly respected but whose circle of colleagues I could by then only partially share. At that time I was involved in the debate on Britain’s proposed entry to the EEC. Trade issues were central to this debate and so my first introduction to Edward was at the Commonwealth Industries Association after which he invited me to become an ERC member.

Economic Research Council dinner meetings were mostly held, during the 1970s, at the St Ermin’s and Washington hotels. ‘Political correctness’ had not yet inhibited the pleasures of cigar smoking with coffee during the speaker’s after dinner address and Edward always enjoyed a Hamlet – a little tradition which I seem to be the only member to keep up to this day! Afterwards I often drove Edward back to Victoria Station for him to collect the late train back to Brighton. Those short drives were a moment of reflection and relaxation as we discussed the speaker’s points, commented on the turn-out and concluded whether it had been a good meeting – or just an ordinary one. These were the times when I most wanted to understand what, after so many years of thought and experience, he understood (and I didn’t), what was wrong with the monetary system (which the textbooks didn’t reveal) and what the associations which he had been central to forming and maintaining, needed to achieve.

My curiosity was not simplistically rewarded because Edward was gentle and indirect rather than forceful – preferring to show with a kindly smile, his approval when one mentioned a point with which he agreed. He had a keen intellect but this never lost him friends. Indeed his ability to draw in to his orbit a great variety of forceful characters was quite remarkable.

Central to his concerns was monetary policy. The period 1920 to 1935

had witnessed the return to the gold standard, the reversal of that policy, the mismanagement of monetary affairs (Keynes argued that interest rates had been kept ruinously high in relation to the ‘natural’ rate which would have balanced investment and savings at the time) by the Bank of England, embarrassingly high profit levels by the commercial banks – and all this amidst high unemployment, underused industrial capacity and widespread hardship. ‘Money’ – its definition, creation and reward *had* to be the central concern for London’s first economic think tank with the Economic Reform Club’s members drawn from the ranks of top bankers, politicians and businessmen.

Money, of course, is simply tokens of transferable debt. Any debt owed by an individual, an organisation or a whole community which has a high likelihood of being discharged can be passed to a third party in settlement of a transaction or hoarded to accumulate rights to future goods and services. Overall indebtedness must grow, by definition, if the supply of money is to increase – and that increase is the precondition for increased transactions and thus increased economic activity and employment. What happened in the interwar years was that private individuals and private firms chose to reduce their debts (or failed to increase them sufficiently) thus contracting the money supply whilst the government failed to increase community indebtedness on a sufficient scale to offset this. Deflation followed when a slow-down in the velocity of circulation compounded the initial mistake.

Edward’s reaction slow-burned in cold fury, leading him to organise meetings, establish organisations, stand for Parliament, give lectures in schools and universities and to devote his retirement years to the cause – to the very end. John Maynard Keynes he respected but felt that he had befuddled the main issue. At the same time he saw Irving Fisher as mechanistic, and so he preferred the contributions of often lesser known writers such as Frederick Soddy (though not Major Douglas), as interpreters of monetary processes.

Edward knew that the first task was to gain widespread agreement on what constituted money creation. Bank lending to private individuals does, of course create debt and thus money. It seems almost incredible to us now that it took a mighty political effort to persuade the government to set up the Radcliffe Commission which, in 1959, insisted beyond argument that banks do indeed ‘create’ money. Edward played a key role behind the scenes in all of that, and the result marked, I suggest, the highest achievement of his career.

But beyond this basic point, the Radcliffe Commission's report was somewhat disappointing. The report needed to go further – on the issues of 'seignorage', on non-interest-bearing current account balances, overall control of interest rate and credit policy, the circumstances when increased government indebtedness is appropriate and the justifiable rate of interest which might be payable on government bonds.

Notes and coins are produced at trivial cost and we keep these tokens of debt which 'promise to pay the bearer on demand...' in our pockets without claiming interest payments. The benefit handed to the government is equal to the interest payments we have foregone or, put another way, the face value of the notes and coins. This benefit or value is called seignorage. If, in a community, individuals are prepared to increase substantially their holdings of notes and coins, a government can boost 'national' income almost costlessly by printing more money. Edward noted events in the Channel Islands when the local authorities there had succeeded in this way and wanted the matter to be more clearly understood here in London. Beyond this, which organisation should gain the benefit from individuals' preparedness to forego interest payments on sums held in non-interest-bearing bank current accounts – the government or the bank? Edward tended to the view that this benefit should normally accrue to the bank to offset their costs for their various services.

What was of greater concern to him was that, if the banks created money through their ability to issue loans to individuals and companies against their credit worthiness, then their collective influence on the *overall* sums is highly significant in political terms. He railed against the ability of the banks to exercise monopoly control of the power to 'liquefy the nation's credit' which gave them the ability, during the upswing of the credit cycle, to irresponsibly generate a boom, and the ability, during a downswing of the credit cycle to deepen a depression. Fredrich Hayek sought to remedy this through greater competitive forces within the banking industry. Edward, being that much less of a free marketeer, advocated more enlightened and more hands-on central bank guidance. This issue remains unresolved.

Nonetheless, it can be said that we have moved towards the solutions advocated by both camps. Hayek would be pleased today to count the vastly increased number of banks, the diminished influence of Britain's 'big 5' (now I suppose 'big 3') banks, the internationalisation of competition in banking and the encroachment of other firms – even supermarkets – into banking territory. Edward would be pleased to see the independence of the Bank of England and the freedom of action (and transparency) of the

Monetary Committee, a body chosen for their expertise rather than allegiances, now has in deciding the key issue of money's price (interest rates) in the marketplace.

So far so good, but when is it appropriate for governments to substantially increase state borrowing? Certainly not, Edward told me, when interest rates are high because there is no need – at such a time, plenty of reflationary ‘ammunition’ exists in the potential to reduce interest rates, and if full employment exists at these rates, government borrowing would simply be inflationary. On the other hand, if interest rates have reached rock bottom then the government may need to borrow and spend. That then raises the question of what rate of interest the government should pay to the banks which purchase the bonds.

Edward's view was that since government bonds are totally secure, interest payments on them to bank holders should be very little more than the deposit interest rates which the banks pay to balance their books – in fact a margin close to the administration costs involved. In this way, he was prepared to argue that the exchequer could save substantial taxpayer expenditures.

Edward died in 1985. One might say that this was at the beginning of ‘the long boom’ during which he could, had he lived, have spent his retirement in the observation that much seemed temporarily well. I think however, that he would now be concerned – concerned that prospective excess government borrowing must fuel an unsustainable upswing in the credit cycle and concerned lest Britain fall for the superficial attractions of abandoning the pound sterling in favour of the euro.

And where did all this leave Edward in terms of party allegiance and in his views on other issues? The Economic Reform Club and then later the Economic Research Council, he steered along strictly non-party political lines. I have, through the ERC known as many members of the one party as of the other as well as (remembering that Edward stood as a Liberal candidate for Parliament) politicians of other views. Heads of industry and leaders of Trades Unions have addressed our meetings and we have been supported as much by maverick MPs on both sides as we have been by those following the party line. The ERC has every right to pride itself on this long history of independence from any party label.

And it has also avoided any label for economic doctrine. It is not just in favour of free market economics, nor just an advocate of macro-economic balance. It is not, taking the longer term, ‘monetarist’ in the 1980s sense.

Its guidance comes from an open minded, common sense, networked approach to economic problems – a home of sanity with a long run reputation for integrity, interest and companionship in pursuit of solutions for problems we can't always pretend to fully understand.

On other policy issues I found Edward to be – shall we say – an 'antiextremist'. His sympathy for Commonwealth countries and his correspondence with war veterans associations, his appreciation of the complementary nature of inter-continental trade, his bitter distaste for the dishonesty of many of the arguments used by the Europhiles inclined him to resist Britain's ignominious collapse under Edward Heath's obsession, into the EEC. But for all that, issues concerning money dominated our conversations. On one occasion I remember saying to him that I had bought some gold coins. Through a smile he said that 'it is a good investment, but I hate you for it!'

So many memories ... On another occasion I found myself at a party at his home in Brighton. It was a summer occasion out on his lawn which was as neat and trim as only a lawn on chalk country can be and I remember the occasion for the guests – such as John Biggs-Davison MP – and the gentle atmosphere of Edwardian elegance.

SOME THOUGHTS ON THE LEGAL POSITION OF INTERNATIONAL CITIZENS

By Brian Lewis

In 1998, I was advised by an official of the British Government that having been 20 years overseas, I was no longer permitted to vote in the United Kingdom! This was a surprise to me as I still retain a British passport, and have always taken a great interest in the politics of my own country. I had indeed returned to the UK at the end of every contract overseas. In fact, I suspect the official concerned was acting only upon my original departure date of 1978, and had no information as to my whereabouts in the subsequent 20 years.

Initially, my reaction was one of resentment and unease that I was no longer able to take part in the democratic process of my own country, which I had always seen as the basis for my actions as a free man. I had always seen myself as part of a free people entitled to decide how the

nation was ruled. It is not clear to me any more what allegiance I owe to a country that has deliberately gone some way down the road to disowning me. In the old days, it was said that only lunatics and peers of the realm were denied a vote, but citizens resident overseas now seem to be added to that august number. The waters are muddied even further in the case of the British, who are not really citizens at all but ‘subjects’ of the Queen.

The British government more and more is recognising individual rights only within the boundaries of the UK by *place of residence* rather than by place of birth (*jus soli*) or by the citizenship of parents (*jus sanguinis*). Thus a foreigner resident in the UK has a right to access education, medical and hospital treatment while a British citizen with a British passport, resident too long overseas, does not. This has major implications in the longer term on political rights worldwide for all countries – and perhaps even on international political stability!

But what precisely are the international duties of a citizen/subject who is refused a vote in his own country, but yet remains a citizen/subject? What is the political objective of the British Government in these circumstances? A *subject* of course has no choice and is constrained by fear of punishment by the Crown! One suspects that the British Government is uninterested in the rights of the ‘subject’, and applies out-of-date medieval criteria to any ‘subject’ resident abroad.

A citizen in the West on the other hand is usually deemed to have certain democratic rights. If democratic rights have been removed domestically, have they not in fact been transferred by implication to another country or even become recognised internationally? Is this then not the objective of the British Government – to encourage British citizens resident overseas to become politically involved in those countries in which they find themselves? Or do international citizens have no rights?

The concept of sovereignty is well-supported by most nations states, even at a time when so many people leave their places of birth forever. The idea that some governments are sending their citizens abroad to engage in politics elsewhere will be anathema to many governments overseas, and yet the practical result of defining rights by residence rather than citizenship is bound to have far flung consequences.

A further factor unrecognised by most governments is that the huge number of across-culture marriages now taking place is also creating a genuine international middle class with great cultural and commercial advantages, often of dual-nationality, speaking a number of languages, with

family members spread strategically across the world. Many successful international entrepreneurs today were born in one country and reside in another. One dreads to think how such families handle questions of tax and wealth-transfer – all of course quite legally, but beyond the reach of any one country.

I have been uneasy to find myself set adrift in international waters without the full support of a country to which I had fondly thought I belonged. Perhaps Robin Hood would have approved? What then are the responsibilities of the international citizen when governments themselves measure everything from an outdated chauvinistic or ultranationalistic viewpoint?

I feel that modern governments, essentially representatives of sovereign powers, are losing control of a situation where an international middle class is increasingly becoming independent across borders and no longer depends on any one country for sustenance. Politicians on the other hand depend on a parochial voting system that depends heavily on local events and very little on what is happening globally. How many of our politicians have lived for more than 10 years overseas?

In summer 2004, I registered to vote from my flat in Manchester before departing abroad again. I invited the electoral officials to arrest me if they felt that I was not entitled to vote, but they seemed most reluctant to take the matter further. I suspect that arresting a British citizen for trying to vote would be a *cause célèbre!*

LETTERS

A response to the pamphlet 'What is the point of the European Union' by Lord Pearson (which members of the Economic Research Council have received on the request of Mr John Mills), from Dr Norman Thacker

Sir,

Thank you for sending me a copy of Lord Pearson's pamphlet. He makes a persuasive case though I, for one, need little persuading of the undesirability of EU membership!

Which, I suppose, is the point: The arguments are persuasive to me because I do not *welcome* the loss of sovereignty the EU implies. Europhiles might argue that, even granting the validity of much of what Lord Pearson says, ‘they are worth paying’ for a united Europe. This isn’t an untenable position.

However I do not share it. Basically I hold to two fundamental points. First, Britain is a ‘great nation’ and as such should not be less sovereign than countries such as Chad, Chile or Tuvalu! Secondly (taking an Oakshottian position) the outcome of the European – integration – process is very uncertain and potentially damaging. Would a united Europe produce effective and democratic government? What happens if eventually it threw up an unpleasant dictatorial regime?

There are, of course, many other things that could be said. But, at bottom, I think it is foolish to abandon institutions which have served us so well for so long. In fact, I think that we would be absolutely foolish so to do.

Norman Thacker
Mount Pleasant Cottage
The Rise
Kingsdown
Kent, CT14 8BE

*A response to ‘Danger in Derivatives’ by Mr Nick Leeson,
from Mr Peter Warburton.*

Sir,

It is to Nick Leeson’s credit that he was willing to return to his Waterloo in order to issue this warning. In a classic transformation of poacher turned whistleblower, the glaring holes in the supervisory and regulatory structures from which he derived personal gain in the early 1990s, he now finds deeply troubling. Perhaps uniquely, he can visualise the greater damage that he might have inflicted on the financial system had his intent been truly malicious rather simply crooked.

As one of many whom the BBC consulted in the preparation of ‘The Man Who Broke Britain’, I agree with him that the scenario of this docu-drama was eminently plausible and that a public service was rendered by its

transmission. Yet I would imagine that most viewers would quickly file it alongside meteor attacks and nuclear explosions in terms of its practical relevance to their lives.

Where I would part company with Nick's assessment of the dangers in derivatives lies in the lesser weight that I would assign to the importance of a rogue individual or terrorist sleeper and the greater weight to the random variability of financial asset prices, as potential catalysts of a derivatives disaster. If derivatives were medications, then they would undergo clinical trials on small numbers of patients before being licensed for general use. Over-the-counter interest rate, exchange rate and, more recently, credit derivatives have enjoyed spectacular growth rates but little thought has been given to their implications for the operation of the global financial system.

In a book published last year entitled 'The Misbehaviour of Markets', Benoit Mandelbrot and Richard Hudson explore a radical and more realistic representation of the randomness that characterises financial markets than the 'mild, slow' version that is assumed by the Black-Scholes options pricing formula and which forms the standard basis of derivative price determination. Instead, Mandelbrot proposes a wild form of randomness using a multifractal model of price variation in which extreme movements are both clustered and much more frequently observed than would be expected from a normal distribution.

The systemic danger inherent in the widespread use of derivatives arises from the inability to execute transactions in the event of extreme price movements. In my view, with vigilant supervision and proper internal controls, we could wait a long time for another rogue trader or a committed terrorist to cast a spanner in the works. By contrast, it is virtually inevitable that a major price discontinuity will lead some elaborate risk management strategy to unravel. At greatest risk may be the pension funds, eager to find a fix for their actuarial deficits. It would be only too easy for a group of funds to purchase the same yield enhancement product that proved to be their collective downfall.

Peter Warburton
45 Hillyfields
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A thought for the forthcoming General Election from Mr Brian Lewis

Sir,

Reading through our quarterly bulletin, it struck me that we are getting a much higher standard of contributions recently that really try to get to the heart of the matter. So much goes wrong in government circles – should I say governance generally – that it is becoming clear that most of the powers-that-be in Whitehall do not understand what they are doing in finance, management and the economy.

I argue that 150 years ago I would have been a plough-boy on a farm, and it would have been inconceivable that a Prime Minister would have paid any attention to me or a hundred thousand other plough-boys. Today it is clear that many – most – of our politicians know little about the real world and are increasingly lost in its complexity.

Today this plough-boy has had an excellent education and knows the world intimately. I, and many like me, have just spent years in the Middle East, but what good has that been in regard to influencing UK Middle East policy! The plough-boys of today in their hundreds of thousands are a force to be reckoned with, and yet they are still as remote from politics as their predecessors 150 years ago. It is the democratic conundrum of our age – how to use the expertise of educated plough-boys, still excluded from the political system. What is the point of educating 50% of our population when only narrow-minded lawyers rule the land?

Brian Lewis
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IN CENSURE OF THE WORLD'S BLIND GREED

*A poem commended by a member that was written by Edwin Markham,
inspired by Millet's painting L'Homme a la Houe and published in
the San Francisco Examiner 15th January, 1899*

**Bowed by the weight of centuries he leans
Upon his hoe and gazes at the ground,
The emptiness of ages in his face,
And on his back the burden of the world.
Through this dread shape the suffering ages look;
Times tragedy is in that aching stoop;
Through this dread shape humanity betrayed,
Plundered, profaned and disinherited,
Cries protest to the judges of the world,
A protest that is also prophecy.**
Is this the thing the Lord God made and gave
To have dominion over sea and land;
To trace the stars and search the heavens for power
To feel the passion of eternity?
Is this the dream He dreamed who shaped the suns
And pillared the blue firmament with light?
Down all the stretch of hell to its last gulf
There is no shape more terrible than this
More tongued with censure of the world's blind greed
More filled with signs and portents for the soul
More fraught with menace to the universe.
**O masters, lords and rulers of all lands,
Is this the handiwork you give to God,
This monstrous thing distorted and soul-quenched?
How will the future reckon with this man?
How answer his brute question in that hour
When whirlwinds of rebellion shake the world?
How will it be with kingdoms and with kings –
With those who shaped him to the thing he is –
When this dumb Terror shall reply to God,
After the silence of the centuries.**

NEW MEMBERS

The Council, as always, needs new members so that it can continue to serve the purposes for which it was formed; meet its obligations to existing members; and extend the benefits of members to others.

Members may propose persons for membership at any time. The only requirement is that applicants should be sympathetic with the objects of the Council.

OBJECTS

- i) To promote education in the science of economics with particular reference to monetary practice.
- ii) To devote sympathetic and detailed study to presentations on monetary and economic subjects submitted by members and others, reporting thereon in the light of knowledge and experience.
- iii) To explore with other bodies the fields of monetary and economic thought in order progressively to secure a maximum of common ground for purposes of public enlightenment.
- iv) To take all necessary steps to increase the interest of the general public in the objects of the Council, by making known the results of study and research.
- v) To publish reports and other documents embodying the results of study and research.
- vi) To encourage the establishment by other countries of bodies having aims similar to those of the Council, and to collaborate with such bodies to the public advantage.
- vii) To do such other things as may be incidental or conducive to the attainment of the aforesaid objects.

APPLICATION FORM

To the Honorary Secretary
Economic Research Council
7 St James's Square
LONDON SW1Y 4JU

Date

APPLICATION FOR MEMBERSHIP

I am/We are in sympathy with the objects of the Economic Research Council and hereby apply for membership.

This application is for
(delete those non-applicable)

- Individual membership (£25 per year)
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NAME.....

(If Corporate membership, give name of individual to whom correspondence should be addressed)

NAME OF ORGANISATION

(if Corporate)

ADDRESS

.....

..... TEL.

PROFESSION OR BUSINESS

REMITTANCE HERewith

SIGNATURE OF APPLICANT

NAME OF PROPOSER *(in block letters)*

SIGNATURE OF PROPOSER

