



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

Winter 2005

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SOME 'WORLDLY WISDOM'

by *Damon de Laszlo*

Since October I have been from Bermuda to Beijing via New York, Los Angeles and Singapore and back to Hong Kong. America left the impression that the world was rocking along just fine. Hurricanes have come and gone and oil prices have declined, the consumer has recovered confidence and US company earnings continue to grow at a steady pace. The US's ability to take advantage of technology and improve its national productivity is intact and ahead of the rest of the world. The biggest worries that Americans seem to have amount to food fetishes and avian flu. The worry from the middle of the year on the economic front has abated strangely as interest rates have risen, driving up the value of the dollar. Asian product continues to keep prices down for the retail market so there seems to be a glow that will probably run into the second quarter of next year.

Asia is astounding, flying into Singapore one can see container shipping reaching for miles in every direction. This micro-nation, the model for Deng Xiaoping's new China gives one insight into the Asian mentality. Meeting academics and one of the Government Ministers, one realises that the primary object is prosperity and a strong understanding that this must apply to the whole community. In both Singapore and Beijing, one meets this attitude across Government. Supporting it are highly intelligent and well-educated Government officials who have a cohesive vision running into the future and strategic planning that support the vision. This cohesion is startling coming from the chaotic political and muddled administrative thinking in Europe and the US.

In a fascinating meeting with Kishore Mahbubani, Dean of the Lee Kuan Yew School of Public Policy and author of '*Beyond the Age of Innocence*', a book that everyone who is interested in US/world relations should read, one realises that Asian cohesion is growing at many different levels. The only cloud on the horizon is the danger that the US Congress will start a protectionist war. Even this concern is becoming less of a danger as inter-Asian trade grows.

Moving to Beijing, I met with Professor Li, who is DG of the Institute of Finance and Banking at the Chinese Academy of Social Sciences, formerly holding a number of Government positions, and Professor Lin, who sits on a number of the national committees on economics. Both men are well versed in the higher levels of Chinese economic planning and reviewed the

‘suggestions for the 11th Five-Year Plan’ which will go to the People’s Congress in March 2006. The extraordinary process of generating consensus and then driving through Government policy on a five-year basis enables China to deal with the vagaries of the rest of the world. These plans are not always perfect, but they are the result of long deliberation by people who have a deep understanding of the way economics works.

The most interesting part of these meetings was the review of the social problems and the way they are being addressed by the Government. Within the strategy going forward, it is accepted that ‘the urban–rural disparity is increasing. The disparities may cause social instability!’ This statement refers to a study that commenced in 1978 and concluded that if the level of income disparity between urban and rural areas exceeded 0.45, this was alarming. This is currently at 0.47 and is causing considerable worry.

One of the by-products of this thought process is that the industrial development of China must continue apace. In economic terms there is a need to get some 300 m. people off the land and into factories. The dual social consequence is the improvement of agricultural efficiency along with a huge improvement in the working and living environment of the people. Chinese factories are of high standard, but any factory beats a paddy field as a working environment! All of this is encapsulated in a new part of the next Five-Year Plan: ‘putting people first and achieving a balanced growth’. This follows the older statement ‘The Government should rely on economic development and reform to solve the emerging problems’.

One problem that is causing a lot of debate is the lack of a Western style banking system. In discussions there was an indication that Chinese financial management will shift towards Hong Kong to take advantage of the sophisticated banking system that is in place. Shanghai is not likely to develop fast enough to provide a stock market that could absorb the privatisation of state industries as well as the necessary infrastructure to run a debt market. Hong Kong can also act as the experimental ground for loosening up the exchange rates. At the moment there is considerable concern that a free RMB would cause a massive exit of currency into dollars where a reasonable rate of exchange can be had. This would have the effect of driving down the RMB, cause havoc in the banking system, and antagonise the US and the rest of the world; all those prospects are not considered desirable by the Government.

The global economic effect of Chinese planning is that there will continue to be little inflationary pressure in world-traded goods. China invests in the most modern equipment for its factories; combine this with the Government

policy of getting people into employment, and there is a low, or as I commented before, a 'not for profit' economy in the near term. Another fascinating discovery that came out of my visits was a major drive into the software industry. Chinese industrialists have looked at India and are going to compete head to head.

This brings us to an interesting question of India versus China. Close relations between the two countries are being developed, as is an ever-closer relationship between China and Russia, driven by American Congressional attitudes to China. India's advantage of English and its enormous pool of management talent is rapidly lifting India's GM. By contrast, China is short of English language speakers and management. This lack of management is a major problem for Chinese economic development. India, on the other hand, suffers from a huge and corrupt bureaucracy, which historically has killed off economic reform and development, but owing to the opening up of world trade and the Internet, may not do quite so much damage this time.

The other problem for India is the lack of a modern infrastructure. In 2003, India's infrastructure spending was US\$21 bn. (3.5% of GDP) compared with US\$150 bn. (10.6% of GDP) in China. While China's infrastructure spending may be to some extent wasteful, it still leaves India with a lot of catching up to do.

Japan is the other major player in Asian development, and here we see economic growth showing definite signs of recovery and zero inflation. China is a major market for Japanese industrial products. While deflation is a threat across Japan and China, it probably won't remain so for much longer. The area is awash with liquidity and at some point inflation will reappear. There is cause for optimism as a hugely increasing industrialised population with a growing disposable income takes hold.

A word on oil. There is a growing lack of spare capacity, partly due to the lack of exploration over the last twenty years and partly due to the inefficiencies of the nationalised oil industries from Russia to Latin America. However, the reason rocketing prices overshot was as a result of subsidies in the fastest growing consumer markets in Asia, with a final spike created by the hurricanes in the southern States of the US. Rising prices in the US and Europe dampened demand relatively quickly, but the downward pressure has now come from reduced demand owing to increased prices in China and Indonesia.

Longer term, we do have a supply problem, but in the short term the economic damage of high oil prices has been mitigated. At some time,

however, the US trade deficit will become an issue, but probably not until interest rates rise in Asia.

THE ECONOMIC BASIS OF THE STRANGE DEATH OF MORAL BRITAIN

A talk given by Professor Christie Davies, author and broadcaster, to members of the Economic Research Council on Tuesday 25th October 2005

Morality's 150 year 'U' Curve

From the mid-1950s Britain went into moral decline. Acquisitive and violent crime both rose rapidly. The incidence of illegitimacy which had been low and stable in peacetime rose at first slowly and then to a very high level. Drug and alcohol abuse which had been minor problems became major ones. The respectable virtues: prudence, sobriety, honesty, self-control, sense of duty – which had been so characteristic of Britain for the previous fifty years – all ceased to prevail. The moral Britain which had been created in the nineteenth century and sustained through the first half of the twentieth was now destroyed. I say created because in the latter part of the nineteenth century theft, violence, illegitimacy and opiate and alcohol abuse all declined as part of the creation of respectable Britain, a society which astounded foreigners by its honesty, peaceableness and sense of trust and as a corollary of this, its lack of heavy-handed policing and its empty prisons. This was particularly marked in the years 1905–1955, not an easy time in British political history.

Inflation Undermines Morality

How can we explain the rise and fall of respectable Britain in economic terms? It can have nothing to do with standards of living or levels of poverty, for real incomes rose throughout the entire period as did urbanisation and geographical mobility. You can not explain a U-curve in terms of a linear change. Nor is there any correlation with whether individuals or classes were becoming more equal or less equal in economic

terms. The only economic factor that does correlate is inflation. During the creation and sustaining of respectable Britain prices in peacetime fell or were stable. Inflation is a recent phenomenon dating from the late-1930s. It is a form of government dishonesty that undermines the efforts of the thrifty and frugal and rewards the recklessly indebted. It redistributes money as arbitrarily as a burglary. Inflation is theft. It undermines morality.

But the Welfare State Corrupts Ordinary People

An economic change that has a more obviously direct effect is the rise of state welfare and the concomitant decline of voluntary institutions for welfare. The latter, such as the friendly societies, were moralising institutions. Their members were often known to one another and those paying in made their opinions known if another member deliberately behaved in a way that would make heavy demands on their common fund. Access to welfare meant social and moral control. By contrast bureaucratic state welfare is 'non-judgemental', that is to say amoral. If bad behaviour is not penalised or even rewarded then there will be more of it. If for example the economic penalties for producing illegitimate children are less, there will be more bastards; it may even be a way for a teenager to become independent of her family and to get council accommodation. In all other aspects of life people respond to incentives and penalties. Why should their moral behaviour be any different? The existence of a bureaucratic welfare state 'liberates' individuals from the economic and moral pressures of others – their families, extended kin and local communities. This in time destroys the very morality itself. Having a criminal record or an illegitimate child or a drug habit or getting drunk in public ceases to be shameful. A welfare system that is based on need without any reference to desert destroys morality. It is partly a matter of supply responding to price and partly what our Marxist friends would call base determining superstructure. Real socialism based on central planning produces the corruption of officials. Social democracy corrupts ordinary people.

Slumps Bring Property Crimes but Booms Bring Violent Crimes

In the short run there is an additional and interesting further relationship between economic forces and deviant behaviour based on the trade cycle that is particularly marked in Victorian Britain. In the boom phase of the trade cycle property crime falls as unemployment falls but violent crime

rises. When there is a downturn and employers discharge their least reliable and least efficient workers, property crime rises as idle people without savings have both the time and the incentive to turn to theft, and violent crime falls because these same individuals have less money to spend on alcohol, the key cause of violent crime. For much of the twentieth century this relationship was masked, indeed perhaps even obliterated by other stronger social forces. Now in the twenty-first century it has returned in force. Property crime has fallen because there is low unemployment. It is also possibly the case that many people with a moderate drug habit on a par with that of Tory modernisers are now able to finance it out of their earnings and do not turn to burglary and car theft. Likewise it may be that because of the grotesque ineffectiveness of the Home Office, police and Customs in preventing imports, the price of illicit drugs has fallen in real terms or relative to people's incomes. Wayne, a heroin addict now needs to commit only half as many burglaries to pay for his habit as his brother Darren would have done ten years ago. Thus, although there are just as many addicted burglars (i.e. the ones who commit most burglaries per year) the number of burglaries they commit has fallen. All a matter of market forces. Their sister Tracey, a street prostitute, does just as many tricks as her elder sister Diana did ten years ago but that is because her pimp Errol takes all her money in exchange for drugs and spends the surplus on gold trinkets. Such are the complexities of the illicit market place.

The market for alcohol is simpler. Under Mr Blair, alcohol has got cheaper in real terms because the tax on it has not kept pace with inflation nor with levels of disposable income. Restrictions on the sale of alcohol and on the times of sale and location of licensed premises have collapsed. We have returned to Gin Lane and we have corresponding levels of violence. Within any particular culture at any particular time there is a simple, direct relationship between alcohol consumption and violence. Binge drinking on Friday and Saturday evenings in public houses and clubs placed close together in town and city centres for a young clientele inexorably leads to serious facial injuries being treated in the accident and emergency department of the local hospital. If you want to know the truth ask a dental surgeon, not a criminologist. The criminologist will lie to you because he or she wishes to deny and pretend that the problem exists partly because in a welfare society such things 'do not happen' and partly because he or she fears that the British public will vote for the 'nasty party' and for more young thugs and hooligans being sent to jail. No, ask a dentist. There are no post-modern dentists. Dentists do not write about the phenomenology

of smashed front teeth. A professor of dentistry at the University of Wales told me recently that the professor of criminology no longer speaks to him because he fears what he might say about bashed-in faces and the crime rate. He prefers to live with the illusion that violent crime is no more common now than it was in 1955. However, you can't argue with a corpse and the incidence of homicide in relation to population was twice as high at the end of the twentieth century as it had been in the mid-1950s. Had it not been for advances in medicine and surgery that save lives, the increase would have been far greater. Many violent attacks either intended to kill or reckless as to whether a person might be killed that would have resulted in death in the past are now merely part of the more general, very large increase in violent crime.

It is important to note that the number of deaths of women by violence has not changed; all the extra corpses are male. The increase has not been in domestic murder but in murder in public places. It is a result of essentially three kinds of economic forces. First, the deregulating of the market for alcohol which had been highly restricted from the time of the first world war. It is the only case known where state regulation has produced a beneficial effect. Before the first world war public drunkenness and disorder was common. In the 1920s it was rare. Today it is universal and it has brought with it violence and in some cases death. Second, there was in the past no illicit market in drugs. The gradually introduced restrictions on the sale of opiates worked well. Then in the late 1950s the system crumbled. Today there is a huge illegal trade in cannabis, heroin and other opiates and cocaine. Because it is an illicit market, disputes over who controls a particular area and over debts can not be settled in court and are settled by means of violence. Often guns are used, particularly by young black drug dealers. In consequence there is also an illicit market in guns that makes a mockery of Britain's absurd restrictions on gun ownership by the respectable.

A Choice: Spin or Imprisonment?

There is no need for any of this violence to happen. Serious violent crime in the United States has fallen markedly in the twenty-first century because of a policy of locking more people up, even for crimes not involving violence. A decision has been made in most American states that the utilitarian benefits derived from a fall in both violent and acquisitive crime justify the increased expenditure on building and running prisons. In Britain we are told at a time of rapidly rising state expenditure on everything else,

that we can not afford to build more prisons. It is a very odd kind of economics indeed. I do not believe that either the ruling politicians in Britain or the civil servants in the Home Office are able or willing to do an entirely honest and disinterested economic calculation of the costs and benefits involved. Even if they commissioned someone else to do it they would do so such that the results came out in a way that fitted their pre-existing policy of avoiding a large increase in the number of prisoners, i.e. it would be a fix. They would choose their parameters, would adjust their estimates of probabilities and fiddle around with the sizes of the constants in the equations so as to produce the desired result. It is perfectly easy for them to do this without being overtly dishonest; it is rather like the way Mr Blair interprets uncertain intelligence data. An inebriated statistician contracted to the Home Office admitted to me that he had manipulated the statistics in just such a way to frustrate the possibility of certain prisoners being labelled 'dangerous' and detained for longer periods of time. When Michael Howard was Home Secretary and pursuing a policy of 'prison works' he told me that, whereas in all his other posts the civil servants had worked for him, a section of the Home Office actively worked against him. I am sure he was right; many of them are enemies of the people, as dangerous as a Communist mole in the Foreign Office. Should an external consultant produce a cost benefit analysis of prisons that indicated that they should be expanded, it would be suppressed or we would be told on spurious grounds that the statistics were faulty, rather as happened with the report to the European Community showing that most anti-Semitic attacks are carried out not by racist skinheads but by Muslims. We can not and should not trust information generated by, issued by or filtered by our government or its civil servants. They spin like tops.

Two Clear Conclusions

My main conclusions, though, as to what has to be done in economic terms to reverse moral decline are these. First, remoralise the welfare system. The handing out of economic benefits is a means of social control and should be used as such. Everyone else is subjected to social engineering. Why should it not be made clear to welfare recipients how they have to behave and what forms of behaviour will be rewarded and what penalised on the basis of the common morality of the tax-paying community who are financing them?

Second, alcohol has to become more expensive and its sale controlled. It

is not an ordinary commodity. It is a drug producing 'behavioural toxicity'. I need hardly point out the contrast in the way the government handles tobacco and the way it deals with alcohol. We can avoid and boycott restaurants that permit smoking by our own free choice; we do not need government intervention. We have no such choice in the case of drunken hooligans in public places.

Professor Christie Davies is the author of The Strange Death of Moral Britain. The arguments he outlines here are spelled out in detail in his book brought out in 2004 by Transaction publishers of New Brunswick, NJ and available from:

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A LIBERAL DEMOCRAT'S VIEW OF THE NATION'S FINANCES

Extracts from a talk given by Mr Vincent Cable, Treasury Spokesman for the Liberal Democrats, to members of the Economic Research Council on Wednesday 8th June 2005.

I think that my two tasks tonight should be to give a general assessment of where we are in terms of the British economy within the wider context and then to indicate something of my own party's policies.

Eight out of ten for Gordon Brown's Macro-economic Management

If I try to be as objective as possible, I can say that the British economy currently is in reasonably good shape. It is actually difficult being a Shadow Chancellor to Brown because he can legitimately claim that he's been

Chancellor now for eight years; that we have had steady growth; that we've had very low inflation; that we have very low unemployment compared with most other EC countries; that our debt position is very comfortable and that most of the macro-economic indicators are positive. What do you say when confronted by somebody who can correctly say those things?

I think that it is appropriate to point out that he has been 'lucky' in the sense of having a reasonably benign international environment and that he inherited some favourable trends from the Conservatives. But one can say that he made one extremely important decision, and it was right, which was to make the Bank of England interest rate setting process independent of day-to-day political interference with benefits in terms of greater credibility and thus lower interest rates than we would otherwise have had. This is all pretty positive and so he probably gets 8 out of 10 for macro-economic management.

But NOT for Micro-management

I think that there are several things on the debit side however, which will become more apparent over time. The first is that the micro management of the economy has been absolutely dreadful and there is a growing tendency for the Treasury, under his guidance, to interfere in almost everything, particularly in the public services. Hospitals, head teachers and police superintendents operate under constant interference from endless directives. This very detailed intervention is causing great complexity, a lot of inefficiency and a lot of demoralisation in the public services.

Then there have been some very big failures in particular areas. Most people may have hardly noticed them but, for instance, the Government managed to lose about £450m over a fiasco called the 'individual learning accounts', and then they lost a similar amount in introducing the 'private-public partnership of the London Underground'. Another scheme which Gordon Brown has dreamt up within the last few weeks which I fear is going to go the same way at even greater expense is the 'subsidised purchase of houses' which will supposedly stabilise the housing market. Cumulatively these 'micro-economic inventions' are going to become very costly indeed.

There is a sort of basic instability

Overhanging all this there is a sort of basic instability in the British economy which will be exposed when international conditions become more adverse

– as I suspect that they will. Much of that instability rests upon the fact that we have an enormous, what some economists call ‘asset bubble’ in the housing market – linked directly to an enormous expansion of personal debt. The ratios of personal indebtedness to incomes are at unprecedented levels and enormous numbers of people are very close to the edge of their ability to sustain debt. I’ve got older children in their early 30s and I’m just horrified at the kind of financial ratios that they operate in, in their private lives. If economic conditions were to become at all adverse, people like that, millions of them, will be in very serious difficulty. And I think that we are in circumstances where things could well change and the positive story we’ve been experiencing would come to an end.

Hinging on external events

There are various things that could well happen at an international level which, taken in combination with our own instability, could precipitate very serious economic conditions. Economists are rightly worried by the serious imbalances in the United States which, if they were to be suddenly reversed could contribute to a major slowdown in the world economy. Then there is the oil industry (where I used to work before becoming an MP). The ‘mini oil shock’ of the last year could become much more serious. There is very little spare capacity in crude oil production, there is currently very strong demand growth particularly in China and India, there is the potential for very considerable political instability in the main producing countries – and there are the threats from terrorism.

Coming on top of all that are two other things which are not being talked about very much which are also potentially very problematic. The first is growing tension between the European Union and the United States on many things – notably trade. The system that has operated for the last fifty years has been based on a common understanding and belief in free trade by the main industrial countries. But this is precarious and the disputes over agriculture and textiles make me far from optimistic that differences can be reconciled. Secondly, we have a new set of problems in Europe. I went to stay with friends in Paris last week and talked to a lot of people there. It seemed clear that the French view of the world is very different and that many French voters and members of the establishment are now looking to reverse the process of liberalisation that has generally been very successful in the rest of Europe in recent years. The idea that we should speed up the reform of agriculture, that we should deepen the European

single market through services and trade, and that we should improve the working of labour markets, is absolute anathema to the political establishment in France – and in many parts of western Europe. Unless they can overcome these attitudes, the economic problems which currently beset Germany and Italy and to some degree France, will become worse.

I come from the one political party which has been consistently ‘in favour’ of ‘Europe’ – and we remain so. I think that it is not at all an ‘anti’ position to say that we now have the task of injecting into the European debate, the lead for a kind of economic liberalisation which has worked here to a substantial degree and which is certainly necessary over the rest of Europe.

Three Themes for Liberal Democrat Economic Policy

My own approach I would describe in philosophical terms as follows. I would describe myself as an ‘economic liberal’ in the old fashioned sense but that is combined with a belief in what can loosely be called ‘social justice’, meaning to have an element of redistribution within the tax system and good quality social services, and I would also want to combine these two with a degree of environmentalism’ and a very strong commitment to ‘decentralisation’ of decision making. So the first theme is recognise these overarching principles.

The second theme concerns an important application – the reform of taxation. We campaigned for (and I advocated) a more progressive system of taxation involving a higher rate of taxation on incomes over £100,000 and a system of local taxation based on income rather than on property values. We did this on the basis that the overall system of taxation in this country is actually rather regressive, despite all the rhetoric from Gordon Brown about social justice. It’s a very peculiar tax system; when you actually break it down you find the people at the bottom on the income scale pay a higher portion of their income in tax than people at the top, despite all the complexity and all the wheezes and all the tax credits and so on. The system doesn’t actually work in the way that it is supposed to work. We are working towards a tax commission to try to devise an approach to taxation which keeps the progressive element that I’ve described but does it in a way which makes the system much simpler – lifting large numbers of people out of tax altogether, having fewer rates of tax, and removing many tax exemptions both for business and for individuals.

The third theme concerns the need to identify areas of public spending

from which the government should simply pull out. The task is to maintain our commitment to public services without committing oneself to an inexorable rise in taxation. Part of the answer has to be the process of public sector reform although I am very sceptical about many of the reforms currently going through. Clearly there has to be a process of reform and raising of efficiency in public services, but I think that the key element, where I have been trying to make some progress, is to try to identify some of the things that the government should *stop* doing. If more resources have to go into decent state pensions, or schools, or hospitals, then money has to be taken from somewhere else and the basis on which I campaigned was how to identify some big areas of public spending where government should simply pull out.

First on my list was the Department of Trade and Industry and a whole raft of things associated with industrial support. It is simply quite unnecessary that government should be doing these things – and I would add agriculture to that too. We also committed ourselves to scrapping the government’s ‘baby bond scheme’. It would be better to have a system of encouraging people to save and make these decisions for themselves. Then there is the ‘identity card scheme’ which I think is a massive financial commitment which hasn’t been thought through and should probably be scrapped. I would stop the government’s new intervention in the housing market. This is of questionable value and in practical terms, massively expensive.

VISAS INTO THE UK AND THE ISSUE OF BRITISH PASSPORTS TO NEW CITIZENS

by Brian Lewis

Over the past 40 years, HM Government has permitted large numbers of foreigners to come to reside in the now multicultural United Kingdom and subsequently granted them British Passports. Whether these are legal immigrants, illegal immigrants, asylum seekers or even criminals seems to make little difference; all and sundry eventually get permission to take up permanent residence. How does the granting of a piece of paper called a passport by an official change the underlying cultural identity of people?

It is not entirely clear how these decisions are made, often by foreign employees of British Embassies overseas. It would appear that a nostalgic British government wishes to honour an old promise that all citizens of the British Commonwealth deserve to have British passports for old times' sake. As a second alternative, it might be that in a world grown so small, no discrimination is to be practised. That meant that foreigners from wherever are to be treated as if they are already British citizens. Even so, it is not quite clear how obvious malcontents, anarchists and criminals are allowed to slip through the immigration net. Perhaps it is that the net just has very large bureaucratic holes on purpose! I have not heard a government minister arguing publicly in these terms. Presumably they sign the enabling orders in secret.

Yet at the same time as this tide of foreign humanity was being welcomed to our shores, rules concerning British citizens returning from representing their country overseas were considerably tightened. Indeed, many of the rules concerning entitlements to medical treatment, education or voting in the UK now depend upon residence rather than nationality, place of birth or payment of taxes or national insurance. The Americans have taught us that there should be no taxation without representation, but HM government does not agree: British taxpayers resident overseas are expected to pay tax on their UK income, but are not allowed to vote.

The position of spouses has been complicated even further. Poor spouses of poor British citizens with British children may not be allowed to take up residence with their British families on the grounds that they will be a burden on social services. This sounds very much against human rights and contrasts with the attitude to passport issuance. The government seems to argue that this is a reflection of the right – in particular of all women – to be independent and free and not to be considered chattels of their spouses. One shudders to think how many foreign women are denied entry to the UK to be with their British husbands and families on the grounds they are too poor!

Recent acts – statistically rather insignificant – of terrorism have complicated the matter. Clearly many now in possession of a British passport feel they have no obligation to behave properly as a citizen of a new country and are even entitled to take up arms against it.

Perhaps these people, originally foreigners, have in fact turned out to be more suspect than British citizens historically long-bound by sentiment and pride to the country. The government presumably disagrees now that we are all equal and no discrimination is allowed.

It would seem nevertheless statistically that some people are more suspect than others. It would be carrying coals to Newcastle for the British security services to treat everyone as dangerous (even white haired ‘Caucasian’ old ladies) and install a security apparatus that covers not only everyone in the UK but even foreigners overseas. To treat everyone with suspicion is very expensive and designed not to solve the problem.

It is in fact odd that a government so keen on treating all UK residents as equal (even if not citizens) is still harsh in treating foreigners beyond our shores as having few or no rights at all. The government tries to negotiate with ruthless sovereign nations to protect the ‘torture’ rights of those deported to their shores, but would not lift a finger to help the citizens inside these self-same countries – who live in some state of permanent insecurity.

Luckily the world has become a global village. It is hard to be *persona non grata* in one’s own country even if it is not such a punishment as once it was. It must be admitted that we all have identities that spring from our own cultures, where we were born and where we were brought up. For modern governments to deny this basic fact, and then cling to outmoded and odd ideas of sovereignty and residency is tending to encourage the formation of an international diaspora, which owes allegiance no where and to no one. This is getting worse with every passing year as globalisation takes hold, and yet governments cling to the idea that they have frontiers to protect. In the course of doing just that they punish unnecessarily their own people who dare to go abroad for too long.

If all rights stem from residency (surely a form of conquest!) then passports have very little meaning any more. Perhaps there should now be an ‘international’ passport?

CAPITALISM, A POSITIVE MORAL FORCE?

by Robert McGarvey

Socialist Utopianism

Of all the many misperceptions surrounding capitalism nowadays, perhaps the most enduring is the widespread acceptance of its ethical inadequacy. Arguments on the subject generally go something like this: capitalism, although now reluctantly accepted as being more productive, is immoral because it brings out the worst in people, pitting individuals and corporations against one another in an endless competitive struggle. Socialism on the other hand (despite its obvious failings as a wealth generator) is still considered morally superior in the sense that it is seen as promoting harmony and human cooperation.

The connection between communal ownership and cooperation is deeply embedded in western thought. Consider the following from Thomas More's *Utopia* (1515): *'In Utopia where every man has a right to everything, they all know that if care is taken to keep the public stores full, no private man can want anything; for among them there is no unequal distribution, so that no man is poor, none in necessity, and though no man has anything, yet they are all rich; for what can make a man so rich as to lead a serene and cheerful life, free from anxieties.'* More recent thinkers such as Rousseau, Fourier and Robert Owen have expressed similar idealistic sentiments about the joys of communal ownership. The common thread in this line of thought is the notion that true social justice and the greater good are somehow incompatible with the individualised ownership of property.

This utopian line of reasoning has had a tough innings in the 20th century. Friedrich Hayek¹, amongst others, has attacked it in theoretical realm, while in the practical world organised socialism has failed to deliver on its utopian promise²: where far from encouraging cooperation, socialism in the 20th century has been associated with political authoritarianism and,

1 F.A Hayek, *The Fatal Conceit, The Errors of Socialism*, Routledge Press, 1988

2 *The Failure of Socialism and Lessons for America*, by *Richard M. Ebeling*, March 1993 details in rather graphic terms the failure of socialism on the Soviet model in three critical areas: (1) the theory of a planned economy, (2) the belief in collective or group rights, and (3) the notion of socialised or state-provided social services. Whether Mr. Ebeling will be as forthright and analytical in documenting the failure of modern capitalism remains to be seen.

in a number of celebrated cases, a stifling ‘beggar thy neighbour’ attitude – clearly not what idealists intended.

Aristotle’s Perspective

Given the experience of the past century we may perhaps have been wiser to take counsel from Aristotle, who saw advantages in private property ownership, and went so far as relating the presence of private ownership to both the willingness and ability of humans to cooperate.

Aristotle felt that private ownership was superior to communal ownership in important ways: *‘Property should be in a certain sense common, but, as a general rule, private; for, when everyone has a distinct interest, men... will make more progress, because every one will be attending to his own business.’*³ Importantly, however, Aristotle observed a relationship between individualized ownership and cooperation. His linkage between ownership and cooperation was pragmatic, simply stated he believed that a man who owns nothing has nothing to share or be generous with, and therefore no ability or incentive to cooperate: *‘Liberality is a matter of property. No one, when men have all things in common, will any longer set an example of liberalty or do any liberal action; for liberalty consists in the use which is made of property.’*⁴

The ‘Barn Raising’ Tradition of the Prairie West

Principles such as those expressed above were applied to good effect in the developmental stages of the American Republic. As one of the most successful economic development initiatives in history, 19th century homesteading created a broadly based property owning democracy, which successfully linked individualised ownership with social cooperation in the prairie west.

The Homesteading Act of 1862⁵ was brilliant in its simplicity. An

3 Aristotle, *The Politics*, Penguin Classics, see Book II, section V on the Ownership of Property, specifically page 115 of the 1951 edition

4 Aristotle, *IBID*, page 115 of the 1951 edition. It is admitted that Aristotle had decidedly unpopular views on property, for instance he included both wives and slaves as legitimate forms of privately own-able property. Nevertheless his observations on the ethical impact of private ownership are well worth a read and more than relevant to the modern reader.

5 http://www.nps.gov/home/homestead_act.html President Lincoln signed the Homesteading Act into law in May of 1862, literally in the fire of Civil War as a

immigrant family arriving on the American frontier a century or so ago could gain access – at no charge – to an underdeveloped asset (160 acres of land), in many cases simply by arriving at the Land Office and applying. The size and nature of the homesteading asset varied over time but the principle was wonderfully sensible: a homestead needed to be large enough to financially support a hardworking family. The possession of this asset engendered a great pride of ownership amongst new immigrants, but homesteading's success was due in large part to its ability to leverage the labour expended in their exertions; building buildings, clearing land and otherwise improving the value of the homestead. A homestead gave the family ownership of an accruing asset that was essentially storing their labour in its escalating value, and the homestead was also a source of income from the production and sale of grain, cattle etc, and – no less important – a ready built-in subsistence for their family. As a consequence there was little doubt as to the motivation in homesteading; asset ownership essentially compounded the utility value of labour; which goes some way to explaining why homesteaders were so highly motivated and hard working.

Making underutilised land assets available to as many deserving people as possible in a young America created a win-win situation. More importantly the subtleties of the homesteading model were deliberately designed to encourage cooperation⁶ on the prairie west. Ownership of a homestead was conditional, with full title passing only upon the achievement of various milestones; a minimum (usually five year) tenure, the clearing of a specified amount of land, the planting of various crops etc. Now many of the milestones in homesteading could be met by the family themselves, but building a barn generally required the neighbours' help. As a consequence a cooperative 'Barn Raising' tradition spontaneously emerged amongst homesteaders in the prairie west, as a direct result of the need to meet this obligation both individually and collectively.

means of preventing the western spread of slavery, in essence guaranteeing the development of a property owning liberal democracy in the American West. A similarly constructed Homesteading Act was passed shortly thereafter (with similar effect) in the newly formed Dominion of Canada (Confederated 1867) by Sir John A MacDonal's Conservative government.

6 Homesteading also played an important role in nation building in America. Between the end of the Civil War in 1865 and the turn of the 20th century 25 million immigrants arrived in the United States hoping to acquire 'free' land. These immigrants, mostly poor and from dozens of differing nations, were, through their prairie homesteading experience, welded into a nation: property-owning citizens with a great pride in their 'new' American identity.

There is no doubt that behind prairie cooperation was the allure of individual ownership, with the financial and social independence it created. But homesteading seemed to reinforce the Aristotlian premise; the promise of ownership encouraged prairie families of many differing backgrounds and nationalities to cooperate with each other to both individual and collective advantage. And although the motivations may have been complex, ownership gave immigrants both the means and the interest to cooperate. And collaborate they did, the homesteading experience helped create a sense of community spirit and cooperation that survives on the western prairies to this day.

The Cooperation in Competition

Homesteading was a wonderfully constructed programme, but does the presence of private ownership encourage cooperation in modern economies in general? Let's face it market capitalism is characterised by the private ownership of property. Property interests when they arrive in a market situation, necessarily collide. It's no surprise then that 'competition' (and not cooperation) is considered as the primary driver of market capitalism; with cooperation (where it is considered at all) a distant unrelated consequence.

Competition is adversarial by definition; it is accepted in western economies on the basis that it has (over several centuries) demonstrated an ability to allocate scarce resources efficiently and relatively impartially. However, while there is general agreement that competition is a somewhat necessary evil, few appreciate the extent to which market competition and cooperation are entwined, and in many ways co-dependent. Importantly for our discussion, competition, precisely because it is rooted in the rights and vulnerabilities of ownership, tends (almost in spite itself) to advance the Aristotlian premise and encourage human cooperation.

To start with, before business-like competition can even begin there needs to be an initial act of cooperation. The agreement to have rules, to limit or mitigate the use (or threat) of force constitutes a foundational act of social cooperation, essential to the effectiveness of market capitalism. This cooperation is rooted in the sensible desire of competitors to place boundaries on the competitive struggle. The reasons for this are fairly straightforward. Where there are no rules – no mutually agreed ethical limitations – competition tends to extremes. Consider competing against a Colombian drug gang or the Mafia. In these criminal situations competition

is a very high-risk undertaking; competitors, when they do emerge, quickly become the hunter or the hunted – there being no middle ground in a winner takes all struggle.

Consider more conventional commerce in the absence of this foundational cooperation: present day Russia comes to mind. Pity the fate of Canadian oil company Norex Petroleum, who at one point a few years ago owned a majority interest in Yugraneft, a Russian oil company. One day in July of 2001 thugs armed with AK 47s arrived at their board meeting and, after spraying the room with fire, forced a takeover resolution through the board. That completed, the competitor then proceeded to occupy the company's headquarters in Siberia and seize its main asset, a nearby oil field⁷. Pretty extreme. Let's face it, even the most 'hostile' of takeovers in the west, pale in comparison to armed assaults. The truth is for capitalist type competition to be effective there must be limits based upon a generalised respect for individual 'rights'⁸. Indeed, even accepting the need for adversarial behaviour in capitalism, it is clear that the willingness and ability to compete depends upon an underlying civil consensus, a degree of social cooperation that is singularly lacking on the Siberian frontier.

The Presumption of Equality

Competition, as we understand it in the west, is really only possible in a civil, rules-based society, but the theory of market competition also presumes an approximate equality in 'rights' between competitors in exchange situations: another advanced form of social cooperation. Consider the prospect of competition in an aristocratic society between a feudal lord and his penniless dependent serf. The inequality is most obvious in wealth and stature, ownership and entitlement are united in the former and violently absent in the latter. In this admittedly extreme situation there is no basis for equality, and therefore no possibility for meaningful competition. In

7 <http://www.globalethics.org/newsline/members/issue.tmpl?articleid=0716011345348>
Ironically the Russian parties involved were also minority shareholders of Yugraneft. All this took place in the week of July 8, 2001; the competitor/shareholder seized the board, its assets and took control of the \$30 million bank account at the point of a gun. It will come as no surprise to learn that the competitor is linked with a regional governor who has close ties to the Kremlin.

8 Certainly this must include a respect for property rights, but the respect must extend beyond the simple notion of property to including more basic human rights, including the right to engage in commerce without the imposition of violence and the threat of violence.

general, in economies where inequality is institutionalised through social custom or law, competition is discouraged because the outcome of any meaningful engagement is a foregone conclusion.

In modern democratic economies, the equality of rights is expressed through the openness of the competitive playing field. Capitalist economies generate competitors large and small; they maintain a more or less level playing field by ensuring an equality of access to markets and consumers. In open market economies, companies as large and prestigious as General Motors are forced to compete on more or less equal terms with many smaller, often nimbler competitors. Indeed GM's major competitor today, Toyota was a mere speck on the horizon thirty years ago when it began to seriously challenge GM's market share. In tolerating an equal standing with new more innovative competitors, established companies (with powerful vested interests) in our capitalist economy agree to cooperate, in this sense to sacrifice some part of their own ultimate power for the greater economic good⁹. While this may seem altruistic, it is really the old republican notion that respecting others' rights (property or otherwise) is a necessary precondition to ensuring the preservation of one's own rights.

All capitalist economies depend upon a generalised acceptance of this principle (to some degree) in order to function optimally, however let's not forget that there are powerful property related incentives to the contrary. Indeed even Adam Smith warned against certain types of 'cooperation' between merchants: *'People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices.'*¹⁰ Ultimately, however, all these so called 'cooperative' activities, price-fixing agreements, cartels, arrangements to reduce capacity or quotas to restrict imports etc, are actions undertaken by groups of producers (or governments) to betray someone else's rights (competitors or consumers). In deliberately advancing particular and not general rights, this is selfishness masquerading as cooperation¹¹. Ironically it is the lack of

9 *Trapped in the lawless Chinese business jungle*, Joseph Kahn, The New York Times. (Tuesday, November 1, 2005) For those who doubt the importance of this initial act of cooperation, consider the fate of poor David Ji, a Chinese-American electronics entrepreneur, who is presently locked in a Chinese prison after falling into dispute with a powerful politically connected corporation in China.

10 Book I, Chapter X, page 144, Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, published 1976 by the University of Chicago Press, Edited by Edwin Cannan, first published in 1904 by Methuen and Co.

11 German philosopher Immanuel Kant (1724–1804) advanced a premise that any act if it is to be considered ethical should pass a universality test, which he called his

this equality of rights and social cooperation that leads to stagnation in socialist and other restrictive economies¹².

However, as important as this foundational cooperation has been, it is only part of the story. Modern capitalism continues to evolve along Aristotelian lines, demonstrating a tendency as it advances to even greater cooperation.

Cooperation Advancing as Capitalism Evolves

Clearly a degree of adversarial behaviour is unavoidable in market economies if the principle of rights and the equality of rights are to be respected, however almost from the beginning, governments have worked to mitigate the more counter-productive elements of competition in their economies. Elements which if allowed to escalate without restraint would impinge property rights, discouraging or reducing active participation in the market. Two principles, formed by the interests of property ownership have had a large influence shaping the character of market competition over the ages. Principle number one, predicated on the equality of property rights, is the notion that *competition should be open and non-discriminatory*. Principle number two is a risk management principle suggesting that: *as individuals, the less we have to lose the more likely we are and the more willing we are to compete aggressively*.

One of the greatest threats to open and fair competition is the presence of monopolistic practices, behaviour that restricts access to markets even in the presence of willing participants. Capitalism in the late 19th and early 20th century responded vigorously to just such a challenge in order to maintain open and free competition. Antitrust legislation was introduced in the United States to combat the growth of monopolistic ‘trusts’ that emerged initially in rail transport, and later in sugar, steel, tobacco and most importantly oil. This legislation had as its objective the preservation of an open and free competitive economy, which was being threatened by heavy-

categorical imperative: ‘Act only on the maxim by which you can at the same time will that it should become a universal law.’

12 Recent developments in Russia, in particular, are chilling. Political leaders are returning to a bias in favour of certain producers, or actually drawing certain property rights back into government control itself. The violation of property rights and the principle of equality, while politically expedient given the circumstances will lead to demands down the road for greater openness and access as the rights pendulum in Russia swings back, as it eventually must.

handed practices of the trusts, most famously John D Rockefeller's Standard Oil Trust¹³.

In respect to managing individual risk, one of the earliest champions was Edward Pleydell-Bouverie who, as President of the Board of Trade, forced through a conservative United Kingdom Parliament the world's first Limited Liability Act in 1855¹⁴, a risk reduction factor that opened the door to unprecedented growth in Victorian England. Governments have ever since (for better or worse) played a significant role maintaining openness and non-discrimination in the economic system. Where they have been successful, legislation has modified competitive forces in ways that have managed individuals' risk while increasing their willingness and ability to participate actively in the market.

But many other restraints on competition, which some would describe as cooperative, have occurred organically from within the capitalist system as it has evolved over time. For instance, the present transition from industrial to knowledge-based economies is encouraging greater cooperation up and down the supply chain. Value in a 'knowledge' economy is found increasingly in intangibles; assets which are unlimited in quantity and basically accessible to anyone with the ability to innovate. As a result, competitive advantage is more likely to be found today in people, in the ability to innovate, as opposed to the machines of the industrial age. As a consequence modern management is increasingly focused on ways of unleashing the innovative potential of their employees, and building or sustaining a variety of complex win-win supply-chain relationships. As a result 'co-opetition' is more characteristic of modern business today than traditional competition. This represents quite a change from the past, when corporations felt wholly justified in mistreating employees, beating-up on suppliers, stealing trade secrets, etc. And while incidences of cutthroat

13 http://www.socialstudieshelp.com/Lesson_46_Notes.htm, this educational website provides a useful summary of major events around the Antitrust issue and the evolving logic of social responsibility in commerce, even by private interests.

14 *The Company: a Short History of a Revolutionary Idea*, John Micklethwait and Adrian Wooldridge, A Modern Library Chronicles Book, New York, 2003, p 51. The Limited Liability Act of 1855 granted limited liability to incorporated companies. Robert Lowes, who replaced Edward Pleydell-Bouverie as President of the Board of Trade championed the landmark Joint Stock Companies Act of 1856, which removed all restrictions and qualifications on limited liability in the United Kingdom, setting the stage for vastly increased middle class participation in commerce and as he described it, a substantial withdrawal of the state from the marketplace.

competition still occur, (Microsoft comes to mind in more than a few cases recently) the post-industrial economy today is increasing the need and value of ‘soft power’, rewarding the ability to network, innovate and build collaborative relationships.

The question is, does this observable advance in the degree of cooperation in capitalism, have a relationship to ownership? Well, over the past century there has been a vast widening in the estate of ownership in western economies; massive increases in the numbers and proportions of individuals who own their own home¹⁵, own shares in public companies, or who have more direct ownership of small privately-held businesses¹⁶. More indirectly, ownership of various forms of ‘human capital’ have been realized in western society due to the almost universal commitment by western government to advanced education and technical training of all sorts. As a result the proportion of individuals ‘owning’ economic assets and able to compete in today’s economy is much greater than it was in the past. All this has occurred despite a recent and quite staggering concentration of wealth upward in the economy¹⁷. As a result (and despite abundant evidence to the contrary) there does seem to be evidence that these changes do seem to reinforce the Aristotlian premise.

Capitalist Utopianism?

This is all very good news, but in order to avoid falling into a kind of capitalist utopianism, it’s appropriate at this point to remember that Aristotle’s observations on property and cooperation were just that. He understood that property ownership gave individuals the means and ability to cooperate, but not the certainty that they would. He established a causal link between the private ownership of property and increased cooperation,

15 http://www.ncbi.nlm.nih.gov/entrez/query.fcgi?cmd=Retrieve&db=PubMed&list_uids=2731620&dopt=Abstract, in the US and the UK home ownership today stands at about 70%, this is up from approximately 30% home ownership at the end of the 19th century.

16 http://clinton4.nara.gov/WH/Accomplishments/Small_Business.html, again US government statistics support an explosive growth in small business ownership. These statistics from the Clinton era are typical of the late 90s. Similar trends are present in the UK and other western economies.

17 <http://www.endgame.org/primer-wealth.html>, the facts are indeed staggering and could potentially be fatal to western capitalism. In the late 1970s, the top one percent of the US population held 13 percent of the wealth; in 1995 it held 38 percent, today it is over 40%.

but had little to say on the process, the mechanism to achieve that cooperation. And let's not forget that private ownership of property is a legal form of exclusion, which can lead on many occasions to self-centredness and mean spiritedness.

Ownership of property is about 'rights', the possession of these rights can be greatly empowering for individuals and is clearly enriching for society, but the flip side of the coin of ownership rights is responsibility. There are well-understood personal responsibilities in private ownership that are associated with the care and productive use of private property, but there are also important societal interests that need to be met as well, conduct which Roger Bootle described as '*a balance between self-seeking and competitive behaviour on the one hand and the forces of community and solidarity on the other*'.¹⁸ As was the case with homesteading, private ownership can lead to increased cooperation naturally if the system itself is structured to align individual and social interests. That there are abuses of private ownership is well known. But as Aristotle observed, capitalism can be a positive moral force, encouraging greater human cooperation. Achieving this desirable end in modern economies would seem to be less a function of utopianism (either of the socialist or capitalist variety) than the logical outcome of individual interests combined at the political level with policy calculations of a progressive but thoroughly pragmatic nature.

18 Roger Bootle, *Money for Nothing*, 2005, revised edition, see his excellent chapter on Good Governance p 174.

FROUDE TODAY

By John Coleman

published by New European Publications p/b, 2005, £12.95

Historian, moralist, commentator, James Anthony Froude (1818–1894) epitomised the very best of Victorian thinking – something more than a Simon Jenkins cum Freidrich Hayek of his day – and as widely read. John Coleman has composed this short 140 page account as a mixture of Froude’s publications, talks and letters together with contemporary commentary and a rather daring attempt to put words into Froude’s mouth to comment on events today. The result is that for those of us who have not yet had reason to read and appreciate this nineteenth century intellectual master, there is now a most accessible introduction to Froude’s work and a remarkable bridge between the present and the conversations that one would dearly like to have taken part in a century and a half ago on the meaning of so many developments – Romans, Stoics, Christians, Muslims, the Reformation, Calvin ... So much – a feast for the mind.

Froude’s writing does not make difficult reading. His prose is as elegant as it is clear but one has to make an effort to grasp the points he is making. One is invited to contemplate the familiar in an unfamiliar intensity and to reconsider our foolish preconceptions for the political spin they so often are. Lessons indeed for today. And in addition, we have John Coleman’s commentary and choice of quotations both from Froude and from more recent events to make plain the issues raised.

Overall, Froude’s thinking seems to exhibit an interesting duality – not so much between good and bad but rather between a lower and higher reality – a sort of Ying and Yang of the whole situation. Talking of religion Coleman notes that ‘At rock bottom Froude believed there were two religions: the religion of nature which developed heathen practices of worshipping animals as well as inhuman rituals and idolatry in the widest sense, on the one hand, and on the other, spiritual religion based on a moral system that could be known by its fruits, not its words.’ (p. 40) Froude puts it this way ‘There are at bottom but two possible religions – that which rises in the moral nature of man, and which takes shape in moral commandments, and that which grows out of the observations of the material energies which operate in the external universe’. The sun, the moon and nature in all her forms is wonderful – to be loved and worshipped. ‘Where Nature is sovereign ... the object of life is the pursuit

of wealth and pleasures ... An excellent creed for those who have the happiness to profit by it. In these later ages it connects itself with the natural sciences – ‘At this very hour the ablest of living natural philosophers is looking gravely to the courtship of moths and butterflies to solve the problem of the origin of man, and prove his descent from an African baboon.’ (p. 92)

So much for Charles Darwin! But Froude is not disagreeing with natural evolution. He concludes that ‘I for one care not if it be – that the descent of our mortal bodies may be traced through an ascending series to some glutinous organism on the rocks of the primeval ocean. It is nothing to me how the Maker of me has been pleased to construct the perishable frame which I call my body. It is *mine* but it is not *me*.’ That *me*, he says, is a spirit, an essence – an incorruptible something which has been engendered in us from another source. (p. 116)

That interruptible something is a timeless moral force which claims a devotion to truth and to duty – to serve, and to serve the inner voice above the dictates of masters and priests. The force and fruit of this moral command can be seen in the words of the Old Testament prophets, in Christ and in Mohammed. Indeed, Froude’s commentary on the Muslim faith could serve as a valuable instruction manual for those concerned with Muslim/Christian conflict today – at least in so far as that conflict is concerned with matters of morality and faith.

This moral force has risen from time to time throughout history, only to be corrupted and degenerate until circumstances become so intolerable that it must rise again. Froude recounts the experience of ancient Egypt from which the Jews fled to obey their God, the brute practicality of the Romans from which Christianity arose and the corrupt Catholic church of the 16th century from which the Reformation took place. Presumably Froude would anticipate a repeat of this process in some new guise – but I suspect that the oppression of today’s bureaucracies has a way to run first!

There is much more. Froude’s interpretation of the aims of education, of the benefits of migration, of the opportunities (and dangers) of globalisation, of intolerance – and, incidentally, the appropriate remuneration for academics, all provoke thought and enrich perception. This is a most valuable book and very definitely to be recommended.

J.B.

MONEY FOR NOTHING

Roger Bootle

Nicholas Brealey, 2005 revised edition p/b, £12.99

It is seldom that one can say of a book on economic policy that it is as entertaining as it is informative. But this is written almost as a good novel – each chapter leaving one eager to read the next instalment and the end bringing one to a satisfying impression that all the clues which seemed so disparate are finally accounted for and we have a clear conclusion – or at least a clear view of where economic policy should go from here. It certainly should – and probably will – be widely read.

The canvas is global because with tiny exceptions such as North Korea, trade, finance and prosperity are now linked right across the world. The separate pieces of the jigsaw such as stock market bubbles, price changes, house valuations, the performance of the ‘euro’ – and much else, can only be accounted for by reference to the whole – and then the tricky bit, making predictions for the future may stand some chance of being believable.

And it is the predictions that one reads this book to discover. What will happen to our jobs? What is the future for the value of our homes? What will happen to the values of pension funds, of bonds, of land in the UK, in America, in Japan? We are all trying to guess and this book is most helpful. Beyond this, it helps us to decide when to cheer and when to boo at changing government policies.

The largest part of this book is concerned to paint a pretty optimistic longer term picture for the growth of wealth and incomes world-wide. Economic Research Council members will be familiar with the main points involved from their reading of John Mills’ observations. There is real opportunity which, short of a catastrophe, is leading to rises in productivity, gains from trade, and efficiency in the use of natural resources which promise a much higher standard of living almost everywhere a quarter or a half a century on from here. And on this I suppose that one can say that the doomsters and Jeremiahs apart, such a view is fairly uncontroversial. The interest is in the detail rather than the overview.

The more controversial aspect of the book however, is the author’s reasoned conclusion that in the immediate future – the next few years there will be, in many parts of the world, serious and highly damaging levels of *deflation*. The world is a racehorse jumping a fence towards winning a great prize, but first we have to avoid falling into the water trap.

Bootle sees Japan's post bubble experience as a precursor for the rest of us. Whereas increases in productivity and trade bring greater wealth – 'money for something', many of us have in recent times experienced an increase in personal fortunes arising from inflated values of securities and housing and of hand-outs from governments, which by contrast amount to 'money for nothing'. Much of this wealth is a chimera and as it dissipates, consumer expenditure will contract, there will be falls in average goods and services prices, there will be more to be gained from holding cash than from making investments and the threat of mass unemployment will loom large. To counteract this danger Central Banks must take the deflation danger more seriously – and will almost certainly need to pursue, at least for a while, policies of timely monetary expansion and low interest rates as events dictate, rather than on the basis of 'too little, too late'.

This 'deflation' message was the main point of interest when the first edition of the book was published three years ago. It was much criticised. This second edition is interesting because it shows the author justifying and extending his argument. Things have not gone too badly wrong these past three years but far from this removing Bootle's concerns he has come back with a convincing case of a danger postponed rather than a danger overcome. Were he on the Bank of England Monetary Committee he would clearly be ranked today as a 'dove' looking for cuts in interest rates. So this is the message for government policy makers.

OK but what about more personal issues? House prices runs as a connecting thread through much of Bootle's analysis. So are they about to go up or down? I've read the book and I still don't know. There is much talk of the housing 'bubble'. But events meriting this description – the 'tulip bubble', the 'South Sea bubble', Japan's 1980s 'property bubble', the 1929 'Wall St bubble' – all have graphs showing a huge 'spike' before they burst. By comparison, British house prices look more like a 'bulge' or a 'surge' or a 'wave' – but is it really a 'bubble'?

Misleading vocabulary apart, what can 'Money for Nothing' tell us about the future course of UK house prices? Low inflation with low nominal interest rates are part of the reason for current high prices but the author sees a likely future of continuing low price pressure and the need for low interest rates. He does not expect interest rates to return to 'normal' for 'quite some time yet' and so house prices will not be forced down on this account. Bootle's greater worry is a general downturn with falling prices in the shops and rising unemployment undermining confidence and thus the willingness to commit to more house purchases. There would then be a

snowballing effect as house price falls lead to lower borrowing and spending. But we are not there just yet – and even then, properties with ‘premium’ characteristics – the right spot, the right view, the right style, the right ostentatious display of big space, ie so-called ‘trophy’ properties to display the owner as having ‘made it’ in life, are predicted to weather the storm well and then carry on rising in value. In the meantime we can only hope that policy makers will navigate continued expansion, in which case one gathers that house prices will more likely stay steady than collapse.

Thought provoking. This revised edition is well worth buying *now* – don’t wait too long because by then there will be a need for a further revision!

J.B.

EARLY BACK NUMBERS ‘BRITAIN AND OVERSEAS’

Past issues of ‘Britain and Overseas’ are now available on the Economic Research Council website. However, four issues are currently missing:

1972 Vol. 4

1973 Vol. 6

1974 Vol. 1

1975 Vol, 1

A suitable reward will be discussed by the Executive Committee for anyone who can temporarily spare, for copying onto the website, one or more of these issues.

LETTER

A Response from Dr Bernard Juby, a Past National Chairman of the Federation of Small Business (FSB) and currently a member of its National Policy Committee, to 'Swindles and Perversions' by Peter Davison

Dear Sir

Mr Peter Davison's mention of the Sixth VAT Directive ('Swindles and Perversions' Vol. 35, No. 3) calls to mind a meeting in June of this year, in Brussels, that I had with the Chairman of the Indirect Taxation Committee, Confederation Fiscale Européenne (CPE). He fully agreed with the fact that VAT is a highly bureaucratic method of administering a simple sales/purchase tax. His entire Committee agrees with this point of view but whenever this is raised at Commission level they (the Commission), while conceding the point, always fear that they will lose revenue as a result, despite the fact that the present system provides more opportunities for evasion via its multiple stages than a leaky sieve.

Bernard Juby
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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.

BENEFITS

Members are entitled to attend, with guests, normally 6 to 8 talks and discussions a year in London, at no additional cost, with the option of dining beforehand (for which a charge is made). Members receive the journal 'Britain and Overseas' and Occasional Papers. Members may submit papers for consideration with a view to issue as Occasional Papers. The Council runs study-lectures and publishes pamphlets, for both of which a small charge is made. From time to time the Council carries out research projects.

SUBSCRIPTION RATES

| | |
|-------------------------------|--|
| Individual members | £25 per year |
| Corporate members | £55 per year (for which they may send up to six nominees to meetings, and receive six copies of publications). |
| Associate members | £15 per year (Associate members do not receive Occasional Papers or the journal 'Britain and Overseas'). |
| Student members | £10 per year |
| Educational Institution | £40 per year (for which they may send up to six nominees to meetings and receive six copies of publications). |

APPLICATION

Prospective members should send application forms, supported by the proposing member or members to the Honorary Secretary. Applications are considered at each meeting of the Executive Committee.

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)
- Corporate membership (£55 per year)
- Associate membership (£15 per year)
- Student membership (£10 per year)
- Educational Institutions (£40 per year)

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

