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DOLLARS AND POUNDS: EUROS AND YEN

A talk given by Christopher Fildes, journalist and broadcaster, to members of the Economic Research Council on Thursday 5th October 2000

Monopoly money

I wanted tonight, if it's not thought too politically prejudiced, to develop the ideas of a much under-rated political thinker long before his time, the much-mourned leader of the Monster Raving Loony Party, Screaming Lord Sutch. I am sure you all remember his cheerful top hatted figure moving from by-election to by-election to by-election, and I think it was plotted that there was such a swing over the years in his favour that he might easily have come to power but for his untimely demise. His thinking on economic matters was very far seeing, in a sense as I say, before his time. You'll remember his attitude to competition policy, which was to ask: why should there only be one Monopolies Commission? Now I feel that had he been spared, he would have developed this theory into the one of monetary economics, and the question he would be asking now is surely, 'Why should there only be one single currency?' Because put like that it is a very fair question. A currency is a service, the provision of a currency is something that a service industry does, its customers pay for it one way or another, whether they like it or not, and you would have thought that an attempt to establish a monopoly across the continent of Europe would perhaps catch the attention of Mr Mario Monti and the Competition Directorate. Indeed, come to think of it, why should there only be one Mario Monti? And yet, so far from this exercising his mind, all the argument is for extending this monopoly over a wide area. You may have seen that Professor Robert Mundell, Nobel Prize winner for his work on the optimal currency zone, so-called 'father of the single currency', was saying when the IMF met in Prague, that clearly the next step was to have a single currency for the entire world. This produces, I think, a wholly new sense of the word 'optimal', as in the case of a currency zone it clearly means 'big'. Indeed it seems to me, on that argument, one might wonder why he stops with the world. What is wrong with the solar system?

However there is a market in these things, there is resistance if that is the word. At any rate we saw in Denmark that if the Official Monster Raving Loony Party were to move its campaign to the welcoming shores of Denmark it might easily get in. It successfully resisted what one might call a tendency long established in Denmark, that 'Polonius tendency': implying, as it does, that elder statesmen know better, better certainly than the people whom they are addressing and administering. Unfortunately for them the 'Polonius tendency' got a sharp knife through the arras. But the question it seems to me this poses is: what is the attraction for its managers of this phenomenon? And I think to put the question that way is almost to answer it. As you'll remember what Lord Mancroft long ago said about monopolies, he said 'monopoly is like a baby – nobody really likes them until they've got one of their own'.

A case study

Well, but if you've got one of your own, it really is most attractive. I have here the accounts of a well-known trading monopoly in this area. I won't name it but its registered office is in Threadneedle Street, easily our most successful nationalised industry, and I pick up this large document to show you that the figures are tucked away on page 85. These show that what they describe as the Issue Department, on a turnover of £1383m made a profit of £1317m. The sort of margin that we would all of us I think in our business lives envy, and from the proprietors' point of view the only disadvantage of this wonderful banknote business, is that owing to the Bank Charter Act of 1844 every penny of it has to be paid to the Treasury. The Bank of England is still trying to find ways of getting it back. I think that all I need add to that is that this profit – seigneurage as I think it is technically called – rises when interest rates rise, when nominal interest rates rise, and therefore the higher the rate of inflation is, the higher the profitability of running a banknote business – so long as your notes are still worth the paper they're printed on. There is a positive incentive to inflate the currency, but it is obvious why that should be so, the only limit is what you can get away with. And it is also a great help in maintaining such a monopoly as that, if you can use either your powers in the marketplace or your powers of legislation, to preserve it.

Competitive advantage

We can all remember the time when we could have been prosecuted for holding anybody else's currency but the Bank of England's issue. And if we had held gold, gold bullion, gold coins even, if we had had the only monetary store of value that doesn't depend on anybody's promise to pay, if we had done that we would have been put in prison. This was true for the greater part of my lifetime. You can see that central banks, naturally wish to operate the market in a way to give their own branded product preference. There they sit, they are as we know the world's largest holders of gold, they sit there on their hoards like broody hens on addled eggs, and they attempt to reduce its value as best they can because they regard it as competitive to their own production. In just same way the International Monetary Fund, whose hoard of gold is second only to the one in Fort Knox, has for 30 years been attempting to persuade us that its own brand currency, the Special Drawing Right, is not just as good as gold, but better. I still think it has some way to go.

Euro – 'seriously drunk'

But I think you can go beyond that, and say that from our point of view as customers we've not been well dealt with by these monopoly suppliers, and certainly not in the last century and particularly not in the last half of it. It is not, I think, proper for me to chuckle about the table that you continue to see on the Financial Times called the 'progress of the euro', except to say that I understand that Mr Lambert the editor is looking for some ironic type to set it in. But this store of value has not, shall we say, entirely lived up to its prospectus, agreeable as it is for me and for us all, to cross the Channel and enjoy the benefits of the ten franc kir and the 3000 lire negroni. These rates of exchange from the point of view of the travelling drinker are exceptionally favourable. There has been nothing like the lira rate in my lifetime. I was testing it Siena earlier this year and it was clear that you could get seriously drunk and have change out of a tenner. Perhaps we shouldn't recommend this.

Pound Sterling – still promising

All the same, agreeable as it is to find Pound Sterling actually useful and welcome, it does come as a surprise for people who have lived through what has happened to it. It is a hideous realisation that after a quarter of a millennium in which the currency held its value very well, very stably (except in three periods of war), its destruction has come in 50 years of peace. And in those 50 years it has lost 98 percent of its value. Here we are: our banknotes are still 'promises to pay' signed by the lovely Merlyn Lowther, worth it for that alone. 'I promise to pay', she promises to pay me, but these are the promises that the witches gave Macbeth. As he said, 'They keep the word of promise to our ear and break it to our hopes'.

The road to competition

But I don't believe it has to be like that, and I'm sure I can, in this company, call on a greater economic thinker than Professor Mundell, if such a thing were possible (F. A. Hayek) who argued, now twenty years or more ago, that what we needed were competitive currencies. He argued that there would be a sort of reverse Greshams Law, that good money would drive out bad, that we would prefer the promises that would be kept, and kept in word and in deed. And he went beyond the idea of national currencies to argue that, we might well prefer as it might be, a 'Rothschild promise to pay' to a 'Chancellor's promise to pay' or even (though not in this country) 'a Governor and Company's promise to pay'.

This has long been thought, apart from people who dismiss it as absurd or unthinkable or incorrect or not forward-looking or contrary to the tide of history, other non-arguments in this category – this has long been thought simply impractical, simply something that hasn't happened, couldn't happen. It's happening in front of our eyes. It is happening for example in southern China, it's happening in Guangzhun where I am told that a third of the note issue is now the issue of the note-issuing banks of Hong Kong – that is to say the promises to pay of three commercial banks, Hong Kong and Shanghai Bank, Standard Chartered and of course the Bank of China. And if you say that, that is an unfair example of a private competitor in this market (because after all these notes have backing) let me draw your attention to the state of affairs which I believe to exist (again I am open to correction) in Nigeria. I am told that there are two currencies in Nigeria competing side-by-side, both as stores of value and as mediums of exchange – the classical functions of currencies.

One of these is the official currency of the Nigerian government, the nailu, and the other is the twenty dollar bill. I hesitate to call it the US twenty dollar bill, because what I mean is, the forged US twenty dollar bill of local manufacture. All experience shows that both as an acceptable medium of exchange, and a reliable store of value, the forged twenty dollar bill knocks the nailu into a cocked hat. And perhaps if I were to produce one more example even within our own sphere: thank goodness, now that exchange control is a thing of the past, we are free to pay our bills in this country in any currency that our supplier is prepared to accept. If Rover wants to pay its bills in a currency other than sterling, that is entirely legal and a binding contract could be made. It could pay in sweet papers, if it could get anybody to take sweet papers!

The wisdom of Darwin

There is no need (to help Rover, or to help Nissan) to establish a new 'monopoly currency' in this country. That is merely to burn down the house to roast the pig, and not a very good recipe for pig at that. So if, as I'd hoped, the Official Monster Raving Loony Party were to take up this campaign, perhaps we could all sign at the door, the text I would produce for it is Darwin's from the Origin of Species, of course: 'Owing to this struggle for life, variations, if they be in any degree profitable for the species, will tend to the preservation of the species. The more diversified the species becomes, the better will be its chance of success in the battle for life.' And it seems to me that applies as much to economic life, monetary life, as it applies to the life of species or to the life of biology, of which Darwin wrote. So I urge the Official Monster Raving Loony Party and its allies to devote themselves to the course of monetary biodiversity, and to ally themselves against the 'Polonius tendency' in Denmark and out of it – to ally itself with what I think you can properly call the Hamlet tendency. Hamlet: a man of original thought, and certainly qualified as an early Official Monster Raving Loony, because that was what he told Polonius, but he went on to explain that he was only mad nor' nor' west, and so are we.

'FUNNY MONEY'

Extracts of a talk given by David Boyle, author and broadcaster, to members of the Economic Research Council, on Thursday 10th February 2000

Tinkerbell economics

This talk on alternative currencies may seem like heresy to economists. But it all starts with a feeling that markets at the moment are not all working very well. It's like Peter Pan where, whenever Tinkerbell feels really ill you say 'if you clap your hands she is better' and 'if you don't clap your hands she isn't better'. And, if you believe in fairies, Tinkerbell is there, but if you don't, then she isn't there. It seems to me that a kind of 'Tinkerbell economics' exists in our markets and economic policies.

In Arthur Miller's musical 'The American Plot', which is about the 1929 crash, he imagines that the whole crash is caused by somebody who keeps money in his shoes. Somebody catches him doing this and says 'God, you don't believe in anything, do you?' He replies 'No, I don't' and this unbelief spreads and the whole thing comes tumbling down.

Something is surely amiss – and that something is to do with markets, currencies and trust.

Parallel economies

My central starting point is the thought that there are between two and three trillion dollars going through the international system every day but only between three to five percent of that has anything to do with world trade. It is a system which is overwhelmingly to do with speculation, designed not for trade or ordinary people, but for people like Wall Street and City of London dealers.

This leads me to the thought that London is a divided city – a city of two economies. There is the great international economy in which the money floods into the City of London, and then there is the economy that most other people live their lives in.

As a system this doesn't work particularly well. For example, one of the reasons why the NHS is in crisis is that you can't find enough nurses in London. You can't find enough nurses in London because they don't have anywhere to live since London house prices are set by the big international economy and not by the local economy.

As another example, I was thinking about the plan, near where I live in Dulwich, to build over the local playing fields and put in a new Sainsbury's Homebase store. This is extremely annoying, not just to people who use the playing field but also for the eight or ten small DIY stores all the way down Lordship Lane. Now we know that the Homebase store will be quite useful and people will visit it from miles around, but we also know that the eight or ten DIY stores will all close. Meanwhile, if you go to a Homebase store and ask for a specific kind of screw, nobody will have the foggiest idea what you are talking about, but the quite elderly gentlemen who run the DIY stores know everything there is to know about screws. Because we have the two economies – one local and the other linked into big finance – we don't get any means of deciding whether we want the small shops or a big one.

As a third example I can mention a conversation I recently had with the chief financial advisor to the government of Jersey. He is worried about the great danger there of having such reliance on financial services – because this has become a cuckoo in the nest driving out everything else. It has already driven out most of agriculture and it is seriously damaging the tourist economy because nobody, except those in the financial services industry, can afford to live in Jersey.

So parallel economies don't co-exist very well when they use just one currency with one interest rate. If we move to a world of the 'euro' and big currencies, the problems can only get worse. With big currencies you simply don't have the kind of feedback system which allows the small local economies to provide information and to give people what they want. That is why I am interested in whether or not you can invent new kinds of money which can operate alongside pounds, euros or dollars, and serve local needs.

Parallel currencies

Parallel currencies are already happening in the market. One model is the 'loyalty currency model'. An example is 'air miles'. Until recently North-West airlines was paying its entire public relations budget out of air miles. You earn air miles by being loyal to a range of different companies. Other examples look even more like currencies. In Switzerland there is a 70 year old parallel currency, called REA which has been around since the 1930s which now has the equivalent of about SF 12bn turnover a year. This thing has managed to underpin a lot of small to medium-sized businesses, a lot of restaurants and a lot of building. The EU has recently funded a series of projects across Europe, one of which is in Scotland, called SOCS (Scottish Organisational Currency System) with a currency called SOCS.

The LETS: (Local Exchange and Trading Scheme) system, which originated in Canada, is famous, as is the Ithica 'HOURS' scheme in the US. The Ithica scheme is pretty successful and is used by about a third of local businesses. The Ithica Chamber of Commerce is very pleased with it, the Mayor backs it and accepts it in his local restaurant, and people are partly paid in it. The whole thing is really organised by a radical ex-hippie guy called Paul Glover, who cycles around Ithica all the time making sure that the 'HOURS' don't bunch up anywhere and buying them back if they are – and generally behaving like a central banker.

Exchange within the 'Social Economy'

There is, I think, a 'third economy' which is more like a social system or what some economists call social capital. This is the economy which keeps people in touch with each other, which educates children and which looks after the local old people – where money doesn't tend to change hands. But without it nothing else can happen because it provides trust, it gets rid of crime and it links people together so that they can find work. The Harvard School of Public Health did a big survey in Chicago looking at 340 different communities to find out why crime was higher in some communities than in others. They discovered that it had nothing to do with poverty, or work, or anything like that. The only difference between high and low crime areas seemed to be whether people were prepared to intervene when they saw something going on. That is social capital. Social capital comes under strain when more women go out to work or when grandparents have to bring up children where the men are off in jail.

The concept of 'time money' or 'time dollars' was invented by a law professor, Edgar Khan, once one of Bobby Kennedy's speech writers. When he was in hospital with a very serious heart attack at the age of 44, surrounded by hundreds of nurses looking after his every need, he asked himself 'Why don't I enjoy this? It should be the perfect dream!' He then thought 'the reason I hate this is that I hate being useless'. And then he thought 'Maybe a lot of people hate being useless'. On the back of that he invented a kind of money, based on time 'paid' to people (whom we might call volunteers) for helping out in the local community.

But this 'time money' is not quite for volunteering because it is paid both ways. It is a reciprocation where an hour is an hour whether it is a surgeon's effort or an hour of making supportive telephone calls to a next door neighbour. Almost anybody has something to contribute, logs the hours spent, keeps a statement and expects to receive a similar length of services in exchange.

In fact, if you do research on the time banks that exist across the US you find that most started in the Health sector. Most people will say that they are not in it for money – but are quick to complain if a mistake has been made on their monthly statement! Nobody, of course, volunteers for absolutely nothing, which would be crazy. So they all get something back and hours seems a simple and acceptable way to measure things and so enable people who have never volunteered before, to do useful things. Hours can be earned and deleted and this seems to motivate people and build trust between them. It seems to connect people up.

An interesting variation – started by an insurance company in Brooklyn – is called the Elder Plan. Old people earn hours helping each other and when they get a service they pay hours. What they found after a time was that everybody who took part seemed to be healthier, not just the older people who were able to stay in their homes for longer because of these services but also the people who were helping them because they were being useful. Members can now pay 25% of their health premiums in time dollars and pay restaurants and hire taxis.

Another variation involves children in Chicago. Schoolchildren would never say 'I just want to do good'. What they want to say is 'I'm not doing this for nothing you know, I am getting something back.' So a scheme there collects their time dollars and spends them on recycled computers for their schools. And there is a strange side product. The main way in which children earn time dollars is by tutoring younger children. In 17 unpleasant Chicago schools they found that bullying stopped because 16 year olds who are paid to tutor 14 year olds are not going to bully their students – or let anyone else do it either.

Yet another variation concerns youth courts in Washington DC. Half the teenagers now arrested for the first time there go before a Youth Court where they are tried by juries of other teenagers who are paid in time dollars to be there, who give out punishment and community service, which are also paid in time dollars, which they can use to buy computer equipment.

In Baltimore, you can pay your rent in time dollars and time dollars can be spent on bus tickets and local shops.

Time dollars build communities

In Washington it has been found that earning time dollars provides a way for young unemployed people to link into the bigger networks and it shows that they are trustworthy (or the beginnings of that).

We have just opened a time bank in Lewisham, run by the doctors in the local health centre. The doctors know perfectly well that a lot of elderly patients don't really need a prescription for drugs but they need an alternative. So now they can write a prescription for a visit per week or a lift to the supermarket. The patients take this along to the time bank and get it fulfilled. Hopefully, one day we can link this up across London to all the time banks which are beginning to emerge.

In Richmond, Virginia, a group of hospitals got older people paid in time dollars to phone up and do a telephone support network for people with asthma. So they ring them up every week, they get to know them, they support them, they give them advice, they make sure that they are taking their drugs, they tell them what to do in an emergency. After two years this managed to cut the cost of treating asthma in those hospitals by 70% – a 'real' money saving. A similar scheme is being run in Los Angeles, for diabetes, and in St Louis, there is a system of health centres with 30 time banks around the city where you can use touch-screen computers to buy, with time dollars, help, training, food … lots of things.

One of the most peculiar things being done in this way is by Holland and Knight, a big Washington law firm. They were asked, as pro-bono work, to work for the local community in one of the rundown areas. The work involved keeping open the local school, rescuing a local park, cleaning up the drug dealers and getting rid of the corruption in the local police. No small task! The firm decided to 'charge out' their time as 200,000 time dollars which had to be paid off, looking after old people and schoolchildren, taking down the numbers of drug dealers, manning security patrols in the streets and so on. So between the law firm and the community, they managed to make the area a nicer place to live.

Using wasted resources to underpin lives

I'm very excited about all of this because it seems to me to be a way of underpinning peoples' lives with a thing that isn't to do with money from people who can't necessarily earn it in quite the usual way. If you need people's involvement in anything – getting well, improving education, regenerating an area – you need a way to arrange this, and time money can achieve this. It is a system which can rebuild social capital. I think that what we'll find is that technology will be able to link conventional money, barter money (such as air miles), local schemes (such as LETS) and time money, on to one system using smart cards, computers and so on. The point is that different kinds of money underpin different kinds of things so if our present money doesn't do the things that we want it to, we can re-invent it so that it does.

Let me end with a quotation by Keynes writing in 1933. 'London,' he said 'is one of the richest cities in the history of civilisation, but it cannot afford the highest standards of achievement of which its own living citizens are capable – because they do not pay. If I had the power today I would surely set out to endow our Capital cities with all the appurtenances of art and civilisation on the highest standards. The money thus spent would not only be better than any dole, it would make unnecessary any dole, for with what we have spent on the dole in England since the war we could have made our cities the greatest works of man in the world'.

I have a sense that he is right. But it does raise a mystery about how on earth you can do that. I think that new kinds of money can solve that mystery.

THE NEW CORPORATE B2B BIOSPHERE

*By Robert McGarvey**

The B2B (business-to-business) e-commerce revolution is exploding across the business environment, automating processes, integrating organizational systems and driving business to new heights of efficiency and profitability. Unfortunately, like the 'phony war' in 1939/40, the very nature of the early stages of this conflagration is creating an eerie calm in some traditionally minded business circles. At present there is crisis, no dramatic collapse of conventional business, and as history shows us clearly, nothing is more difficult for successful businesses than making fundamental adaptations in advance of a crisis. It's like buying an umbrella while the sun is still shining. Unfortunately, it's about to rain on many successful businesses. The debate about whether its B2B or B2C (business to consumer) misses the point, Webspace is all of these and more. Its B2e, its supply chain integration

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B2B2B2B, its B2B2C and with eMarkets developing like they are, as many more combinations and permutations as it is possible to imagine. These new business relationships not only look like organic compounds, they are growing in a similar fashion, and at a rate that more resembles cancer cell reproduction than any business model ever conceived.

The goings on in Webspace, once thought to be marginal to business or ‘just another channel’ are radically changing the entire business landscape - creating a new commercial biosphere with its own language, business models, assets types, products, corporate culture and intra-corporate relationships. Like all major economic transformations the Webspace biosphere creates new opportunity, with vast new potential for growth. But it also changes the living environment, altering the rules of survival, leaving many existing life forms who are unwilling or unable to adapt, out of the food chain, starving, denied the very oxygen of commercial life.

Well, what is the new survival code? Keith Krach, CEO of eCommerce leader Ariba, recently addressed a United States Senate Committee on this very subject. His advice, eCommerce is truly a second industrial revolution. It represents not only a major technology and business model shift, but also a cultural transformation. Successful companies will need to adopt the ‘silicon valley’ model. The new model virtual corporation is replacing the older hierarchical corporation. The traditional command and control model of management is being replaced by de-centralized teams of empowered individuals motivated by their ‘ownership’ in the corporation. Why is this happening, well it’s simple really. If you don’t have all these elements in place, you can’t move at eSpeed and that’s one of the key elements of survival.

Furthermore, the vast new efficiencies in SCM (supply chain management) are driving businesses into more collaborative, joint destiny type relationships up and down the supply chain, creating Internet linked e-business communities that behave like single organizations. For Cisco Systems President John Chambers ‘the eBC (electronic business community) network is the company’. Although there is plenty of potential for both buyer and supplier abuse of the new eMarkets that are exploding across the commercial landscape, overall system efficiency is clearly maximized when buyers and suppliers both gain in what are becoming known as ‘neutral’ eMarketplaces. Values are changing and as they do so the potential for higher orders of cooperation - driving a new corporate competition model - is emerging with incredible speed. The Internet always did have its own homespun ethics and those ethics were frankly dismissed by serious business players. Not so any more, they are, in part, becoming the rules of the game. The key to survival is adapting to the new business environment that many are describing as ‘co-opetition’.

But, wait a minute now. Isn’t capitalism built on competition? Co-operation was what socialism was supposed to be all about, and we all know what happened to that system. It got beat by good old competitive capitalism. Well, frankly, our perceptions about capitalism have always been less than ideal. There is a lot more cooperation in capitalism than there ever was in socialism or communism. It’s all about ownership. As Aristotle said, ‘If you own nothing you have nothing to share or be generous with.’ For example, the land title model of American homesteading encouraged, amongst other things, a cooperative ‘barn raising’ ethic in the old west which the collective ‘state farms’ of socialism could not begin to duplicate. The reason is individual ownership. Private ownership not only brings real value to the individual, it also brings risk, and to mitigate that risk owners of property have always cooperated. The biosphere that is emerging in Webspace has vastly wider patterns of ownership than the older corporate world it is replacing, and therefore the potential for cooperation is greatly increased and encouraged.

Does this new co-operative model mean the end of competition? Not in the slightest. Competition has always depended on and been configured by cooperation. Without some degree of mutual respect and equality, competition is impossible. Without rules, competition descends into either a life and death struggle or a foregone conclusion (think of competition between a land owning aristocrat and one of his peasants) - both of which discourage participation and therefore stifle growth and efficiency. No, all things being equal, the less we have to lose and the more we respect our opponents - the more and more vigorously we can compete. Each level of capitalist growth has spawned new rules, new ethics which reduce the risk and therefore encourage more and more competition. Competition in Webspace may be less vociferous in some respects for those who are in the system, but it will prevail at greatly increased levels. It is this which is the key to its amazing efficiency.

It is clear that success in the new commercial biosphere of Webspace is dependent upon adapting, and quickly. The rules are changing and businesses that haven’t begun to move need to begin planning immediately. Webspace may be win-win, as both buyers and suppliers gain through new collaborative relationships, but it’s win-win-lose for those who do not adapt, or can not adapt in time.

DON'T TAX MOBILITY*

By Marcial Echenique

The pundits may disapprove, but the fuel protesters are right: Gordon Brown should give serious thought to reducing petrol duties. The public, as consumers or producers, understand all too clearly that a tax on mobility – which is what the fuel duty is – acts as a brake on economic growth.

In any country, there is a high correlation between income per capita and mobility, measured in kilometres travelled per person. One extra US dollar in income translates into one extra kilometre travelled. One may suppose that greater wealth leads to greater mobility. If wealth creates higher consumption of goods and services, it must generate increased freight tonnage and personal travel to collect goods from shops and to enjoy such services as recreation.

However, closer analysis of the figures reveals that – disregarding journey length – the number of journeys per person has not increased as living standards have risen. We used to go to the town centre; now we drive to a supermarket several miles away. In Britain, individuals make an average of just over 1,000 journeys a year, irrespective of the changes in income (National Travel Survey 1994/96, Department of Transport).

It follows that the main reason for increased mobility is the movement of goods and services over substantially longer distances and longer personal travel. In the UK, the average distance travelled per tonne of freight has gone up from 71km to 106km over the past 25 years. Equally, the average personal journey distance has increased from 7.5km to 10km during the same period.

Why are companies and households willing to spend more time and money travelling longer distances as they become wealthier? It is not to consume more, or because travel itself is enjoyable. The answer is that by travelling further, they can obtain cheaper or better goods and services. The result is greater efficiency and competition.

In other words, companies and households increase their income by increasing their mobility, and not the other way round.

In the past 25 years, companies have enlarged the average area over which they obtain supplies from nearly 16,000 sq km (with a radius of 71km) to more than 35,000 sq km (with a radius of 106km) – an increase of 123 per cent.

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The key to this increase in mobility lies in the reduction in the overall cost of transport per kilometre: the monetary cost plus the time cost, as well as factors such as comfort and reliability, all expressed in a monetary equivalent.

Monetary transport costs in the 25 years to 1995 remained constant in real terms in the UK, but have increased substantially since, due to the fuel escalator and OPEC-led increases in crude oil prices. But in the same period, average door-to-door travel time has fallen. For many years the combined effect was lower overall transport costs – until, that is, fuel prices began to rise sharply.

The conclusion, then, is that the reduction in the overall cost of transport brought about by greater use of cars and lorries and better roads has increased mobility of people and freight. So putting up taxes on mobility – even if petrol demand is not very price-sensitive – means a reduction in competition, and thus price increases and reduced economic growth. It is not surprising that the US, with the lowest mobility cost, also has the highest income growth.

Increased mobility does have other effects, however: higher emissions and more traffic congestion. The increase in congestion is a real one: road speeds are falling as car travel and longer journeys become more prevalent, without a corresponding increase in road capacity. But what is interesting to note is that weighted average speeds are still increasing. The reason is that traffic is shifting from congested urban areas, where average speeds are very low, to suburban and rural areas, where they are falling, but still higher. Traffic in built-up areas has risen by between 22 per cent and 41 per cent in the quarter century to 1995, while in rural areas it has risen by between 72 per cent and 100 per cent.

In other words, cities are adapting to the new technology of transport, reducing the density of activity in urban areas, and increasing them in the suburban and rural areas. But to tax mobility in general through petrol taxes is an inefficient way of tackling congestion. The obvious answer is to tax congestion itself through the introduction of road pricing.

If the aim is to reduce global warming, a general carbon tax would be better than a tax targeted at road transport, which accounts for only 25 per cent of emissions. Pollution is being lowered by technological improvements, and can be further reduced by lowering congestion through a combination of capacity increases and infrastructure pricing.

People know that taxing mobility is bad for them. The chancellor should think again.

GRUMPY – IN BRITISH COLUMBIA*

By Barbara Yaffe

Are British Columbians grumpy?

Visiting politicians and bureaucrats who venture west to canvass opinion or receive feedback on this or that policy occasionally speculate about the question, particularly if they've had occasion to do battle with harried commuters on local roads.

A succession of polls in recent years also suggests British Columbians are decidedly more disgruntled than other Canadians when it comes to feelings about government and the economy.

Visitors inevitably remark on the West Coast scenery and climate, and wonder how folks west of the Rockies can dare be dissatisfied.

A hint of an explanation is provided in the latest Policy Perspectives, a publication of the Business Council of B.C.

The July issue documents a serious problem in the province – falling incomes and B.C.'s lack of competitiveness with its neighbours.

'Several years of sluggish economic growth have taken a toll on incomes and consumer spending power in B.C.,' it says.

'On average, disposable incomes have hardly risen at all in B.C. since the early 1990s, and actually dropped between 1995 and 1998.'

This surely is a dire situation given that the Lower Mainland where half of B.C.'s population lives has some of the highest housing prices in the country.

Although B.C. remains one of Canada's three 'have' provinces—though just barely at this point—per capita personal income in the province is now below the Canadian average.

Last year, per capita income stood at $24,279. Nationally, it averaged $24,981.

We no longer are in the same economic ballpark as Canada's other prosperous provinces, Ontario and Alberta, the business council notes.

The disappointing pattern holds for disposable income— what's left after personal income taxes, Canada Pension Plan and employment insurance premiums are paid.

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That is, B.C.'s per capita disposable income now trails the national average. It was $18,047 last year, or $739 lower than the Canadian average.

This is a sharp shift from the early nineties, when B.C.'s disposable income consistently was $500 to $600 higher than the national average.

Back to the Ontario and Alberta examples – in 1999, the disposable income of individuals in those provinces was nearly $2,500 higher than in B.C. That's quite a disparity.

Looking at the period from 1992 to 1999, incomes in B.C. grew by less than five per cent. Over the same period in Newfoundland, they grew by nearly 13 per cent! In Alberta, they grew by nearly 20 per cent.

The usual factors trotted out to explain B.C.'s weak economic performance include the 1997/98 Asian flu, which negatively affected B.C.'s exports, and low commodity prices.

Add to that a degree of economic stagnation arising from uncertainty over aboriginal land claims.

Through the nineties, Ottawa did little to address B.C.'s troubled economy.

The feds refused money to address the leaky condo crisis, wouldn't contribute cash for a new convention centre for Vancouver. And made only modest contributions to address a collapsing salmon fishery.

As for provincial policies, they seemed to aggravate rather than alleviate the fiscal doldrums.

Victoria kept to its policy of running budgetary deficits and increasing B.C.'s debt burden.

And in terms of recruiting new business, the province all but ignored the 'Alberta advantage.'

Even former premier Dan Miller has expressed concern that B.C. has yet to make any serious effort to address the competition gap with its next-door neighbor.

The New Democrats assiduously pursued tax-and-spend policies, insisting this made-in-B.C. formula was the right one.

Which is highly debatable. In 1997 and 1998, total public and private sector investment in Alberta increased by 20 per cent while it shrank in B.C.

Now the New Democrats in Victoria are about to increase B.C.'s $7.15 minimum wage, making it the highest in Canada, at $8 an hour. This would compare to $5.90 in Alberta.

Of course, when a provincial economy deteriorates, people start voting with their feet.

B.C. experienced significant immigration from other provinces until 1997 but is now losing population.

Last year, 11,300 more people left for other provinces than came here. And the trend looks about the same for the current year.

Perhaps because B.C. has been a have province since the equalization program began in the sixties, because it has a reputation as being populous, well endowed with natural resources, a magnet for tourists and a great place to retire, its economy has not received the care and attention it needed in recent years from either level of government.

Which is one good reason why British Columbians may be grumpy.

MANAGING THE WORLD ECONOMY

by John Mills, published by MacMillan 2000, price £20.00

F. A. Hayak used to explain to students that in its original Greek meaning the word 'economy' referred to a single household. There on a cashless basis, servants, slaves, farm workers and family members all made their contribution to the welfare of the whole household and all, in various measure, benefited. It was something of a modern leap to associate this word with the fortunes of a nation state complete with a domestic currency to facilitate most (but not all) inhabitants' measurement of contribution and benefit.

Now we must go further and speak of the 'world economy'. Trade, investment flows, financial arbitrage, corporate strategies, world-wide international regulatory bodies and instant universal communication must mean an inevitable further leap from Keynes' national macro-economic thinking onto a world-wide scale.

John Mills has had the courage to approach this larger-scale task and to set down the wisdom to be gleaned from nation-based macro economics in terms of the whole world seen as a single economy. The management of nation states economies then resembles much of what we have come to call 'regional economics' – except that the health of the whole still has to depend on the accidental aggregation of policies pursued by the 'regions' rather than on the actions of a non-existent world-wide ‘demand management’ authority.

It is at this point that Mills finds himself, perhaps unexpectedly, a full-blooded enthusiast for Adam Smith, for his over-riding message is that if each nation truly pursues its own economic self interest then the whole world will, as if guided by a hidden hand, achieve the maximum possible prosperity.

And so this book settles down to an advocacy of policies which, in John Mills’ understanding represent their true self-interest. He summarises this as (page 177) ‘Bringing down interest rates, increasing the money supply, and positioning the exchange rate correctly, so that effective demand is raised (which) all cost nothing. Much more rapid growth will then follow, bringing enhanced investment, higher productivity, improved quality, innovation and greater value added effortlessly in train, as market forces drive the (national) economy to expand. Job opportunities, especially for those on low incomes, will then progressively cease to be a major problem …’ Mills then nails down the obstacle to such developments by noting (page 233) that ‘The malaise … is that the result of rising prosperity is disproportionately to favour the economic, political and social status of groups of people who are least inclined to favour the changes needed to improve economic performance.’

From this point Mills has especial scorn for those so-called ‘monetarists’ who endlessly proclaim inflation as the enemy. ‘Low inflation’ he comments, (page 191) ‘and the high real interest rates which go with it – favour old money *vis à vis* new; lenders as against borrowers; established wealth holders as opposed to *parvenus*; those who have already made a success of their lives *vis à vis* those coming up to challenge them. All these powerful groups, typically with deeply conservative instincts, have a vested interest in promoting inflation as being a major affliction.’ He then points out that ‘In fact, in moderation, it is nothing of the kind. On the contrary, it is an almost entirely unavoidable, but relatively harmless, concomitant to any policies seriously oriented to pushing up the growth rate and getting everyone back to work.’

All this is splendid. Mills is a warrior championing the Keynesian cause in a rear guard action against the ascendency of the decadent monetarists. He roots out his opponents in Britain and in Europe, in America and Japan and backs it all up with justifiable claims on the benefits of faster economic growth, the dangers of low growth over an extended period and the failure of alternative economic systems.

This is all very well, but when Sir Lancelot gets up to full charge, armour gleaming and sword raised, something still depends on the health of the horse on which he is mounted. This means, in economic terms, that this book ignores factors such as monopolies, restrictive practices, sclerotic nationalised industries (such as health, education and religion), restrictions on trade (such as the Common Agricultural Policy) and stifling bureaucratic demands. It ignores the dead hand of local authority land use controls, the costs of creating proper legal titles to assets (see Hermando de Soto), the arbitrariness of unimaginative bank lending processes. It ignores the desperate need to educate people into realising that they should increasingly seek to derive income from assets as well as work – and the concomitant need to protect the processes of dividend payment on those assets.

Nowhere in this book is this point more plainly seen than in Mills' advice for Japan. He says (page 155) 'The root problem in Japan is that the authorities have been so cautious about expanding credit and using spending deficits to expand the economy.' And then (page 224) 'The solution would be a combination of domestic reflation and liberalisation of imports, both of which would benefit the Japanese...' The fact however, is that moves in this direction have indeed been tried without much success. The reason, it is becoming increasingly clear, is that the Japanese economy is so full of cosy restriction, industry associations, mutual back-scratching and cross linked shareholdings that newcomers stand little chance, hostile take-overs are practically non-existent – and foreign hostile takeovers even less so. The dynamic elements are stifled due to structural rigidities and in the meantime, Japanese savers, investors and pension holders face miserly dividends and interest rates. The 'stakeholder' model is failing. The best political solution is to pursue structural reform concomitantly with demand expansion regarding the latter as a window of opportunity but not, in Japan's case as a policy of value on its own.

Soon, perhaps sooner than we expect, the pendulum will swing back from wealth protecting monetarism towards a more Keynesian dynamism. The intellectual case for monetarism has already become seriously undermined. 'Managing the World Economy' despite its shortcomings in micro-economic concern, is nonetheless only a little bit ahead of its time.

J. B.

THE MYSTERY OF CAPITAL

Subtitled 'Why capitalism triumphs in the West and fails everywhere else'
by Hernando de Soto, Bantam Press, 2000, price £15.00

This is an important book, if only because of its huge success in attracting attention, gaining readership, and receiving stunning reviews. There is a fresh approach here, not from the ivory towers of Cambridge or Chicago but from diligent field workers in poorer countries – principally Peru. Our ERC work in economics is very likely to be substantially affected by its observations from now on.

Instead of starting from supply and demand, the distribution of income and wealth, the supply of money, the management of aggregate demand, the levels of investment or even the economic policies of government, this author starts from a lawyer's perspective, from legal ownership instruments, from titles to assets which are enforceable and from which those holding them can proceed to borrow, to develop business and conduct business relationships.

Think, he asks us, of Bill Gates, the world's most successful and wealthiest entrepreneur. 'How many software innovations could he have made without patents to protect them? How many deals and long-term projects could he have carried out without enforceable contracts? How many risks could he have taken at the beginning without limited liability systems and insurance policies? How much capital could he have accumulated without property records in which to fix and store that capital? How many resources could he have pooled without fungible property representations? How many other people would he have made millionaires without being able to distribute stock options? How would he pass on the rights to his empire to his children and colleagues without hereditary succession?' He concludes that neither Bill Gates nor any other entrepreneur in the West could be successful without property rights systems based on a strong, well-integrated social contract. All of which is so obvious and so taken for granted that we do not even realise its importance in making 'capitalism' work.

Most people in the West, but only a minority in poorer countries, manage their affairs within the law and within proper titles to their assets. By holding enforceable, acceptable titles to their assets they can focus on using them effectively, creating wealth and disposing of them when they need to make an exchange. But the legal 'hassle' varies from the twenty or thirty steps needed to change the title deeds of a house in Britain to several hundred steps needed to create a legal entitlement to a new property in Peru or Egypt or many other countries. The vast bulk of the poor and ill-educated, if entrepreneurial, folks in poorer countries simply don't bother – and operate, not 'illegally' but at any rate 'extra-legally'. Those who operate legally he describes as being 'within the bell jar' but far too many operate outside.

But those outside certainly have assets. Their neighbours 'know' the boundaries of their home, customs exist on who should trade where and when, local protection rackets exist to enforce ownerships, squatters have their own codes of honour and behaviour. De Soto's colleagues have calculated that in some less developed countries as much as 80% or 90% of assets are held outside of the 'bell jar'. In one amusing aside he reports that the president of one such country was asked if he had a properly constituted title deed to his own presidential palace – and a positive answer could not be given!

To a lesser degree, similar things exist in the West. For instance, a council house tenant knows perfectly well that it would require (say) £20,000 to persuade him to leave. Such a tenant has a £20,000 asset but the bank manager could not lend him such a sum on the strength of it because no legal saleable document exists to enable this capital to be released.

When people have assets such as these which cannot function as the basis for a loan, mortgage, trade credit, insurance cover, limited liability or shared ownership, then those assets are 'dead capital'. It is too much 'dead capital' that hinders economic growth. The task is to bring existing capital to life.

In reality there is no chance of bringing the existing arrangements of ordinary people into line with current legal arrangements and procedures. Such arrangements and procedures seem to exist almost as a device to protect the privileges of the wealthy minority. Progress can only be made by bringing law and procedure into line with existing social arrangements and understandings. In 19th century America squatters' properties were legalised through homesteading acts, in Britain council house tenants are offered their homes for only a part of the market value.

In every country – especially less developed countries and former communist countries – there is much to be done. Politicians must lead the charge and the lawyers and bureaucrats must facilitate the change. People must obtain proper ownership documents over every conceivable asset – and then prosperity can begin.

But wait. Obvious and plausible as all this may sound, it flies in the face of others advocating other routes to prosperity. Socialists have always favoured state ownership and local authority ownership. Facilitating private property is anathema. Georgists advocating 'land value taxation' will scoff at the idea of 'fixing property values' so that 'capital can be released' for private use. This is the very value that they see as properly the entitlement of the state. Social Crediters, who wish to distribute debt free purchasing power to promote economic growth will be horrified at the notion of vastly increased borrowing against newly entitled property as a route to success. Advocates of free market economics will more often than not balk at the idea of conferring legal titles for assets to those – such as squatters and fringe operators – who they will rightly regard as people who have improperly stolen such assets from existing title holders. Macro-economists may feel marginalised.

So things are not going to be easy. But this book has opened a very big and overdue debate.

J. B.

LETTERS

Two pertinent questions from Mr Brian Lewis to which answers will be welcome

Dear Sir,

I have two questions which your members might like to elucidate for me concerning wealth in many developing countries. After 30 years of observation overseas, it is quite clear that some citizens of poor countries, which publish very low per capita income figures, are far richer than most people in the West. I am often struck by the fact that so many Americans are poorer, and so many Filipinos, Guatemaltecans, Colombians and Venezuelans are richer than I am! We sometimes joke that every time the IMF hands out another US$100 million of aid, the sales of Mercedes Benz increase substantially! Is that unfair?

First Question

When GDP/GNP is calculated for countries, does it include all private assets and money held overseas by private citizens? For example, Saudi

Arabian per capita income has fallen to a low of around US$6000 per capita over recent years, yet at the same time it is said Saudi Arabian private assets held overseas are around US$230 billion. Certainly the luxury cars seen in Riyadh do not imply a lack of funds. So what does GDP/GNP actually measure, and how are the private assets (often held overseas) recorded in the statistics?

Second Question

American and European governments are now complaining at the price of crude oil at around US$32/barrel (as if the market is not operating properly). The Europeans are reported to be taking joint action to get oil prices down (in spite of their own very high taxes on oil products). My question concerns the British Government. What benefits the United Kingdom (citizen) most – a high oil price or a low one? Why does the United Kingdom government keep oil derivative prices so high when the UK is self-sufficient in oil and gas when most other countries self-sufficient in oil and gas keep prices low. Even the USA which imports 50% of its oil keeps gasoline prices as low as possible. That implies that there must be some logic in keeping oil and gas prices low, which contradicts the UK position.

I look forward to some clarification.

B. A. Lewis
PO Box 5101
Riyadh 11422
Saudi Arabia

And a partial answer with kind permission of Mr Robert Mabro

Sir,

It may be politically expedient for the chancellor, the European Union and the G7 to seek a remedy through the Organisation of Petroleum Exporting Countries for high fuel prices. The fact that world oil prices are the outcome of complex interactions between futures and physical markets for both crude oil and petroleum products, and Opec responses to these markets' confusing signals, is of no great interest to politicians. To acknowledge it would deprive them of a convenient foreign target to blame.

It is possible however, to apportion the increases in petrol prices in the UK to two factors: domestic taxation and the market-cum-Opec elements. Looking at developments between 1992 (when the effects of the Gulf war were no longer there) and today, we find that the excise tax on unleaded gasoline is now 25.4p a litre more than in 1992. Add VAT at 17.5 per cent, the total tax increase is 28.78p. In September 1992, the spot price of gasoline in Rotterdam (the opportunity cost for an oil company) was around $220/tonne, that is, 16.3 cents a litre. The average price recorded in September 2000 was $335.5/tonne, ie 24.8 cents a litre. In pence, the price was 9.15p in September 1992 and 17.1p in September 2000. This 8p increase involves a 3.2p element due to an appreciated dollar. Moreover, this 8p attracts VAT, which adds to the fiscal take another 1.4p.

To sum up. The increases in the components of the petrol price, comparing September 1992 with September 2000, are as follows: tax, 30.18p; foreign exchange variation, 3.2p; market-cum-Opec, 4.8p.

Finally, recall that taxes are relentlessly increased while the market-cum-Opec factor has only ephemeral effects.

Robert Mabro
Director, Oxford Institute for Energy Studies
57 Woodstock Road,
Oxford OX2 6FA

YOUNG CONTRIBUTOR'S £200 PRIZE

COMPETITION ANNOUNCEMENT

Submissions are invited from persons under the age of 25 of an article of between 1,000 and 1,500 words for publication in the forthcoming issue of "Britain and Overseas". The subject matter should further understanding and policy development in relation to contemporary economic and monetary practice.

Articles for the Spring 2001 edition should be received not later than February 1st, 2001.

The Committee's decision is final.
Articles already published elsewhere will not be considered.

APPLICATION FORM

Date ______________________________

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Date of birth ______________________________

Address ______________________________

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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.

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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.

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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.

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