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AND OUR ROLE IN OVERSEAS TRADE AND PAYMENTS

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TAN FELLS – GARY DUNCAN – PHILIP WAI WING LI

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DOES BRITAIN NEED AN ENERGY POLICY?

Extracts from a talk given by Ian Fells CBE, Professor of Energy Conversion at the University of Durham, to members of the Economic Research Council on Wednesday 31st October 2001

'Market' Policies

In 1982 Nigel Lawson, then Minister for Energy, claimed that energy was a good to be traded like anything else and that the task of policy makers was solely to remove distortions in the market place. The outcome of the market place was to be our energy policy.

And so we went to work on privatising our energy industries – gas as a monolithic large company in 1986, then coal and then nuclear power. These privatisations were followed by the creation of regulators with draconian powers – mostly used to drive prices down so that today we probably pay about 1970 prices for electricity and gas.

So market policies, if not quite 'free market' policies have been very effective in driving prices down. But there have been some somewhat worrying consequences such as the reduction in generic research by National Power and Powergen and the increasing dependence on gas for power stations.

Before 1990 we insisted on burning coal in power stations – regarding gas as a premium fuel. But gas is cheaper than coal and so after that rule was changed by Cecil Parkinson, everyone rushed to build gas-fired stations. Using technology derived from the aircraft industry, they are indeed very efficient. So whereas in 1990 we were 80% dependent on coal for our electricity and 17% dependent on gas, we are now 30% dependent on gas – a figure that will rise to 70% by 2020 replacing both coal power stations and some nuclear power stations.

But by 2020 90% of our gas needs will have to be imported. We are way over the hill as far as gas from the North Sea is concerned, we are already importing gas and so in 20 years' time we will be almost entirely dependent on gas from Russia, Iran, Tunisia and other points east. Now whether you are happy with that in terms of security of supply I don't know. And we are not alone. Germany is going to close down its nuclear power stations and will have to import Russian gas. All this when the First Secretary from the Russian Embassy recently commented to me, "We are very keen on developing our nuclear power in Russia because we don't think we can rely on our sources of gas!"

At any rate, government ministers, taking a shorter term view, have something to boast about because the change from coal to gas is reducing our carbon dioxide emissions. Mr Meacher and Mr Prestcott can claim that we are doing better than anyone else in meeting our Kyoto obligations. As politicians they can claim the benefit of what is in reality just luck and a hostage to fortune.

Renewables

Oil supplies from the North Sea will start to dwindle from about 2005 or thereabouts and so people now have a great enthusiasm for 'renewable' energy – wind and wave power, the Severn barrage and solar power. The problems here are simply arithmetic – even though some who live nearby worry about aesthetics.

I am very much in favour of renewables but in fact, when it comes to the crunch, they don't actually generate much electricity, and even that is at a very high cost.

If, for example you took all the wind farms in the world, all the way across America and Germany, Spain, India and all the rest of the mostly highly subsidised 50,000 odd wind generators that have been built over the last ten years, and put them all on the South Downs, they would only generate about 10% of our electricity. Mr Meacher is keen to build offshore wind farms (which would obtain planning permission more easily) to generate about 4% of our electricity. To do that means installing one 80 metre diameter 2 megawatt wind generator (at £2 million a time) every day from now until the end of 2010.

Mr Meacher is also very confident about bio-mass energy – which really means fuel wood or something like coppiced willow. Remember that a long time ago we used renewable energy almost exclusively. In the Doomsday Book of 1086 there were 5600 little water turbines, running either from streams or from the tides which churned away and ground the corn. Beyond this, we used wood. In fact we burnt 90% of the forests in this country, the worst record in Europe – perhaps comparable to Brazil's destruction of the rain forests today. In the Lake District all the hills were covered with trees but we chopped them all down. Even the Norfolk Broads, which some people enjoy as a great and beautiful heritage, are actually the result of a mediaeval energy crisis when, after burning up all the wood (in that part of the country) we dug up the peat in shallow basins and these later filled up with water. In 1086 Britain's population was under 1 million so perhaps there was little cause for concern. Today's population is over 56 million.

At last we have managed to develop a machine which generates electricity from the waves, despite the UK government which decided that they would put their money into wind power. Thanks in part to a grant from the EU there is now a machine on the Island of Isla with which I have been involved, which now works very successfully. (Isla is actually a quite good place to go to because the only industry on the island is 7 malt whisky distilleries and meetings with the managers are very jolly occasions.) But to replace Scotland's nuclear power stations – which generate 55% of Scotland's electricity (making Scotland the fourth most nuclear country in the world after such countries as Lithuania and France) – you would need 10,000 wave machines scattered around the coast.

A thing that I have always been in favour of is the Severn barrage. Now there have been reports on the Severn barrage ever since 1923. Each time they conclude that if they built it, it would be uneconomic but that had it been built five years earlier, it *would* be economic! The last report was in 1989 when it would have cost about the same sum as the Channel Tunnel but which instead of producing huge losses, would have generated 7% of the UK's electricity. I once joined Robin Day in a lunchtime programme with opponents from the Royal Society for the Protection of Birds. This powerful lobby opposed the barrage on account of the wading birds, because they would be disadvantaged if the shores didn't dry out twice a day for them to wade in. I suggested that "the wading birds have more sense than the environmentalists and will go and wade somewhere else". This was true. I had taken advice from people who know about such birds and there are lots of places for them to go and wade about. But for about a week sacks of indignant mail were carried into my office – which just shows how sloppy and sentimental we are and so I doubt if it will be built.

The problem with solar power is that it is very diffuse. For every square metre that you have, 240 watts fall on it, and because the cells are about 10% efficient you only get 24 watts – and that only when the sun is shining. You need to cover your whole roof, just to run your television set. The laws of physics are against you unfortunately but if your house is too remote to be connected to the mains you can certainly have some solar panels which will charge up some batteries and produce your lighting for you.

My conclusion here is that to get 10% of our electricity energy needs from renewable energy would be an amazing feat – and it certainly won't be more than that and it will certainly be very expensive.

Transport

Anyway, beyond electricity, our biggest problem is transport which puts just as much carbon dioxide in the atmosphere and is growing and growing. Cars, ships, trains – and air transport which, although in a bit of a hiccup at the moment, will grow again later on. People will not change their habits and even if they get little cars, they often keep bigger ones for longer journeys. Fuel cells, if cost and safety problems can be overcome, may be an important part of the solution in the long term, but there will still be huge energy inputs needed in producing hydrogen.

Now (and I digress) Mrs Thatcher decided to become green in 1987 and, to show how green she was she held a seminar at No. 10 (or to be precise No. 12, which is slightly larger). A number of important people were invited and there were ten ministers like Cecil Parkinson and Chris Patten and a few odds and sods of academics like myself, and the chairmen of various industries. It was a totally bizarre occasion. Nobody knew quite what to say but Chris Patten said that he was late because of the traffic and said that we would have to cut out petrol and diesel traffic from large urban areas like London. Mrs Thatcher said "What shall we do?" and I said that we can have electric traction and she said "I don't want to drive around in a golf cart for God's sake". I said that we can do better than that, that the technology is available, but that the motor industry only want to build 4-cylinder family cars for ever and ever. Then she said "Oh, I suppose that electric cars could be charged up overnight with nuclear power – that would be clean", and I said "Yes indeed". During that whole meeting that was the *only* mention of nuclear power. Afterwards we walked outside with all the cameras pointing at us. Cecil Parkinson strode forward (who had said nothing throughout the meeting) and when they asked "Mr Parkinson, what is the future?" he said "The future is nuclear" – which had absolutely no bearing on what anybody had said during the meeting but which shows how clever politicians manage these things.

Nuclear Power

Looking over all our energy needs, all our energy sources and all our energy problems, my own feeling is that I can't square the circle. By 2020 our energy needs will be about 1.4 times what they are today and double by 2050. Beyond us the world population is now about 6 billion of which 2 billion have no kind of commercial energy at all. On average humans currently use about half a ton of oil equivalent per year whilst we use three tons of oil equivalent per person and the United States uses six.

20% of the world's population uses 80% of the world's energy and the imbalance is actually getting worse. The greatly increasing demand is not actually going to come from us, but from the developing countries as they industrialise.

If we really want to reduce carbon dioxide emissions because we care about global warming and de-stabilising the weather machine then I can't do the sums without putting a chunk of nuclear into it. Instead of unrealistic hopes for renewables and easy statements that "We won't have nuclear" we need to say "Nuclear is going to be an important part of our future so let's make it as safe and reliable and as efficient as we can". We have to find a high technology solution. And this is available because nuclear power stations provide clean energy. We shouldn't build more of the kind of reactors we have at the moment but we should move to the fast reactor system which uses uranium about 60 times more efficiently. Several have already been built and on this basis there would be enough energy for the world for 500 years. Many people will say that it is too dangerous to take that high technology route but one needs to compare the dangers that might arise (such as irradiation) with the dangers of destabilising the weather machine. Post the 2050 energy shortage, there *is* a high technology future *if* we care to take it.

AT LAST, ECONOMIC POLICY SEEMS TO BE WORKING

*by Gary Duncan**

IS ECONOMICS in danger of getting a good name? This may seem an odd question when the global economy is embroiled in one of its most testing periods and the prosperity of millions is on the line. But, in Britain at least, adversity is allowing economic policy to show what it can do. For

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once, the standing of Thomas Carlyle's despised "Dismal Science" may be on the rise.

It was not always so – far from it. The history of British economic management since the collapse of the Bretton Woods system at the start of the Seventies is one of abject failure. It is a saga strewn with error and punctuated by crises. This sorry tale has left a country understandably cynical about what policymakers can do.

Suddenly, though, there is a sense that, just maybe, something has changed. So much so that Sir Edward George, the Governor of the Bank of England was recently heard publicly contrasting his own capabilities with the magical powers of Harry Potter.

As he has watched the world's deteriorating economic situation through this year, the Governor may often have wished that he did have a wand with which to ward off recession. First, the severe slump in the US spilt out around the globe leaving the leading industrial nations enduring their first simultaneous downturn for years.

Then, this grim predicament was compounded by the September 11 attacks on America. Now, the International Monetary Fund (IMF) expects the main developed economies to grow by just 0.9 per cent this year, and a meagre 0.6 per cent in 2002.

From painful past experience, one might think that the consequences for Britain would be obvious, and horrible to contemplate. Yet this is not so. The UK stands out as a relatively safe haven from the global squalls.

Both the IMF and the Organisation for Economic Co-operation and Development expect Britain to be by far the best performer among leading economies next year. The IMF projects UK growth of 1.8 per cent, against 0.7 per cent in the US, and 1.3 per cent in the eurozone. Here, both the Bank of England and the Chancellor are even more confident, with Gordon Brown predicting growth next year of at least 2 per cent.

"What sorcery is this?" the sceptical British public might ask. But no black arts are involved. If these optimistic forecasts are fulfilled, it will simply demonstrate the skilled and effective use of the tools of economic management to bolster growth.

First, save for a brief wobble in the wake of September 11 the Bank of England's Monetary Policy Committee (MPC) responded swiftly to America's slide with a series of aggressive interest rate cuts. Secondly, Gordon Brown's big boost to public spending is delivering a hefty stimulus to demand just when it is most needed.

Taken together, this fiscal and monetary action is far more potent than any hocus-pocus. It makes for a powerful argument that, after decades of failed experimentation, Britain may at last have a policy regime that works.

There is a significant element of luck, of course. When Mr Brown's ambitious spending programme was first announced against a back drop of strong growth, the IMF denounced it as "regrettably pro-cyclical", risking a boom.

It didn't work out that way. The extra spending now looks more than fortuitous, and will help to avoid a bust. Serendipity or not, the Chancellor can claim credit both for putting the public finances in a state in which this slowdown will not force retrenchment, and for the creation of the highly effective MPC.

Naturally, too, there are risks. Mr Brown's rosy forecasts beyond next year embody a very swift resurgence in manufacturing, for example. Indeed, it was the grim conditions in industry that saw Sir Edward explaining how, whatever the wizardry of the MPC, it cannot perform Potter-style magic.

Far more such modesty is called for from decision-makers in the eurozone. There, the increasingly lamentable performance in the face of the world downturn is in stark contrast to Britain's resilience.

At the beginning of this year, the eurozone's political leaders defiantly insisted that their economy could remain insulated from America's troubles. It would, they trumpeted, be the year of Europe. But as the months passed, and the eurozone slumped, it be came ever clearer this was vainglorious.

It did not need to be. But tragic policy failures ensured that it would. The European Central Bank was slow to grasp the dangers and reluctant to deliver cuts in interest rates. Eurozone governments, meanwhile, stuck rigidly to the constraints imposed by the straitjacket of their "stability and growth,' pact.

Despite an overall eurozone budget deficit that is the lowest for three decades, ministers refused to deliver the sort of fiscal stimulus from which Britain is benefiting. The predictable consequences have been the opposite of what has happened here. Germany has tumbled into recession. The eurozone as a whole looks destined to suffer the same fate.

Worse still, when the euro zone does eventually recover, a new analysis by HSBC concludes that hopes for a step-change in its performance are liable to be dashed by the slow progress of essential structural reform and the demographic difficulties of an ageing population. HSBC argues that the eurozone could struggle to achieve long-run average growth of 2 per cent, while Britain could reasonably expect a trend figure as high as 3 per cent.

It not difficult to see why the Chancellor might be reluctant to take Britain into the euro. If economics is starting to win a good name in Britain, the single currency looks like perhaps the fastest way possible to return its reputation to the mire.

THE CASE FOR PRIVATE FINANCE INITIATIVES

By Mr Philip Wai Wing Li

"New road project will overrun on costs by 40%."

"Final cost of railway line is to be double the original budget."

In the 80s and early 90s, these would not make uncommon headlines in Britain; nowadays, with the notable exception of railway projects, we rarely get them anymore. The evidence points strongly to one factor: Private Finance Initiatives, or PFIs for short.

Like privatisation before it, PFIs are set to change economies all over the world. Developed in Britain in the early 90s, PFIs involve the government making a contract with construction and services firms for them to design, build, finance and operate public services such as prisons and hospitals. PFIs were originally conceived to keep down the public sector borrowing requirement (PSBR), whilst spending more on infrastructure projects; today they have evolved to encompass a variety of public private partnerships, applied to projects as wide-ranging as road-building and military training contracts.

Problems with the public sector

Britain's financial difficulties in the 70s and early 80s, combined with voter demands for a smaller, more efficient, public sector, led to a new approach to public expenditure control. Annual public expenditure surveys were introduced, and expenditure planning moved from a system of real limits to nominal limits. Local authorities were not allowed discretion to determine their revenue and expenditure. Capital expenditures were cut back in all parts of the public sector, leading to deteriorating infrastructure.

This was coupled with concerns over economic efficiency in the public sector. In the public sector, there was often a lack of clarity about objectives, which tended to be imprecisely stated because such a lack of clarity papers over disputes between managers and politicians. The result was that public servants did not know what to do to be judged successful. A National Economic Development Office report on nationalised industries showed that only a very small proportion of public investment was subject to any form of economic evaluation. There was a lack of incentives to ascertain and address demand rather than to meet government determined requirements and performance indicators.

There was no competition. The public sector is a collection of monopoly providers, which tended to put a priority on the interests of the providers over those of the users. The public sector is inherently risk averse, hence it is inclined to shun improvement, since improvement requires change and change necessarily involves risk. Public services could not be expected to respond effectively to the growing aspirations of consumers. Difficulties were encountered in negotiations with trade unions on issues of working practices and rising labour costs, leading to the winter of discontent of 1978.

If we think about the shortcomings faced by users, we usually fall back on the comfortable mantra that there is nothing that more money won't cure. Anyone who has worked in the public sector knows that money is not the sole, or even main issue. The key issues are management, incentives, and how well the money is used.

Such an environment could not be expected to produce satisfactory results in terms of public services. The amazing thing is that there was not a massive demand from the public, including public servants, to find new ways of delivering public services. The burden of proof always lies with those who want to try something new, such as public private partnerships.

PFI as a solution

PFIs involve a long-term contract with a consortium of construction and finance firms, typically lasting 30 years. They build and run a public service such as a hospital in return for regular payments from the government.

The asset typically returns to the state at the end of the contract, hence PFIs are like hire purchase schemes in many ways. The government pays nothing up front, so the investment is off-balance sheet.

If borrowing restraints imposed by the PSBR rules are binding, the implicit interest rate for public projects is infinity; while a PFI deal allows investments with positive net present values at the market interest rate to be undertaken. Hence the distribution between investment and consumption is optimised. It is also argued that it is more desirable for the government to pay for a project such as the building of a hospital to match the benefits gained over the life of the asset.

In the past, the majority of building projects were contracted out to private firms, with the government bearing all the risks. The danger of the system was that, as in many cases, the penalty clauses in the contracts were never adequate. The projects ended up over budget and over time. A well drawn out PFI contract allows for the effective transfer of some of the risk burden to the private sector.

Competition for contracts is expected to hold down the cost of capital and reduce the extent of risk, and determine risk allocation. This can be supported by evidence in the public housing sector, where the differential on interest rates for borrowing funds declined from 2.8% above the London interbank offering rate to 0.5% above.

The attraction to the private sector is one of profit, and the offer of long-term business lasting many years. Companies not only have the opportunity to design and build projects but also the chance to run some of the services for many years, bringing a constant stream of income. Against this background the companies bear higher risks. If the contracts are not completed on schedule and to quality there are considerable penalties.

Benefits of private sector management expertise and risk sharing between the public and private sectors were the key drivers of the policy, as well as the importance of full life contracts to link asset and maintenance decisions. The government remains responsible for providing the public service, while the private sector takes on the responsibility for funding the asset or service in such a way as to minimise long-run costs, subject to meeting their contractual obligations to the public sector client. The emphasis is on bundling investments in a new way to enable overall cost minimisation and to improve service quality. Providing and funding are thus undertaken by different stakeholders, while their objectives are made congruent by the incentive structure built into the contract.

Private sector managers face constraints put in place by the financial markets. They are encouraged to produce at the lowest possible cost per unit under well-defined objectives and tradeable property rights. Thus private sector profit incentives will generate cost savings, in contrast to the poorly defined objectives of the public sector.

Critics mistakenly highlight Railtrack as an example of a PFI failure. Railtrack is a story of bungled privatisation, misfortune and mismangement. It became liable for huge direct costs and compensation following the Hatfield disaster. In any case, a company that manages to overspend £5 billion on a £2.5 billion project must by simple logic be lead by poor management.

As Britons attach a link between the government's managerial competence and its ability to keep down public spending, the pressures on successive governments to increase investment against a background of constrained public expenditure and taxation made PFI very attractive. More than 400 PFI deals have been signed. In the next three years PFI is set to provide £11 billion of investment. Over the long haul, the public sector will be paying firms on current contracts about £2.5 billion a year – roughly 1.5% of total spending.

The price of PFI's off-balance sheet and risk transfer benefits is that the private firms borrow at up to 3 times the cost of borrowing through the Treasury. However, anecdotal evidence suggest that the benefits outweigh the costs. One convincing piece of evidence compares the Jubilee Line extension, which was done under an old public sector contract, coming in with a £1.5 – £2 billion cost overrun, two years late; and the PFI-financed Docklands Light Railway, coming in on budget, on time.

Many public sector managers thus saw (and still see) PFI as the only way in which assets could be financed even if it meant other services had to be cut to cover higher capital charges and running costs. In a long term perspective, PFI does not allow the government to undertake more projects than would otherwise be the case, all projects are publicly funded and incur future liabilities for the Exchequer. Hence PFI projects should always be measured against the alternatives, such as central government funding, borrowing at a lower rate of interest. If the investment involves an additional revenue funding, then the borrowing constraints may re-emerge in the longer term.

Some argue that PFI contracts are complicated and leave the public sector managers ultimately powerless, with its destiny and priorities controlled by a private company for the next thirty or so years. There is merit in this argument and the solution is to ensure flexibility as the project progresses, since this is in the mutual interest of both parties. In some cases the contracts could provide for the public sector to take a slice of any profits made when a business refinances a PFI project, since that is unrelated to performance.

Governments everywhere are under the same pressures to spend more on infrastructure projects while keeping taxes low. PFI is an effective method of providing public sector investment without up-front costs, while injecting private sector expertise and efficiency at the same time. Most countries in the world would benefit from PFI schemes. The possibilities are truly endless.

KEYNES' GOLD OR GREEN CHEESE

*An historical reflection by Robert Skidelsky**

Despite the flashing phrases for which Keynes is remembered – as when he described the gold standard as a 'barbarous relic' in 1923 – his international monetary schemes all retained a role for gold. Thus in his Clearing Union Plan which, when compromised with a scheme from the US Treasury, led to the Bretton Woods system, Keynes proposed that his new international money – called Bancor – should be 'fixed (though not unalterable) in terms of gold'. Article IV of the Bretton Woods Agreement laid down that the par values of national currencies should be expressed in terms of gold 'or in terms of the US dollar of the weight and fineness in effect on July 1 1944'. In other words, the Bretton Woods system started off as a gold exchange standard. Many Americans, including its chief architect, Harry Dexter White, foresaw a general resumption of specie payments as countries recovered from the war.

Keynes's considered view was perhaps (though one is never quite sure) that gold should be allowed to remain as the 'constitutional monarch' of the international monetary system. He never fully faced the conflict between

* Extracts from a recent address by Lord Skidelsky to the World Gold Council

this reduced role and the credibility which any monetary system needs if it is to do its work of keeping money sound.

But there is another defence of Keynes which might be given in answer to the question: was he the bad news for the gold standard or only the messenger who brought the bad news? Disraeli had remarked long before that 'Our gold standard is not the cause, but the consequence of our prosperity' – a typically cavalier Dizzy remark incidentally. But we have to recognise, I think, that the very virtue of the gold standard as a mechanism for keeping money scarce could also make it a powerful engine of deflation and unemployment. This was for two reasons. The first was that the supply of gold could only be adjusted to the demand for it with long and variable time lags – so that a gold-based currency could not be relied on to provide continuously the 'right' quantity of money in a progressive economy. True enough, changes in gold production would in time offset inflationary or deflationary movements. However, shocks to the demand for or supply of gold could have serious short-term impacts on price levels.

The second reason, and one especially relevant to the interwar years, is that Hume's price-specie flow mechanism could be blocked by hoarding. True, hoarding by individuals declined in developed countries, but hoarding by central banks increased as more and more countries joined the gold standard.

Creditor countries, under a gold standard regime, had a choice between whether to put their gold inflows to work by exporting more goods and/or capital or sterilising them. So instead of gold being distributed round the world in proportion to real national incomes (the Hume-Ricardo mechanism) it could pile up in a few places. This undoubtedly happened in the years of depression, with the US and France absorbing most of the world's monetary gold.

For both reasons, the gold standard generated a tension between exchange rate stability and domestic price stability, as Keynes said in 1923. Or, to put it in more modern terms: stability in the currency was traded for instability in output and employment. A fiat money regime, by contrast, allows open-market operations to secure stabilisation of prices and output; and it also allows a greater latitude in fiscal policy.

However, problems of this type might have been manageable but for the first world war. Disraeli was right up to a point: the gold standard was a fair weather system (although it contributed to the good weather); it could not survive political shocks of this magnitude, not least the huge inflation which the war and immediate post-war years produced. Without the first world war it probably would have evolved into the constitutional monarchy or managed system envisaged by Keynes, in line with general political evolution in a democracy. But it could not overcome revolutionary conditions.

I can't leave Keynes without quoting a passage from chapter 17 of his *General Theory*, called 'Properties of Interest and Money'.

> Unemployment develops, that is to say, because people want the moon; men cannot be employed when the object of desire (i.e. money) is something which cannot be [readily] produced (i.e. gold) and the demand for which cannot be readily choked off. There is no remedy but to persuade the public that green cheese is practically the same thing and to have a green cheese factory (i.e. a central bank) under public control.

This is Keynes at his most brilliant, paradoxical, and perverse. It could be said that we have been living with the consequences of making money go as bad as cheese ever since.

THE EURO AS AN INTERNATIONAL CURRENCY

Remarks by Chairman Alan Greenspan before
the Euro 50 Group Roundtable, Washington, D.C. on November 30, 2001

Today I would like to address some of the basic considerations that confront the euro in its emergence as a key international currency. I know I follow a number of contributions on this and related subjects and trust my comments will not overlap too much with what has already been said.

An international currency emerges because it is a solution to an economic problem. In a world of multiple currencies and multilateral trade, those engaged in cross-border transactions face a problem of coordinating purchases and sales of currencies. Because a sale of a given currency to a customer is unlikely to be matched by a nearly simultaneous purchase of the same currency from another customer, foreign exchange traders must make their customers wait or must hold costly inventories of currencies.

When the volume of transactions in a given currency is large, however, the waiting time between buy and sell orders for the currency will typically be shorter, and smaller stocks of the currency can be held. Thus, there are efficiency gains to channelling international transactions through a single currency, passing demands and supplies for other currencies through trades involving a so-called vehicle. In addition, as more and more transactions work through the vehicle currency, the currency becomes increasingly acceptable in international transactions because bid-ask spreads narrow and liquidity increases.

Because the attractiveness of any vehicle currency grows as its liquidity increases, an international currency has a tendency to become a natural monopoly.

If the underlying demand for one of two competing vehicle currencies falters for a reason not clearly perceived to be transitory, and its bid-ask spreads, accordingly, increase relative to its competition, demand will shift to that competitor. But that shift, in turn, will widen the bid-ask spread of the faltering competitor still more, inducing a further shift of transactions to the alternative currency. This process ends with the demise of the weaker currency as a competing vehicle and the stronger of the two becoming the sole surviving vehicle.

However, even when an emerging international currency is displacing another, the transition can be drawn out, resulting in two vehicle currencies existing side by side for a protracted period. Between the two world wars, for example, sterling and the dollar were both active as international currencies. This period, of course, was clearly transitional, and the dollar subsequently became dominant.

But the most important factor inhibiting the emergence and persistence of a single vehicle currency throughout the world is the attraction of portfolio diversification. This can be a powerful counterforce, especially because currencies offer far greater opportunities for diversification than most other assets. The average price of all currencies, by construction, is trendless, tending to increase the negative covariance within a portfolio of currencies. In contrast, equity instruments are often driven in the same direction, as are debt instruments; and often debt and equity prices move together.

This point brings us to the question: How does a currency become an international currency? The question is particularly intriguing because, in the reign of fiat currencies, its answer is unlike the explanation of how a currency becomes dominant within a country.

When gold, silver, or other commodities were the normal means of exchange, units of currency were defined by commonly understood weights of the commodities that circulated. Soon the equivalent of warehouse receipts for precious metals circulated as currency. Under a commodity standard more generally the value of paper currency or any other financial claim is derived from the value of the standard.

Contracts can be written in terms of ounces of gold or, more conveniently, in terms of a unit of exchange. The pound sterling, of course, was originally a pound of silver. The US dollar was originally defined for legal purposes in the Coinage Act of 1792 as either 0.05 ounces of gold or 0.77 ounces of silver.

In today's world of government-issued monies, the unit of currency is not, and need not be, defined. It circulates as legal tender under government fiat. Its value can be inferred only from the values of the present and future goods and services it can command.

In the international arena, however, no overarching sovereign exists to decree what is money. Instead, a myriad of private agents must somehow reach agreement on which currency to use as an international currency.

In the modern world of fiat currencies, a number of factors can enhance the attractiveness of a currency to private agents, making it easier for them to settle on an international currency. First and foremost, an international currency must be perceived as sound. To be acceptable, market participants must be willing to hold it as a store of value. A necessary condition of that willingness is that a currency's future value in terms of goods and services be viewed as predictable. Losses in purchasing power will tend to discourage the use of a currency, but so will any excessive price fluctuation that raises the risk of holding it. In addition, if a currency is seen as a viable store of value in times of general uncertainty, it will attract investors even when times are not so uncertain. Clearly, many currencies meet this test; yet few emerge as international currencies.

Other factors will govern the selection from among the body of sound currencies. One is a strong, competitive economy open to, and active in, international trade and finance. Such an economy will naturally generate a large quantity of foreign exchange transactions with at least one leg in the home currency to support its wide-ranging business activity. This factor evidently goes a long way toward explaining the dominance of the Dutch guilder in the seventeenth and eighteenth centuries, the British pound in the nineteenth and early twentieth centuries, and the dollar today.

Another factor is the presence of an open and well-developed financial system, a factor, of course, that tends to be part, perhaps a necessary part, of a strong competitive open economy. A well-developed financial system increases the attractiveness of doing business in a currency for at least two reasons. First, such a system offers a number of ancillary services to participants in international markets, who may want to borrow or invest in a currency or to hedge foreign currency positions. To the extent that these activities can be accomplished efficiently in a currency, that currency will be more attractive as a currency in which to conduct business.

Second, deep and liquid financial markets that offer a full array of instruments and services will attract business from abroad that might otherwise have stayed at home. Because of financial market constraints at home or other barriers to efficiency, for example, borrowing or investing abroad in an international currency and exchanging the proceeds for domestic currency might be cheaper than conducting the transactions directly in the home currency.

Thus, a currency supported by a well-developed financial system is likely to encourage greater international use, above and beyond needs associated directly with international business activity. As a consequence, the volume of gross international capital flows denominated in the currency are likely to be high, adding to its desirability, regardless of whether, on net, these capital flows are positive or negative at any point in time.

These international currency determinants are clearly interrelated. Strong financial systems tend to develop in strong economies, and well-developed financial systems tend to enhance economic development. The development of both the economic and the financial systems supports the soundness of the domestic currency, which in turn feeds back to economic and financial activity. So, to some extent, there is an element of bootstrapping here. Ultimately, however, a currency's success in the international arena requires success at home, because the strength and efficiency of the home economy and home financial system will be sources of the strength for the currency.

Clearly the euro readily meets all the key qualifications for a major international currency. Indeed, there can be little doubt that the euro is a sound currency. The mandate of the European Central Bank to maintain a stable purchasing power of the currency is doubtless firmer than that of the Federal Reserve or any other major central bank. The economy of the twelve countries embracing the euro is roughly the size of the US economy, and its financial system is rapidly approaching the magnitude of that in the United States. Continuing advances in European telecommunications and payment systems have resulted in financial systems that now have the potential to be highly integrated across borders.

The introduction of the euro and the successful implementation of the TARGET payment system has also contributed to this potential, by linking more firmly the financial markets of the continental European countries. The tremendous growth of bond markets in the euro area over the past three years shows how such potential can be employed successfully. In addition, the greater depth and liquidity of financial markets in the euro area have facilitated the development of financial instruments, such as mutual funds and commercial paper.

But in its brief history, the euro area financial system has had its difficulties as well. Expansion across national borders of important financial markets, such as equity trading and securities lending, is apparently being restrained by difficult negotiations over regulatory and legal differences. A resolution of these differences would add to the attractiveness and stature of the euro in the international arena.

Many of the concerns about the euro, however, have little to do with the euro itself but pertain to certain European economic conditions that have affected the value of the currency. Following its inception, the euro, contrary to expectations, declined significantly against the dollar. Through the first year of the euro's existence, the weakening of its dollar exchange rate was widely attributable to a booming American economy. But, again contrary to expectations, the euro has not materially strengthened as the American economy has weakened.

Having endeavoured to forecast exchange rates for more than half a century, I have understandably developed significant humility about my ability in this area, a sentiment that I suspect many others in this room share.

With that caveat in mind, I agree with those who have hypothesized that the evident strengthened demand for the dollar, relative to the euro, has reflected a market expectation that productivity growth in the United States is likely to be greater than that in continental Europe in the years ahead. The steady flow of capital from Europe to the United States in recent years is, presumably, the consequence of Europeans finding many investments in the United States persistently more attractive than those at home.

As I have argued in other forums, this outcome may well have resulted to an important degree from the particular legal structures and customs that govern labour relations in much of Europe. For example, over the decades, Europe has sought to protect its workers from some of the presumed harsher aspects of free-market competition. To discourage layoffs, discharging employees was made difficult and costly compared with doing so in the United States. By law and by custom, American employers have faced far fewer impediments in recent years to releasing employees.

This difference is important in our new high-tech world because much, if not most, of the rate of return from the newer technologies results from cost reduction, which on a consolidated basis largely means the reduction of labour costs. Consequently, legal restraints on the ability of firms to readily implement such cost reductions lower the prospective rates of return on the newer technologies and, thus, the incentives to apply them.

As a result, even though these technologies are available to all, the intensity of their application has been more clearly evident in the United States and other countries with fewer impediments to implementation. As a dividend, the level of employment in the United States has turned out to be higher as firms find hiring less risky and, hence, are more willing to add employees to their rosters.

The persistent strength of the dollar in the face of the United States' unsustainable current account deficit underscores this impressive propensity to accumulate dollar investments, relative to those denominated in euros.

I will only briefly comment on the as-yet-unfulfilled expectation of a substantial diversification of the large holdings of international portfolios of dollars.

Some analysts predicted, before its introduction in January 1999, that the euro would rapidly displace part of the dollar holdings in many portfolios, including in particular official holdings of reserves. These expectations were probably overstated. History has shown us that once currencies achieve the status of an international vehicle currency, as the guilder and the pound did in previous centuries, the established infrastructure of deep and liquid markets favors their continuing to be so used. We have not yet reached the three-year mark since the euro appeared as a currency – a very short time by standards of international monetary history.

As I indicated earlier, we have seen substantial development in the markets for euro denominated bonds and other fixed-income instruments. Advancements in other markets have been slower but should proceed in time.

I also note that the introduction of the euro created a motive for diversification into dollars for those investors who had previously obtained some portfolio balance by holding several European currencies. As stability between the exchange rates of those currencies increased through the late 1990s and then became absolute in January 1999, some investors were induced to substitute into dollars to regain the diversification they had lost as the euro-area currencies became more closely correlated.

We are left with the question of how the international role of the euro will unfold. The attraction of investing in dollar-denominated assets depends upon relative rates of return. To the extent that the capital flows we have observed from Europe to the United States are a critical piece of the story, the future will be determined, at least in part, by the success in Europe of matching the expected rates of return on US assets. But market pressures toward portfolio diversification are clearly also going to play a major role in the future relative positions of the dollar and the euro. The world can only benefit from the competition.

A PROBLEM FOR THE ELECTORAL COMMISSION

By Jim Bourlet

When the referendum on Britain's possible adoption of the euro is called, the Electoral Commission will need to appoint for each side a 'designated organisation' which will receive public funding, broadcasting time and postal campaigning facilities – and the leadership clout that the appointment will obviously bring.

On the pro-euro side the position is uncomplicated. The long-established European Movement, nominally headed by the leaders of the three main political parties, has spawned within its offices at 200 Buckingham Palace Road the only significant pro-euro pressure group, *Britain in Europe*. *Britain in Europe* will therefore almost certainly be allocated the pro side resources which, given the backing of the European Movement as a whole and the full weight (presumably) of Cabinet-lead Government advocacy will generate a formidable campaign on that side.

On the pro-pound side, however, the Electoral Commission has a problem. Even if the Conservative Party were to be regarded as a potential 'designated organisation', it is unlikely that all the campaign groups would be prepared to accept it in this role and the Conservative Party might find it difficult to reconcile its membership of the European Movement with outright opposition to EMU membership.

So, leaving aside the Conservative Party, the Electoral Commission has to choose between the many independently generated groups. To some extent the Commission is likely to listen to the views of relevant organisations and it is possible that the views, if any, of the Economic Research Council could be useful. The ERC has no corporate view for the euro or for the pound but monetary affairs obviously are of concern. So which organisation should be the 'umbrella group' for the pro-pound side?

There is a widespread belief that if the referendum is seen as being *only* about whether or not Britain is to use euros or pounds, the result is likely to favour pounds, but that if the referendum is seen as primarily about Britain's EU membership (of which the currency question forms merely a part), then the result is likely to favour continued membership and, by implication, adoption of the euro. This belief may be right or may be wrong.

If it is wrong and the chance is taken to link the referendum with membership itself then two organisations would be the principal candidates for 'umbrella group' status – the *United Kingdom Independence Party* and the *Campaign for an Independent Britain*.

The UKIP, founded by Alan Sked has made great strides in influence, in grass roots organisation, in fielding election candidates and in getting two members elected (via the proportional representation system) to the European Parliament. Given its aspirations to mass membership it is hardly surprising that some of its members are open to criticism and it is a pity that it has been subject to leadership squabbles involving, some time ago, the departure of Alan Sked. However, a valuable party structure exists which could be built on if well known public figures chose to lend it support and leadership. The central aims of UKIP – namely the political integrity of the UK and a broadly market oriented set of social programmes, rejecting both extreme doctrines and xenophobic views, has obvious attractions.

The *Campaign for an Independent Britain* however, has a much longer history. It can trace its origins back to the Common Market Safeguards Campaign of the 1970s when it was itself an umbrella group to include such groups as the Anti-Common Market League founded in 1960, and the Keep Britain out Campaign founded by the late Christopher Frere-Smith in 1968. This Campaign is the one that has maintained the faith in Britain's future outside of the EU throughout the most desperate years. It has kept membership going, publications flowing, and the flame alive. This is the group to which respected politicians who have opposed Britain's membership, have subscribed for nearly half a century and there is every reason to build on rather than abandon that, now.

If, however, the belief that the issue should remain limited to the euro/pound is right, then there are two main contenders that have lately sprung up to claim leadership.

First, there is *The No Campaign*, an elite grouping of Business for Sterling run from the Institute of Directors, plus the New Europe Group lead by Lord Owen and Frank Field MP. Lacking a grass roots organisation *The No Campaign* would need to call for the support of The Democracy Movement (founded by the late Sir James Goldsmith) as well as whatever support was forthcoming from anti-EU groups. But there would inevitably be intellectual confusion if dedicated opponents of EU membership found themselves asked to line up behind a banner held by the 1970's 'gang of four' member, David Owen!

Secondly, there is the *Congress for Democracy* which has held a number of highly successful 'summit' meetings to bring the leaders of all groups together. Chaired jointly by Sir Michael Spicer MP and Austin Mitchell MP it has published excellent material, conducted organisation and public relations in an impressive, professional and (from the opponents' point of view) frighteningly credible and dignified manner. Well respected, it lacks, however, a 'front line' leader as well as a grass roots component. The *Congress for Democracy* has a steering committee which includes many significant groups from Lord Bell's 'Conservative Keep the Pound Campaign' to 'Trade Unions Against the Single Currency' and leading campaigners from Frederick Forsyth to Lord Pearson of Rannoch.

Comments on the choice between these four options (or indeed others) sent to The Editor, are welcome.

'YOU ARE OLD, FATHER WILLIAM'

by Peter Davison

So both William Wordsworth and Lewis Carroll. I now *know* I am old. Last week I received my P.45 terminating ten years of work at De Montfort University; next month I shall be seventy-five. So I am old and presumably in an age that idolises youth, a nuisance to be brushed aside. That sentiment I recall from another poem by Wordsworth from over sixty years ago, 'The Old Cumberland Beggar' (1797). I remember it in part because our disreputable form changed the first vowel of 'Beggar' from the second to the last of the five. Wordsworth deals sympathetically with old age. Writing of the old man he says,

But deem not this man useless, Statesmen! ye
Who are so restless in your wisdom, ye
Who have a broom still ready in your hands
To rid the world of nuisances …
… deem him not
A burthen of the earth!

This reads aptly but slightly misleadingly today. 'Statesmen' does not apply to politicians (not, in any case, an appropriate word for most of the politicians we have been encumbered with over the past fifty years) but is a peculiarly Lake District designation for a man who owns the fee-simple of his land and works it himself. Nevertheless, the idea of a modern politician, restless, even arrogant, in his 'wisdom' strikes a chord. What are we to do about old people?

This is no new problem. There are still homes established decades, even centuries ago run by charities for the aged. Such are the Duchess of Somerset's Hospital at Froxfield, founded in 1694, still as a refuge for old women, and the Raymond Almshouses at Newbury, founded in 1796. Lloyd George's name became a popular short-form for the old age pension following its introduction, despite the determined opposition of the House of Lords, before the first world war. Those of my age can recall grandparents speaking of 'going to collect my Lloyd George'. But has that resolved what to do with the old? Hardly. Two newspaper stories on successive Sundays recently highlight the problem. Cradle to grave care may provide for an immigrant's sextuplets at a reputed £500,000, but there were, in April 2001, 5,938 people in England and Wales stranded in hospital because of a lack of community care facilities. An 85-year-old pensioner had been laid up at Heartlands Hospital, Birmingham, for fifteen months. The cost, £135,000, might be only a quarter of that for the sextuplets, but it is five times the cost were he in a nursing home.[1] It may be argued that it is economic sense to provide for new life and dispose of the old. However, we don't really face this problem so directly. We shun (publicly, at least) taking a broom in order to rid the world of elderly nuisances. We prefer surreptitious euthanasia, 'nil-by-mouth', for example. Earlier generations were readier to face this dilemma, at least on the stage or in print. Let me briefly discuss two examples, one of each genre, in order to highlight the problem..

The Old Law, a comedy, was published in 1656. It was attributed to Philip Massinger, though he probably had little, if anything, to do with it. The dramatists Thomas Middleton and William Rowley have also been suggested as authors. One thing is pretty certain: it dates from much earlier than 1656, for by then the public theatres had been closed for nearly fifteen years and the three authors suggested died in, respectively, 1640, 1627, and 1642. Possibly it can be dated about 1615, half-way through the reign of King James VI and I. The play does not bear revival, but its subject is of interest in the context of what to do with old people. Men of eighty are condemned to die: 'these men, being past their bearing arms, to aid and defend their country … as well as past their councils … to assist their country … be condemned to die'. For women, 'for that they never were a defence of their country; never by counsel admitted to assist in the government of their country … at the age of threescore … be put to death'. Of course, this is a comedy and so all ends happily, at least for the elderly, Creon, Leonides, Lysander, and Agatha, the wife of the clown, Gnotho. One source of humour at that time, which saw the rise of capitalism, was associated with the getting of money (for example, Jonson's *Volpone*, Massinger's *A New Way to Pay Old Debts*, and. better-known, Shakespeare's *The Merchant of Venice*). The motivation for Simonides's wish to be rid of his father, Creon, in *The Old Law* is so that he can enter into his inheritance. Creon is 'an old tree' whose lofty branches are keeping the sun away from the son, described as a 'young plant'. (I always like the use of the English word 'plant' in this context: the Welsh for a child is *plant*.)

Yes, it is a comedy, which in this context does not necessarily mean that

1 The Lebanese immigrants' story was front-page news on 19 August 2001; the father, to do him justice, expressed his wish that his family could stay in England so he could earn enough to pay back some of the cost. The story of the 'longest-serving bed blocker' was reported in *The Sunday Telegraph* one week earlier.

it is riotously funny. In much ‘comedy’ there is a journey from disaster, through tribulation, to a kind of happy resolution – hence Dante’s *Divine Comedy*: Hell, Purgatory, Paradise. But like the best comedies (of which it is not one) it does deal with serious issues: here, what do we do about old people?

We tend to think, reasonably enough, that Anthony Trollope wrote about dear old vicars and rather less charming Archdeacons, into which he was fond of introducing scenes from the hunting field. So he did and those living on the literary heights of Hampstead were quick to scorn John Major because he read Trollope. Perhaps they found the hunting scenes objectionable, or that Trollope was a brilliant and creative Civil Servant for much of his life. In fact, Trollope had a much broader canvas. *The Way We Live Now* is as relevant now as it was in 1875, indeed, perhaps more so. *A Fixed Period* bids fair to being his most untypical novel. It is quite short, just 182 pages in the Oxford World’s Classics edition.[2] Trollope was 65 when he began writing the novel and he died, aged 67, at the end of the year when the two-volume edition of the novel was published. He was far from well at this time and this, and these ages, are significant. I draw attention to them, just as I drew attention to my age at the start of this article – in order to provide an appropriate context to what Trollope and I have to say. Trollope had read *The Old Law* on 8 July 1876.[3] The action of *The Fixed Period* takes place on the island of Britannula (a sort of off-shoot of New Zealand); it was prosperous, democratic, self-governing, and had gained its independence from the United Kingdom, well before New Zealand and Australia had done so. Its Parliament had enacted a law that at the age of 66 compulsory euthanasia should be enforced for all men and women. The story concerns what happens when the first person to be subject to this law, Gabriel Crasweller, is about to be required to enter the ‘college’ in preparation one year later for what is called ‘the happy departure’. He will be accorded every civility and comfort in his final year and his great friend, President Neverbend of Britannula, ‘verily believes’ that such aged men will wait ‘in impatience the coming day of their perfected dignity’ (p. 9). Unfortunately, Crasweller, though a party to the act leading to his euthanasia, is less than enthusiastic when the time comes. The British Government decides, illegally, to intervene (this, of course, long before there was any

2 Edited by David Skilton (1993). I have drawn on Professor Skilton’s introduction and notes for one or two details.

3 Skilton, p. xv, quoting Bradford A. Booth, *Anthony Trollope: Aspects of his Life and Art* (1958), p. 129.

question of its possessions gaining their independence) and sends a gun-boat, ironically given the same name as a radical politician, HMS *John Bright*, to ensure that Britannula's law of compulsory euthanasia is not allowed to be put into effect. The ship, rather after the manner of the US Air Force B-25 bomber, the *Enola Gay*, that dropped the atomic bomb on Nagasaki, has a huge '250-ton swiveller-gun' that can destroy a city with a single shot. I will tell nothing of the sub-plot – a love story – nor the modestly comic cricket match, in which the Britannulists defeat the visiting England team (captained by Sir Kennington Oval), a precedent for the Test series famously won by the visiting Australians on 2 September 1882 (leading to the creation of the Ashes): that will suffice for the story.

It will already be obvious that Trollope is often ironic – the proper names are indicative of that – even though he claimed he meant 'every word' of *The Fixed Period* (xviii). There are many examples. Thus, the *John Bright* is despatched by a British Cabinet Minister, the Minister of Benevolence (p. 123), just as Orwell's will have lies disseminated by the Ministry of Truth, and the Ministry of Love houses the state's torture apparatus (and Room 101). We still shamelessly adopt this practice. If the government wishes to bomb Kosovo it is organised through the Ministry of Defence; sheep and cattle slaughter is organised by the Department for Environment, Food, and Rural Affairs: it sounds much cosier. The capital of Britannula is Gladstonopolis, a dig by Trollope at Gladstone and the suggestion that the capital of Queensland should be called 'Gladstone'. In the light of his failing health and his use of irony, it is not immediately apparent just *how* Trollope 'meant every word'.

Satire is readily misunderstood. Recently we have had the patent misunderstanding of a Brass Eye television programme on how the popular newspapers cynically (given their penchant for near-naked female bodies) exploit paedophilia. Politicians who had not seen the programme were quick to condemn it. Daniel Defoe ended up in the pillory because Parliament did not understand the satire of *The Shortest-Way with Dissenters* (1702 and 1703), and Jonathan Swift's *A Modest Proposal for Preventing the Children of Ireland from being a Burden to their Parents or Country* (1729) might initially strike the reader that it should be taken at face value. Swift seemed to argue that the administration of Ireland could be made economically successful by selling Irish babies for meat to serve English tables:

> A Child will make two Dishes at an Entertainment for Friends, and when the Family dines alone, the fore or hind Quarter will make a reasonable Dish, and seasoned with a little Pepper or Salt will be very

good Boiled on the fourth Day, especially in Winter'.[4]

Trollope is rather good at using language to show how it conceals what is really meant in a way that, half-a-century later, George Orwell would famously anatomise in his essay, '*Politics and the English Language*' (1946): 'Political language – and with variations this is true of all political parties, from Conservatives to Anarchists – is designed to make lies sound truthful and murder respectable, and to give an appearance of solidity to pure wind' (the last nine words are as apt a description of a politician answering a question on radio or television as any I know). Trollope, in *The Fixed Period* was slightly more gentle but made a similar point: 'In what I have read of British [Parliamentary] debates, those who have been eloquent after this fashion are generally firm in some purpose of self-interest' (141–2) and, having described the visiting cricket team as 'a crowd of educated Englishmen', he went on, 'When I say educated I mean prejudiced' (p. 58). President Neverbend is appalled when anyone uses the word 'murder' to describe euthanasia. 'Of all terms in the language there was none so offensive to me as that odious word when used in reference to the ceremony which I had intended to be so gracious and alluring'; it is 'a very improper word' (pp. 55–6). The word 'slaughter' for euthanasia 'was in itself peculiarly objectionable to my ears' (p. 33); it has evidently also been offensive to the Government's when applied to sheep and cattle. Although the Prime Minister began by speaking of the need to slaughter animals, the word was quickly dropped and replaced by 'cull' and then by 'cull out', as if an added preposition softened the blow of the stun gun. To 'make away with' was also offensive (p. 22). Neverbend's description of the actual process shows how in advance Trollope was of the contemporary practice of blurring the outlines and covering up all the details by avoiding clear language (to draw on Orwell's '*Politics and the English Language*' again). Those who reached 65 would be 'deposited' in a 'college' where they would 'enjoy for twelve months the preparation for euthanasia, which no cares of this world would be allowed to disturb. All existing ideas of the grave would be absent'. It would be a source of pride for the deposited person's children 'to feel that his parent's name had been enrolled to all coming time in the bright books of the college'. The phrase 'the bright books' is particularly apt. Any spin doctor could take pride in it. As for 'the actual mode of transition' (another beautiful expression), it had been decided 'that certain veins should be opened while the departing one should, under the influence of morphine,

4 Swift's *Satires and Personal Writings* (1956), p. 24

be gently entranced within a warm bath' (notice 'entranced') and President Neverbend himself, 'in order to increase the honour conferred' (i.e. in being put to death) would wield the lancet in the first two or three cases (pp. 21-2). How could any sane person resist such an appealing prospect? Neverbend's – Britannula's – policy was in part to obliterate the fear of death from the human heart (p. 34); a contemporary novel puts this another way: 'One should spare young people the spectacle of old age'.[5] In part the policy was to cope with the sufferings of those who, through cost, were 'unable in any degree to supply its own wants' (p. 6) and so rid them of 'the horrors of poverty' (p. 7); in part so that the 'old and effete should go, in order that the strong and manlike might rise in their places and do the work of the world' (p. 112); but much of it was simple economics:

> … by the use of machinery the college could almost be made self-supporting. But we should save on an average £50 for each man and woman who had departed. When our population should have become a million, presuming that only one in fifty would have reached the desired age, the sum actually saved to the colony, would amount to; £1,000,000 a-year. It would keep us out of debt, make for us our railways, render all our rivers navigable, construct our bridges, and leave us shortly the richest people on God's earth! And this would be affected by a measure doing more good to the aged than to any other class of the community! (p. 8).

£50 and £1,000,000 would be at least £2,000 and £40,000,000 today; that saving per one-million population would now amount to something like £2,000,000,000 for the United Kingdom. And that total would be multiplied because our over 66-year-olds are more than one in fifty of the population. Of course, such extrapolations are not to be taken any more seriously than Trollope's figures, but one can see the attraction they might hold for a contemporary Chancellor of the Exchequer, especially with Railtrack and the London Underground in mind. As well as such economic advantages, there would also be political benefits. It is often pointed out that the old take the matter of voting more seriously than the young. Further, there seem to be more old people than young opposed to joining the euro. Arrange for President Neverbend's 'happy departures' for those of 66 and over and the referendum on the euro is as good as won for the Government.

This, like *The Old Law* and *The Fixed Period*, is satire, but like Trollope, I

5 Anita Brookner, I Visitors (1997), p. 23.

'mean' it. The idea of 'depositing' the elderly and arranging for their 'transition' is as repugnant to us as it was to Trollope. But what do we do? Do we run, in effect, 'a fixed period' for those who are old and frail and unable to provide for themselves? Death on a trolley in a hospital passage and a regime of nil-by-mouth treatment are only the more obvious techniques to 'cull' our population whilst professing ourselves a caring, feely-touchy, society. It is obvious that care of the elderly is less-than-well-provided-for (though there is more generous provision in Scotland, doubtless because we have a Scottish-dominated government). More money is needed and the caring professions need far better financial support. We cannot go on closing down residential care and rest and retirement homes and reducing social services support for the elderly. To be fair to the present government it has, at last, started to reverse the reduction in the funding of hospices. Cuts in such funding started to be made under the Conservatives and were continued by Labour, dropping to about 22% of costs. Checking with my local hospice (one always keeps an eye on the main chance) I find that it is now funded to the tune of 30% and hopes that will increase to 50% in five years' time, but Wiltshire is, I am advised, one of the more generous Health Authorities. I understand, also, that there is a reluctance to be funded at more than 50% because then control would pass out of local hands to that of government officials. However, I am more concerned with the general issues than the specifics of something on my doorstep.

In the past eight years I have been responsible for raising money for a charity and claiming tax back from the Inland Revenue. It is a small affair but over that period I have recovered upwards of £50,000. When it comes to distributing it, it astonishes me that it is dribbled away by good-hearted people supporting one minority interest or another. Even though most of those who do the giving are themselves elderly, they cannot somehow see the need, or virtue, of making a worthwhile donation to the needs of the elderly, specifically to our local hospice. It is not only our politicians who need educating. However, *The Old Law* and *The Fixed Period* indicate that politicians ('Statesmen') should not, 'restless in their wisdom', simply brush aside the elderly. Still less should they use language and take actions that seem to suggest they are concerned for old people when their interests really lie elsewhere. In his introduction to the edition of Swift's *Satires and Personal Writings*, William Alfred Eddy points out that in *A Modest Proposal* Swift is 'not only denouncing cruelty; he is ridiculing the specious and pious euphemisms by which cruel men screen their cruelty from their own eyes. The effect of his satire is to make his victims appear not knaves but fools – a much more serious predicament' (p. xxx). Are we often cruel without realising it? Are we, inadvertently condoning 'the old law' and 'the fixed period'? Thirty years ago, 13% of the population was over 65. That percentage will double by 2041 and three million people will be over 85, a threefold increase since 1971. There is no time to waste in facing this issue (*Sunday Telegraph*, 26.8.01) – otherwise we must invest in thousands of hospital trolleys.

THE NEW IDEA OF A UNIVERSITY

Duke Maskell and Ian Robinson published by Haven Books, 2001, £18.50.

Duke Maskell is a graduate of University College London. He then taught English in the University of Western Ontario, the University of Sierra Leone, Brock University, Ontario and Newcastle Polytechnic. Ian Robinson is a graduate of Downing College Cambridge and then spent the most of his academic life at University College Swansea. Prompted by widely and long held views on US higher education they examine the changes that have taken place in the UK over their teaching careers. With first hand experience taken from a few institutions and one subject, English Literature, they draw largely on anecdotal evidence.

The book is divided into five sections opening with "The Economic Case for Higher Education". This section will be considered later, while the other sections and chapters will be considered sequentially.

"The Old Idea of a University" concentrates on the benefits of a liberal education and in particular the thoughts and views of J H Newman. Here truth is the object, bringing together ideas while developing a trained mind. A healthy brain, as with a healthy body, is seen as making a person more effective. Universities are identified as the route to a trained mind, while not being seen as training establishments for skills. By comparison Lord Robbins in "Higher Education Revisited", 1980, Raison d'Etre, followed a similar line of thought, while suggesting some training has and does take place, ie, law and medicine. He recognized a drift over the last 100 years towards training and the advance of knowledge.

Maskell and Robinson then set a scene once frequently found in the English Department of a University, the seminar. Here through interaction and criticism the characters of Jane Austen's "Pride and Prejudice" are analysed. From this exercise two personalities stand out, educated Darcy and Collins along with the concept education is not the same as instruction. The characteristics portrayed by Darcy and Collins are used in subsequent chapters to highlight various points.

Looking to the future, "The New University for Life", concentrates on The Dearing Committee's report, a vision of higher education. Drafted in Collins' speak, education and training go together to equip customers for work and lifelong learning. With a national policy objective – participation by all – high standards from top to bottom – a mechanism for achieving it – progress monitoring – quality assessment etc., "Bob's your uncle". Dearing makes frequent reference to Higher Education, a catch-all concept aimed at promoting training in a wide range of skills. The alternative "University" has a history, not for all, for training, or to make us rich.

The role of the New University is seen as delivering knowledge and skills to customers through the process of teaching assisted by aims, objectives and goals. Teaching delivered in modules provides a mixture of options, with directors guiding customer's choice along lines that coincide with old degree subjects. Twenty years earlier Lord Robbins suggested frequent examining might deter the less academic from wasting time, while the adoption of something like the American credit system would be of benefit to an enlarged university population. With Dearing the performance of the New University is guaranteed by "total quality control". Success comes with an increasing percentage of firsts and upper seconds, leading to graduate productivity through research funded by the Government. Within this system academic promotion demands prolific publishing, with quantity the objective irrespective of readership.

Changes to the A-Level, the jewel in the crown and feeder examination for degree courses, is viewed as having had its share of treatment. It has been "augmented". It now has a starred grade for high flyers and an Advanced Subsidiary to broaden options. Turning to examination content, chosen material appearing in recent English Literature papers is thought to compare less favourably with the intellectual standard of thirty eight years ago. Ofsted with its close involvement guarantees quality, with "quality" judged against the repeatability of rule and method, BS5750. (Strictly speaking quality is not being measured. Its concept is flawed. Two organisations with different procedures cannot in theory trade with each other.)

It is suggested the way course material is presented and then examined has changed. With English Literature analysis and the presentation of ideas, views and reasoned argument have gone, with students "taught" by "courses". When it comes to examinations they are expected to adopt the "teacher's" "ideology", so making marking easier as well as the role of external examiners.

The conclusion is headed by the question, "The Tree of Knowledge or a Shopping Mall"? Newman argued knowledge is one, "All that exists, as contemplated by the human mind, forms one large system or complex fact and this of course resolves itself into an indefinite number of particular facts, which, as being portions of a whole, have countless relations of every kind one towards another. Knowledge is the apprehension of these facts, whether in themselves, or in their mutual positions and bearings. And, as all taken together form one integral object, so there are no natural or real limits between part and part, one is ever running into another, all, as viewed by the mind, are combined together, and form a correlative character one with another ..."

Within the modern university the authors view science as a field that has held to Newman's Tree of Knowledge, continuously budding and branching. It has managed to maintain common standards for what counts as good science across a body of activities, with fields overlapping or overlooked. Away from science a whole range of topics have been introduced. They cover a wide range ie., arts management, beauty science, garden design, childhood studies, golf green keeping, popular music studies, catering management, turf science, etc etc. The list is far too long to reproduce. Universities in the view of the authors are becoming the homes for a collection of separate and diverging specialisms. Such a range of topics then leads to another problem, that of assessment. How can subjects with a long history be assessed alongside recently added topics when it comes to assessing the standing of a university as a whole? If a university has ceased to be a garden of knowledge and become a bazaar of specialisms should it be renamed a "Polyversity"?

In the first chapter the authors considered "Education as an Investment". The views emanating from this chapter appear to be more in keeping with those appearing in the concluding paragraph. Before the 60s nations, when they became rich, endowed universities, not as engines of economic growth, but as centres of piety, learning and thought. From the 60s onwards education has come to be seen as a training, to be useful, to make us rich. The Dearing Report states "Society benefits from higher education to the extent that a graduate pays higher taxes, as well as earning a greater amount post-tax... Thirdly, graduates may enhance the productivity of other people in ways not captured in their own incomes." The benefits identified in the Dearing Report are examined in two sub-reports, Colin Sausman and James Steel, "Contributions of graduates to the economy: rates of return", and Professor Gemmell "Externalities to higher education: a review of the new growth literature". The authors having reviewed the sub-report,s come to, no firm opinion on benefits to tax payers other than higher education might create human capital or merely act as a screening device. Lord Robbins was of the similar opinion in 1970 "I simply cannot take seriously any attempt to trace any obvious correlation between rates of growth of GNP and the proportion of the relevant age-groups receiving higher education". Ralf Dahrendorf in 1979 "there is no necessary and simple relationship between higher education and the rate of growth of the GNP".

The conclusion is followed by two supplementary sections. The first, "An Anecdote of Institutional Life", makes interesting reading. An examination is made of the changes that took place when a Polytechnic switched from an external London degree to one awarded by CNAA. After the change staff taught and examined students, whereas before they only taught. Also with the change a more professional approach to a range of matters was required.

The second supplement, "An Education Policy Document", sets down the authors' views, how they would like to see "education", its principles and organization. A split between the academic and training is preferred, along with a move away from some European and American practices. It is rather like reading about things as they were. With training they see a role for market forces along with the possible demise of "the new MBA schools". Here they seem to have missed an important point. Business schools rely on market forces for their prosperity. Harvard Business School, provider of a top general management qualification, is over 90 years old, while in Europe INSEAD and the London Business School have now joined the top tier. Oxford and Cambridge Universities by comparison have been reluctant to recognise the pursuit of business studies. Another lesson business schools offer is their mode of funding. LBS does not look to the Government for the bulk of its funding, unlike the mass of UK higher education, leaving it free to select students, while tailoring its products to a chosen and growing international market. By reference to The States more could have been said on the disadvantages or otherwise of central funding. Not all American practices are detrimental.

In summary it would seem "The New Idea of a University", with its shopping mall approach, is proving popular with both the providers and consumers of the service. The numbers who have or are to pass through higher education demonstrates this point as the ratio of those benefiting moves towards 1 in 2 from 1 in 33 forty years ago. Then we live in a feel good consumer society, which had it been recognised might have avoided the cost of a Dearing Report.

A book I believe it will appeal to the serious minded and in particular those who find it difficult to understand how in the near future 50% of young people might hold degrees, while within the population at large 20% are rated as semi-literate. After reading the book some might also ask, as tax payers, why are we short of doctors, teachers, nurses, engineers and others with practical skills?

D. F.

LETTER

A response to 'The net real rate of interest on long term investment' by Beverly Antrobus from Mr Michael Gilbert

Dear Sir

I found Beverly Antrobus' ramble through money and the return on capital in the Autumn edition enjoyable.

However, towards the end of the essay, four outstanding profitable areas are identified: oil, banking, pharmaceuticals and land.

Yes, the oil market is at least partly cartel-rigged, banking must make money because that is what it does and pharmaceuticals are made by near monopolies with Governments as their customers. However, it seems strange to regard land as a profitable area. There is no work and no product. Perhaps what is meant is the monopoly right of occupation of a defined location, which right constitutes a vital necessity for particular businesses. An example is an airport, which is why BAA makes a lot of money.

Many years ago, an old kindly stockbroker told me never to recommend transport stocks for widows and orphans. Why is the transport business so chancy? Perhaps it has something to do with the fact that it is generally deprived of a part of its income which is rent from the use of locations made desirable by the presence of the transport system concerned. Sites round railway stations are an obvious example.

Many years ago there was a meeting of Town Planners attended by a US State (I think Texas) official with equivalent responsibilities.

He listened to the discussion with growing wonder and disbelief. “Do you really mean to say that you pay compensation to landowners to allow you to build roads on their land?” he asked. “Yes, don’t you?”. “We simply indicate the value which the road will put on sites alongside it, and if the owner wants to argue or bid we go away and put the road some place else.”

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COMPETITION REQUEST

With this edition of Britain and Overseas members will find a separate page entitled ‘Competition Announcement’ and ‘Application form’. The Council would be pleased if you can hand this to a suitable contact in university or school education to encourage further submissions.

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).
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Student members	£10 per year
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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 Date ....

Economic Research Council

7 St James's Square

LONDON SW1Y 4JU

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)

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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 ....

....

....

PROFESSION OR BUSINESS ....

REMITTANCE HEREWITH ....

SIGNATURE OF APPLICANT ....

NAME OF PROPOSER (*in block letters*) ....

SIGNATURE OF PROPOSER ....