BRITAIN & OVERSEAS

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

Summer 2002 Vol. 32, No. 2

DUKE MASKELL – JAY WALDER – PETER DAVISON

Editor: Jim Bourlet

The articles published in this journal do not necessarily reflect the views of The Economic Research Council

Published quarterly by
The Economic Research Council
7 St James's Square, London SW1Y 4JU

Price: U.K. £15 Australia $35 Canada $35 New Zealand $45 U.S.A. $25 Japan ¥4,000
ISNN 0045-2866

President	Lord Biffen
Chairman	Damon de Laszlo
Vice-Presidents	Tim Congdon
	Russell Lewis
	Brian Reading
Hon. Secretary	Jim Bourlet
Executive Secretary	Professor Peter Davison

MEMBERSHIP

Membership of the Economic Research Council is open to all who are in sympathy with its declared objects. The minimum annual subscription for individual members is £25 for full members, £15 for Associate members, and Student members £10.

Corporate membership is open to all companies and other bodies, minimum annual subscription £55 (Educational institutions £40) in respect of which they may send up to six nominees to any of the Council's discussion meetings and lectures.

Executive Committee

Damon de Laszlo (Chairman)	Dulcibel McKenzie
Tony Baron	Christopher Meakin
Jim Bourlet	John Mills
Peter Davison	Alan B. Parker
Peter L. Griffiths	John T. Warburton
Robert McGarvey	

WHO SHOULD PAY FOR THE UNIVERSITIES?

A talk given by Mr Duke Maskell,
co-author of The New Idea of a University*, to members*
of the Economic Research Council on Tuesday 19th March 2002

While an institution does what it's meant to do, it's hard to get very interested in how it's paid for. Let the army successfully defend us from our enemies and who cares whether it's composed of privately raised mercenaries or citizen conscripts paid from taxes? Let the universities *be* universities, and who cares whether they're paid for by what combination of taxes, fees, endowments? The question of whether a university education is a public or a private good won't arise while universities *are* any good. And it's only since ours became no good that we've begun to ask who should pay for them.[1]

Still, it's hard to believe that the money that has made the universities so much bigger and so much worse than they were forty years ago could have been raised privately. Only public money – belonging to everyone and no one – could have done that.

At the start of the sixties about 3 in 100 went to university. Now, probably 2 in 5 do. The present Government intends to make it 1 in 2; and no imaginable Conservative Government would make it any less. This expansion has been a disaster not only for the institutions themselves but for the idea of education they embody, an idea now all but swallowed up in talk of training and skills and jobs and the benefit to the economy.

It is not as if the expansion were simply of the number of students attending. For it isn't the case that where there were hundreds doing philosophy and mathematics, there are now thousands upon thousands. The vast majority of the new thousands in the new university have no taste or aptitude for philosophy and mathematics, so subjects have had to be devised, Departments created, Professors appointed in 'subjects' they *do* have a taste and an aptitude for, Beauty Science, Broadcasting Studies, Business or Catering Management and Sports and Exercise Science, Cosmetic Science, Early Childhood Studies with Sports Science or Marketing, Fashion and Fashion Design Promotion, Golf Course

1 This isn't quite true. Professor H.S Ferns was advocating the creation of a private university as early as 1969, and the University of Buckingham was founded in 1976. For a copy of Ferns' paper, 'Towards an Independent University', and more on the history of (and case for) private universities, see *Buckingham at 25*, ed. James Tooley, IEA, 2001.

Management, Health Promotion, Pig Enterprise Management, Popular Music Studies, Surfing and, of course, if all else fails the test of the popular taste and aptitude, Leisure and Tourism. Such is the character of the university created by the state from taxes. (And if Football were a Department of State, that would be the character of the Premiership too.)

State subsidies may not have caused the universities' collapse but they certainly helped to make it possible. Remove the subsidies and the university would shrink back to something of a size that would permit it to be a university again. On its present scale, with subsides on their present scale, the real university can't exist – except in holes and corners, by chance or on sufferance and under threat. Philosophy has been got rid of at Newcastle and isn't wanted at Coleraine. Why should it be kept anywhere?

And what justifies the destructive expansion – and the £6bn a year it costs to keep it going? It is an investment. We put all this money into the universities because we count on getting even more back. The money put in has a definite, calculable return. The whole political class – Labour, Conservative, Liberal Democrat, Vice Chancellors and Newspaper Editors – all say as one 'Education, Education, Education', and mean by it what Joel Grey so marvellously sang to, in the film *Cabaret*, money, money, money. But it's not even as if, for the most part, they feel the need to say 'It is an investment', which might attract the retort 'Oh no it isn't.' They just call it one, as if it were self-evident.

But *is* it one? How do we know that it isn't simply *spending*, like the money that goes on the police or army or NHS? Most of us will think the army necessary but no one pretends that what makes it so is that it's *profitable* or thinks that its character and size ought to be determined by its supposed profitability. ('If we want economic success tomorrow we must invest in our tanks today.') Why then with the universities? What proof is there that the tax money that pays for the destruction of the universities brings a return to the tax payer?

Well … one place that proof is supposed to be found is the Dearing Report of 1997 (*Higher Education in the Learning Society*, National Committee of Inquiry into Higher Education, Stationery Office) which says that what makes the £6bn of taxes put into the universities each year an investment is that graduates earn more than non-graduates and (may) help non-graduates earn more too:

> 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 (one aspect of so-called externalities).
>
> (Annexe C, para. 19)

'Other people' may wonder, of course, quite what's in it for them (a question I'll come back to). The Dearing committee believed that there must be loads in it for everyone because of its reading of the two economic sub-reports it commissioned and appended to its main report: no. 7, 'The contribution of graduates to the economy: rates of return' by Colin Sausman and James Steel of (what was) the Department of Education and Employment, and no. 8, 'Externalities to Higher Education: a review of the new growth literature' by Professor Norman Gemmell of the Economics Department, Nottingham University.

But Dearing's reading of these two technical reports was sloppy and uncritical (and rewarded with a lordship). Report no. 7 is just a piece of government sponsored hackwork, without a trace of honest doubt in it, mightily unintelligent and obsfucating; and report no. 8 – while frankly admitting that hardly anything can be known for sure about its own topic (and very illuminating about the untrustworthiness of sub-report 7) – fails, it seems to me, to draw the obvious conclusion.

These two reports ought to be well known, by everyone who pays taxes but especially by those who haven't got degrees, because what they jointly show is just the opposite of what the Dearing Committee and both Front Benches thought they showed: that is, that there's about as much evidence of a return from our annual £6bn Higher Education 'investment' as there is for alien abduction.

This isn't to deny, of course, that a degree is (or has been) a very good investment for those with one; and its value as an investment, what economists call 'the private rate of return', is easily calculated and understood.

The student's investment is what he loses in (net) earnings during the period of study (plus, now, what he pays in fees and interest on loans), and his return is the higher net wages he can expect to earn over a working lifetime as a graduate. If his costs are low enough, for instance because of generous subsidy by the state from taxes, and if his higher earnings are high enough, for instance in part because some jobs are reserved for graduates, it makes sound financial sense to get a degree. According to Sausman and Steel, the average yield has probably been about 12.5 per cent a year. (Table 2.2) (But that figure is based on data that's more than ten years old and doesn't take into account that maintenance grants have been replaced by tuition charges or that there are now many more graduates wanting 'graduate level' jobs than there used to be.)

But it doesn't follow at all, of course, that because the individual turns a profit from receiving a a subsidized education the state turns one from subsidizing him. It especially doesn't follow that non-graduates get anything out of it. And if they don't, where is the justice of the subsidy and where is the political case for continuing to expand higher education through the tax system? If they don't, can there even be any economic case for the expansion? Professor Gemmell says,

> If the gains from HE (in the form of higher wages) are all reaped by graduates themselves there is no immediate economic case for subsidising the HE system. State-funded education would merely be taxing some individuals (with resulting efficiency losses) in order to enhance the private gains to others. Indeed the subsidy will encourage some individuals at the margin to undertake a socially wasteful investment. (1.3)

So, the question is: Does anybody but the graduates themselves benefit economically from their subsidized education?

Now, if you read Sausman's and Steel's paper uncritically and not in the light thrown on it by Gemmell's, you'd think the answer a perfectly clear 'yes': on the one hand there's the Private Rate of Return, to the graduates themselves, and on the other there's the Standard Social Rate of Return, to – you might presume – everyone else. The PRR is 12.5%, the SSRR 8% – not as good but still pretty good. Lucky old non-graduates, you might think, to have been obliged by law to help pay for the education of the graduates. Where else would they get 8%, year in, year out, for their money?

But if you thought that, you'd better think again. You haven't understood the subtlety of an economist's idea of a *social* rate of return.

Now, firstly (this is just preliminary, but necessary) the social rate of return isn't quite as straightforward as the private rate of return which it seems to complement. Its verifiability depends on crucial, untested assumptions which any ordinarily prudent investor – not a cabinet minister, say, using other people's money to make promises with – would want to query: (1) that graduates are more productive than non-graduates (something for which Gemmell says there is no evidence) (2) that if they are more productive it is their education, not anything else, that makes them so (something else Gemmell says there is no evidence for) and (3) that their greater productivity is measured by the higher cost of employing them.

Assumptions (1) and (3) have to be considered together.

How would you measure how much more productive a graduate was than a non-graduate? As Professor Gemmell says, you'd have to observe the two performing similar tasks and see whether the graduates were more efficient. But, as he also says, 'Measuring the output of education in general, and HE in particular, is notoriously difficult' (3.7) and 'controlled experiments are almost never possible'. (1.7) So that's why economists make that third assumption – that how much someone contributes to the economy is measured by how much he costs it – because if they didn't they wouldn't be able to calculate a SSRR at all! (They'd have to find some other employment.)

However routine in economics, and scientific, in report 7 treating costs as benefits certainly produces some odd effects of language: 'the economic benefits from graduates … their higher earnings' (1) and 'the contribution graduates make to the economy … the high salaries … they receive'. (1.1)

These are the wonderland phrases Dearing is echoing when he says, 'Society benefits from higher education to the extent that a graduate [earns] a greater amount post-tax'. But if this is how graduates benefit society, it must be more blessed to give than to receive in ways Jesus never dreamt of. Who in his right mind would agree to subsidize someone else's education for the somebody-else to get more pay than himself? What ordinary employer thinks a wage increase in itself evidence of an increase in productivity? How many shareholders think the mere fact that their directors award one another big bonuses proves that those big bonuses have been earned? (*Not*, apparently, the big investment houses, which have become very annoyed about it.) It's logic through the looking-glass.

Pay may make, as Sausman and Steel call it, 'a straightforward measure' of productivity, but only in the sense that it is straightforward to make; it's hardly straightforward to think. Do we get what we pay for? Well, perhaps we do, but hardly as surely as we pay for what we get. All an employer can know is whether he is paying the going rate or not; the connection between that rate and the relative productivity of employees of different levels of education is as mysterious to him as to any economist, and for the same reason: the experiments that would make it demonstrable can't be performed. The graduate wants more money for his higher qualification (and social status) and to make up for his lost earnings; the employer is willing to give it him; and they settle, on average, for a certain sum. And that, in the absence of direct comparative evidence, is all that is known; and to know anything more is made all the harder by the fact that a great many jobs that graduates do are not open to non-graduates, so there is no direct competition. Nobody knows what part mere custom plays in setting such differentials. The greater productivity of graduates is an entirely untested assumption, made by economists (unsurprisingly) because it is in their interest to make it. It's job creation.

And then there's assumption (2): even if graduates could be shown to be more productive, it still wouldn't follow that it was their education that made them so. As Professor Gemmell says,

> There is a very credible economics literature which suggests that education (including higher education) may be no more than a screening device which allows employers to identify the more able potential employees from the rest. Thus graduates' wages are higher because they are inherently more productive, for example because they work harder or have more innate ability, but not because they are better educated. If this is the case then the current system of HE may simply be providing employers with a privately cheap, but socially expensive (i.e. wasteful), screening system. If firms know that the most productive individuals will choose to go to (state-subsidised) university, then they will select graduates in preference to non-graduates even if education has no effect on their productivity. Likewise, 18 year olds go to university to signal to employers that they are productive. There may still be a case for governments subsidising this 'screening system' if alternative screening devices are less efficient and if there are adverse social consequences from the mismatches which might result, such as unemployment or high labour turnover. However it is quite possible, if employers and/or employees had to fully fund a screening system privately, that they would be able to devise something more efficient than the current HE system. (1.2)

Sausman and Steel acknowledge that it may be difficult to be sure how far it is a graduate's education rather than something else about him that makes him more productive (if he is) but they make their uncertainty a pretext for more calculations which any competent auditor would suspect. They rephrase Professor Gemmell's question, 'How can we know whether it is education that does the trick or not?' as 'How much of the trick does education do?' or, in their own terms, what is the correct value for the *alpha* factor? (1.8–1.12 and table 2.1; also Annexe A, 'Measuring the Social Rate of Return', 3, 11 and tables 1–3)

The *alpha* factor? The X-Files. Hocus pocus.

Sausman and Steel first of all suppose that the higher productivity of a graduate can be portioned up like the higher wages which are supposed to measure it and each portion attributed to a separate, distinguishable cause: so much to family background, so much to innate ability, so much to education etc. These causes are named 'factors'; 'research' assigns each a numerical value; and education is distinguished from the rest as *alpha*. Sausman and Steel then talk about 'the *alpha* factor' in the tones of scientists investigating something as ordinarily and verifiably real as the stone Dr Johnson kicked in attempted refutation of Berkeley: 'Given the empirical uncertainties over the value of alpha, we present results for alpha values of 0.6 and 0.8', i.e. we are going to attribute between 60 per cent and 80 per cent of the higher productivity of graduates, which we have inferred from their higher wages, to their education – renamed 'level of human capital'. (Annexe A, 11) But this is just verbal magic, mumbo-jumbo, superstition in a modern form. Why do they make this attribution? Where do they get their 0.6 and 0.8 from? They're 'suggested by the available research evidence'. (Annexe A, 11) (So that's all right then.) But wouldn't someone intending to risk his money on a new company with their 60–80 per cent in mind ('We must have graduates because of their much greater productivity') want to know how 'evidence' so scanty and imprecise could support figures so exact, and so large?

So who is right, those who like Sausman and Steel think that the education that graduates receive makes them more productive – 'creates human capital' – or those others who think it merely a 'screening device'? To give the crucial words of Professor Gemmell a little more fully:

> So, is it possible to discriminate between 'human capital' and 'screening' arguments in any systematic way … ? Ideally one would hope to observe workers with different levels of education (but otherwise identical) undertaking similar tasks and see whether the more educated performed these tasks more efficiently…. Unfortunately such controlled experiments are almost never possible. (1.7)

And that is Professor Gemmell's last word on the subject. How can we know whether education makes people more productive or not? We can't. We just don't know in any such way as economists understand knowledge.

But let us suppose that the assumptions the SSRR rest upon are sound and that Sausman and Steel have calculated it correctly as 8% per year: does that mean that non-graduates are 8% (or any per cent) per year better off for paying taxes that enable others to earn more than they do themselves?

Well, no, not *actually*.

Bizarre as it may seem to anyone who isn't an economist, the beneficiaries of the SSRR may be exactly the same as the beneficiaries of the PRR – without the SSRR being any less a social return at all. This is because the SSRR implies nothing at all about the *distribution* of benefits. And what non-economists (including, I would guess, the Dearing committee) are unlikely to guess is that the non-graduates don't themselves actually *get* any of the so-called social benefit the Report speaks of. 'Society', it is true, does benefit, but through its graduate representatives only. It is surely startling to realize (for laymen, I mean) that, if we were looking for the economic benefits to non-graduates, it would make no difference to the so-called standard social rate of return if, as Gemmell suggests is possible, 'the gains from HE [*were*] all reaped by the graduates themselves'. (1.3) Even if the non-graduates got not a sniff of any benefits going, by way of taxation or otherwise, they would still be reckoned, according to the – what shall we call them? – counter-intuitive accounting procedures used by economists, to enjoy 'a standard social rate of return' on their subsidy of other people's education of 8 per cent. It's as if someone else could enjoy benefits on your behalf!

It would equally make no difference to the social rate of return, of course, if the Chancellor (like the Sultan in the story below) confiscated all the graduates' higher earnings in tax. It would still make no difference if he handed it over to the non-graduates straightaway. In both cases the SSRR would be unchanged at 8%.

The economist father of a friend of my son's explained the point to me – as to a first year undergraduate who was a bit slow on the uptake. 'The distribution of the benefits,' he said, 'has nothing to do with Economics. The 'distribution problem' belongs in Ethics.' He illustrated the point. 'Suppose,' he said, 'there was a very poor country which, because oil was discovered there, became, in a very short time, immensely rich; but all the riches were taken by the Sultan for himself; and not only that, but the Sultan, being a cruel and tyrannical man, used his new riches to increase his own power and to rob and oppress his subjects, making everyone but himself even poorer and more wretched than they had been before. Now, is that country, as a whole, richer or poorer than before? In the eyes of us economists, the country as a whole, all its increased poverty and wretchedness notwithstanding, is immensely richer and has come to enjoy a marvellously high 'social rate of return' on its oil investment. After all, we mustn't forget that the Sultan himself belongs to the country (even if it does seem rather as if it's the country that belongs to him). All we economists are interested is total GDP. Everything after that is 'the distribution problem'. Nothing to do with us, old chap. You want someone in Ethics, down the road.'

Even if the greater productivity of graduates were proven, the 'standard social return' would not, then, in itself justify any subsidies to higher education. It does not – as it seems to – answer the question whether it is just or not for non-graduates to subsidize the education of graduates; and it does not – as it seems to – answer the question whether or not those subsidies benefit the economy as a whole.

The whole question of whether it is justified economically to subsidize Higher Education through taxes turns on whether beneficial externalities can be identified. The SSRR is a red herring – dead or alive. As Gemmell says,

> If higher education does render educated individuals more productive, the case for subsidizing them rests on there being beneficial spillovers (externalities) to others. There may be spillovers both within and between firms so that gains to the economy as a whole exceed those accruing to the educated individuals. (1.4)

And as Gemmell shows (even if not deliberately), compared with identifying externalities, identifying quarks is child's play.

He considers the case for externalities under three headings: Theory, Direct or Experimental Evidence and Indirect Evidence. I'll take them one at a time.

Are there any economic theories that posit the existence of externalities? Unfortunately, Professor Gemmell says, 'Traditional human capital theory has … little to say about externalities', 'neo-classical growth theory [provides] no scope for externalities' and 'traditional growth theory [gives] no role for education to play in the creation of 'human capital''. (2.1) Fortunately though, there have been some 'recent advances in growth theory'. These new theories have (italics added) '*proposed* … mechanisms whereby education affects productivity levels' but they

> typically incorporate … *crucial assumptions [the] empirical basis [of which] is essentially unknown*…. Firms are *assumed* not to be able fully to appropriate the gains from the production of knowledge so that spillovers occur. ('Growth Theory')

There are three types of new theory: ' 'sources of growth' equation models', an 'augmented 'Solow' or neo-classical model' and 'endogenous growth models'. Unfortunately, only the third allows for externalities. (2.7, 2.13–14) Moreover, although it does make an *assumption* that would *allow* them to be *inferred*, (2.14)

> identifying the existence and extent of education externalities … is … fraught with difficulties … and, until the methodologies and data used in empirical studies are developed further, all results should be treated with caution. (3.3)

And that's the sum total of the theoretical justification for the £6bn a year of taxes devoted to the destruction of the universities.

Then what direct or experimental evidence is there? 'Er', as they say in *Private Eye*, none.

To identify HE externalities we … need to observe the productivity of 'uneducated' workers with and without the presence of their HE-educated colleagues. Unfortunately such controlled experiments are almost never possible. (1.7)

And the indirect evidence? In the absence of direct experimental evidence, we have to rely on inferences made from large-scale statistical comparisons between economies with more and less developed higher education systems. These might be comparisons between the economies of different countries ('cross-country') or between earlier and later stages in the development of the economy of a single country ('time-series'). And these comparisons do yield some findings:

> There is some tentative evidence that [there] may [be] indicati[ons of] possible externalities.

> OECD countries which expanded their higher education more rapidly … experienced faster growth. The direction of causation however is unclear.

> The only specific group of graduates which have been examined for productivity growth effects are 'scientists and engineers'.

> There is some evidence that education affects physical capital investment … which … raises income growth rates, though the specific role of higher education is less clear.
>
> There is increasing evidence that research and development activities may be important for productivity growth and … spillover…. The additional link from higher education to research and development (R&D) is yet to be confirmed but some evidence is beginning to suggest that HE may be important.
>
> The most direct evidence on HE externalities comes from comparisons of macro and micro rate of return estimates. There are currently very few of the former, but present evidence suggests, at most, very modest upward revision of standard social rates of return to account for externalities. ('Empirical Evidence')

But findings even as tentative, modest and doubtful as these, Gemmell hedges about with warnings. He gives general warnings (italics original):

> data *quality* that is very different … and … proxy variables (of varying degrees of accuracy) [are used] because conceptually more appropriate variables are not available. (3.6)
>
> A particular problem concerns human capital measurement. To capture the production externalities of higher education it is clearly necessary to have an accurate measure of the extent to which HE augments the quality of labour input. However, measuring the output of education in general, and HE in particular, is notoriously difficult. As a result input measures tend to be used…. It is very difficult to know how close these proxies are to their conceptual equivalents. (3.7)
>
> The cross-section regression methodology is a useful means of identifying *correlations* between variables of interest (e.g. HE and income growth)…. It is less good at identifying *causation* from one variable to another, and most regression studies make prior assumptions regarding causality with, at best, limited testing of these assumptions. (3.8)

He warns about cross-country comparisons: one 'strange' finding of 'the most comprehensive evidence from cross-section regressions' is that 'female education (both secondary and tertiary) appears to be inversely related to growth' (3.11); another study throws up the 'puzzle' that although 'the number of scientists and engineers per capita is found to be significant … similarly strong effects for years of university educational attainment' are not (3.12); and then another couple of studies 'report cross-section regression results in which educational attainment variables appear to be negatively related to growth'. (3.15) He sums up this section:

> Cross-section regression studies of growth have numerous methodological drawbacks and much more testing on better quality educational data, particularly for higher education, is required before firm conclusions can be drawn on the direct effect of education on economic growth. (3.19)

He does immediately go on to say, 'In my view, the weight of evidence is increasingly that education is positively associated with income growth, and higher education seems to be the most important variable'. (3.19) But, as he has already himself pointed out, this does nothing to explain income growth; there is no claim to have established a 'direction of causality'. All it tells us is that when people have a lot of money they often have a lot of education (the same goes for wine).

And he warns about 'time-series' comparisons too: this kind of study is 'potentially more reliable … not least because it avoids the questionable assumptions implicit in much cross-country work'. Unfortunately, 'in practice, limited numbers of observations often restricts [*sic*] the use of time-series methods (or their sophistication) and to date there are few studies of this sort'. (3.20)

He concludes

> The evidence … for educational externalities (and especially for those associated with higher education) is still very limited in scope and extent. Any conclusions … must be regarded as tentative, not least because the quality of both the available data and testing methodologies are [*sic*] … flawed. (4.4)

So there you are. Everything is tentative and uncertain – theory, data, methods, conclusions. It's all guesswork. And what do you call an investment based on guesswork? A gamble? Well, you might, except that in this case the government goes on betting, year after year, with our money, without having any idea whether we're winning or losing. What IFA would recommend that the Chancellor put his own money where he puts our taxes? And if one did, what prudent Chancellor would take his advice?

If no 'externalities' can be reliably identified, then, in Professor Gemmell's words, 'there is no immediate economic case for subsidising the HE system.

State-funded education [is] merely taxing some individuals (with resulting efficiency losses) in order to enhance the private gains to others … a socially wasteful investment' – that is, no investment at all. The entire state-subsidized expansion of higher education, maintained by so many governments over so many years, with no semblance of justification offered for it that isn't economic, has been, it seems, a tremendous error, economically. And if the subsidies were withdrawn, the grotesquely bloated system they have created would shrink back to something that made economic (and educational) sense. The so-called customers would be found simply not to exist and the so-called need for this so-called education would vanish with them. In its present shape and size the whole thing is simply a creation of state wastefulness. And that's according to what is in effect the government's own economic advisor, advising a government which, like all its recent predecessors, can't imagine any case for higher education that isn't economic.

If this is an investment, put your money under the mattress. Except that you can't. This sure-fire, can't-fail investment scheme is run by the Government and participating in it is compulsory by law. This is an investment the evasion of which is a crime. An investment? It's not even a bet. It's like throwing money over your shoulder and wishing – and getting banged up if you don't.

FINANCING AND REBUILDING THE LONDON UNDERGROUND: THE GOVERNMENT'S PROJECT IN THE CONTEXT OF THE NEW YORK EXPERIENCE

*Extracts from a talk given by Mr Jay Walder, Managing Director for Finance and Performance for Transport for Londonto members of the Economic Research Council on Wednesday 31st October 2001**

There are two important aspects to finance, namely debt (ie bonds) and risk. A series of bond structures was the only way for the Ney York subway to address the decades of neglect and under funding – and to invest sufficient money to do the necessary repairs in a credible time-frame. Money

* Prior to his appointment in London, Jay Walder was Executive Director and Chief Financial Officer for the Metropolitan Transportation Authority in New York

from fares, from charges in the wider transport system such as toll bridges and tunnels, from selling assets and from government subsidy is being used to service 30-year bonds.

Funding through borrowing means that long-term capital costs are distributed over the long-term. The relative cost of borrowing is also low because of government rates and tax exemption. The 'use it or lose it' problem often associated with government funding – that you have to spend to the pound your annual funding to insure the funding levels are maintained – was removed by the bond system combined with a 5-year spending plan.

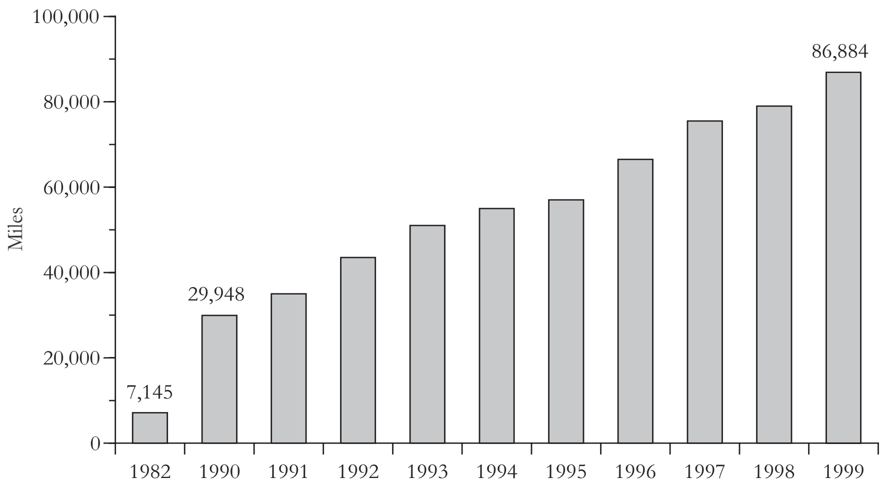
Risk is the other four-letter word of finance, and of course there is no way of removing risk from a project on the scale of the New York Subway. But who was to bear the risk and how could it be mitigated? In New York the public entity took responsibility for the detailed specification of projects. It ensured that the contracts were tight, making a system of incentives and penalties for the completion of the work. This meant that when a contractor was awarded a project the contractor knew they would be held to what they had promised and that if they did not fulfil the contract terms they would have to bear a cost. That was always backed up with performance bonds, liquidated damages, letters of credit and so forth, so that it wasn't an empty guarantee.

So that was the financing. Now for the management. 'Keep the wheels and the track together' is a buzz phrase about train systems that everyone has heard of. It's a question of integration. In New York operating decisions and infrastructure decisions were completely integrated – the operators and engineers made these decisions together. Also, much of the core work such as train maintenance and track maintenance continued to be done by the public transport operator. In-house and private costs would be constantly compared, and where the in-house costs were not competitive either ways would be looked at to reduce costs or the work would be contracted out. This was realistic as both private firms and the public operator were carrying out work so their costs could be realistically compared.

Another issue is commitment. Investing in the Underground or the Subway takes years. Even the planning process takes years to fulfil. It has to be long-term. It also has to be flexible. Things change and each time they do the system has to be able to cope, without having to go back to the Treasury and ask for permission alter to the plan. In New York we made 5 year plans, so overall strategy could be addressed every 5 years while appropriate tinkering changes could be made inside those. The long-term funding opportunities nestled neatly inside the political cycle.

It is also a case of priorities. The track and the signals are what keep people moving, and other things have to be second to those. If a station is not as nice as it could be, it matters far less if you are not waiting there 20 minutes for a train. Once you are on a moving train, the stations go by quickly and it matters less if they are horrible. But track and signals are not popular priorities for politicians because they do not provide rapid and visible improvements like station improvements do.

This management system is not perfect and the problems with it must be recognised. With this system the worry is whether the financial performance incentives are sufficient. Specifications can be overly detailed, overly expensive, or just plain wrong. Or the operator might be unsure of future finance and so build in a way to minimise future investment costs. Costs must also be realistic – and the problem is that the price quoted at the start can be grossly short of the final costs. In Boston, the notorious



'The Transit authority believes that these improvements are attributable to better management and maintenance of the Transit System, and implementation of capital projects pursuant to the capital programs.' *Annual Disclosure, 2000*

Figure 1: Mean Distance Between Failures, Improvement Under Unified Management Control, New York Subway

Big Dig project was projected to cost $4 billion. Midway through this rose to $14 billion, and indeed the costs are still increasing. The Jubilee Line extension is another obvious example of this cost overrun.

But despite these drawbacks the New York system has a proven record of success. Performance statistics show that, in the early '80s, there were 7,000 miles on average between failures. That was an abysmal rate. So through the '80s we purchased 2,000 new cars and completely re-fit 4,000 others to improve reliability. The results are a staggering improvement: the figures now show 86,000 miles between incidents. When you get on the Subway in New York you think 'Gee, it has gotten better! Something is really different.'

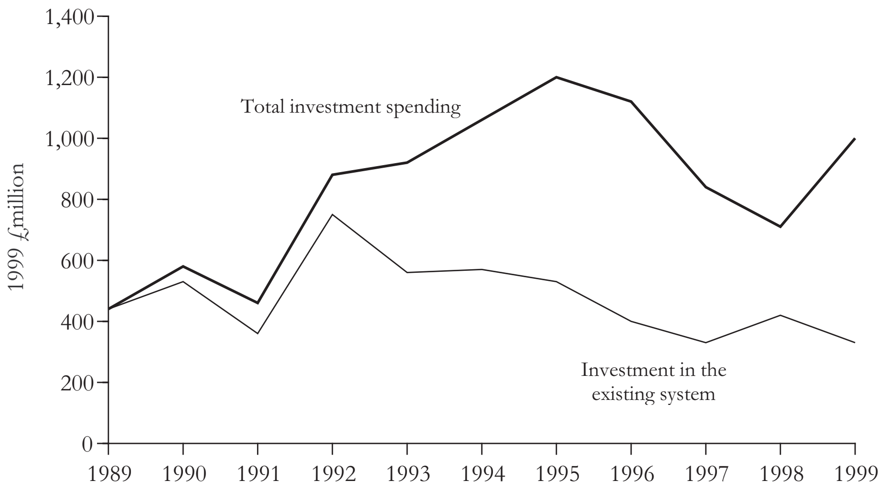
So the New York experience shows the success of long-term, controlled investment in a vertical management structure. The private sector is massively engaged – to the tune of $40 billion – but the public sector retains full rights and responsibilities.

London Underground: Decay Followed by a Flawed 'Solution'

When I started in the transport industry New York was the symbol of urban decay, the laughing stock of the transport world. And the premier transport system was London! London Underground at that time even had a consulting service that went all around the world, and the fruits of their advice can be seen today in Hong Kong and Singapore.

Since 1985, however, fares in London have risen dramatically – by 40% in real terms – and whilst total investment in the Tube has tripled, most of it has gone into system expansion, and notably the Jubilee Line extension, which has been an unmitigated disaster in terms of its achievement even more than its costs. So very little of the investment has gone into those parts of the Underground system that most of us use on a daily basis: indeed investment in the existing system actually went down during the 1990s.

The Jubilee Line extension took away all credibility in the public sector's ability to build major capital investment projects. It was poorly conceived, and no-one admitted what the true cost of the project would be. It promised 36 trains an hour but only provides 22, because the signalling system doesn't work. Canary Wharf is withholding its funds as London Underground cannot provide the promised number of trains. Indeed, the Jubilee Line – the newest line in the system – has one of the worst performance records



Source: DTLR

Figure 2: Despite Increases in Total Funding, Investment in the Existing System Has Declined

of all the Tube lines. So this experience has reinforced an appeal for privatisation that already existed.

The concept behind Public Private Partnership (PPP) was to completely prevent the London Underground management from running anything. It is the desire to minimise the power and control the public sector owner has over the system. The Government is at pains to point out that the PPP entails public 'ownership', but according to the contract this 'ownership' does not extend to the right to direct what somebody does, or the right to terminate a contract. This 'ownership' means only three things: control of the person driving the train and selling you the ticket, the power to audit the private entity, and the paying of the bills. There is no planning role for the owner. According to the PPP rationale, the incentive structure is sufficient to make the private entity make all the correct investment decisions. This contrasts with New York, where the operator and the engineers together worked out the best way to invest. Under the PPP, the 'owners' are kept well away from these decisions. The PPP is also intended to give the private entity the ability to plan for the long term with guaranteed funding.

The PPP is, in part, derived from Railtrack. When British Rail was broken up, an arrangement of horizontal separation was chosen, and its unfortunate consequences are apparent to all rail users.

It is important to stress the difference between a PPP (public-private partnership) and a PFI (private finance initiative). People think that, because PFIs work, so will a PPP. However, a PFI dealing with a singular asset and a PPP designed to cover the entire investment and maintenance of the London Underground are very different indeed.

The concept of a PFI is that a private entity builds a project and accepts the risk that if the project is not as profitable as expected the private sector entity will bare that burden. However, barring the occasional strike, the Underground has to operate every day. It not doing so is inconceivable. London can't go for months, weeks, or even days without the Tube operating. At the end of the day, then, no matter what it says on paper, the Government is underwriting the Underground and bearing the risk, and will step in if the private entity fails, just as they did with Railtrack.

The PPP plans do not bind the PPP contractors to any specific capital and maintenance commitments. Instead, they are held to 3 performance measures: 'availability', getting the trains out of the sheds; 'capability' which is running the trains; and 'ambience' which is how the stations look and so forth. But they are not bound to any specific improvements. They are bound to payments they receive if they meet their targets and penalties if they don't meet them. At present the bidders have no targets and have said it will take them seven and a half years to make a proper assessment of the system's present state and make targets based on that. So each decision about where to invest is to be made by the private entity, on the presumption that the private entity is the best body to make the decision.

The are a number of benefits of the PPP management structure. One is that the contracts are the only way to ensure that government funding is available for the Tube. They will commit the government to investing £800 million to £1 billion each year for 30 years in the Underground. This money is assured, without interruption from changes of funding or transport strategy. There is no commitment however as to where this money will come from. It could fall on UK taxpayers, or on London taxpayers through council tax, or on the traveller through higher fares. Which one, though, remains an open question.

The PPP also allows essentially public borrowing through the back door, avoiding Treasury regulations. What the private entity borrows is supported by a government subsidy, so is essentially public borrowing. But it is public borrowing at a cost. The UK government when it borrows itself pays far lower rates than private companies, and yet this debt will be serviced at the private sector rate.

The PPP has a number of unequivocal drawbacks too. One is the real irony of the PPP: major new enhancements to the system – like the Jubilee Line – are deemed too risky to be included within the PPP at all! So if a large-scale project was deemed necessary it could not be undertaken with the PPP structure unless a separate agreement were negotiated.

Another important problem is that shedding core competencies leaves London Underground Ltd unable to step in when the system fails. The Tube runs as well as it does after 20 years of neglect because there are a lot of very experienced people in the tunnels holding it together with baling wire and Sellotape. But it is these people who will be transferred to the private sector.

For Transport for London, the fundamental issue is 'is management an owner's right?', or is it, rather, interference that is best banned from a public asset? TFL will be paying the bills and bearing the cost of system failure, yet it is kept away from all its assets by the PPP. We also argue that the PPP is not value for money, partly on the basis of losing the government's favourable debt rates.

The PPP will rest the fate of the Underground for two generations with the PPP contracts, which are in themselves as much about ideology as logic. They replace the judgement of the democratically accountable owner with that of a private investor. A similar formula has been tried before with Railtrack and was a cataclysmic failure: compared to the New York approach and its proven success.

LORD PEARSON'S RESEARCHED COMPLAINT ON BBC EU BIAS

*Extracts from a speech given by Lord Pearson of Rannoch in the House of Lords on 11th March 2002.**

I suppose that bias, like beauty, is often in the eyes of the beholder. If broadcasting bias exists, it is peculiarly difficult to prove. That is because the programmes in question flash across our television screens or we listen to them on the radio perhaps with half an ear, and then they are gone. To prove broadcasters' bias or narrowness of coverage, their output has to be recorded, transposed into writing and analysed by an objective mind. Even then there are difficulties because the written word does not record the tone of voice in which a question was put or a comment made, and that may be significant in relation to the way in which an interviewee is treated. So, laborious cross-referencing between the broadcast programme and its text is sometimes necessary. Also, in order to establish consistent editorial bias, it is not enough to record and transpose the odd programme here and there. One has to analyse a number of programmes which can reasonably be said to amount to a series. The whole process is laborious, but it has to be done if the analyses are to carry credibility and thus form the basis of a useful dialogue with those responsible for the programmes.

Pro EU slant

For many years, the Eurorealist movement in this country has been convinced that the BBC is biased in favour of the United Kingdom becoming part of European economic and monetary union and even more so in favour of our continued membership of the European Union. That partiality is alleged to go back to the 1975 referendum at least, and indeed the BBC has been good enough to admit that it was disgracefully biased in favour of the 'yes' campaign then. But what about now? To answer that question, some three years ago, the noble Lords, Lord Harris of High Cross, Lord Stoddart of Swindon, and I, through the medium of our research unit, Global Britain, decided to commission serious analysis of the BBC's coverage of our relationship with the European Union.

* Full text in Lords Hansard, col 654ff.

Independent and expert analysts

We were lucky to find analysts of impeccable background who have worked in broadcasting for most of their lives, insiders who brought an open mind to the subject. The firm we therefore commissioned was Minotaur Media Tracking, which is directed by Mr David Keighley and Mrs Kathy Gingel. Mr Keighley's career went from reporter to producer at the BBC, after which he became publicity officer for BBC TV news and current affairs. He was then director of corporate affairs at TV-am, where his duties included compliance on editorial matters under the former IBA. He founded, and still is a non-executive director of, Newsworld, the leading international forum for news broadcasters. Mrs Gingel was a producer for London Weekend Television and rose to be features editor of TV-am.

Therefore, no one can say that Minotaur's conclusions have been reached by a bunch of disgruntled Euro-sceptics who do not know how broadcasting works.

We have so far commissioned six surveys of the BBC's political coverage of the European issue. The main reports run to some 400 pages, supported by around 600 pages of background analysis, and some 780 transcripts which run to a further 1,800-odd pages.

Minotaur's first report covered the elections to the European Parliament, from 9th May to 6th June 1999. The headline findings were disturbing and were as follows. Less than 2 per cent of TV news coverage was devoted to the elections. There was no discussion about the wider issue of the UK's relationship with the European Union, and thus about the reasons for Euroscepticism in Britain. The BBC concentrated massively on Conservative Party splits about the single currency, which were not otherwise evident at the time. It gave the meaningless Pro-Euro Conservative Party, which went on to win 1.2% of the votes and no seats, similar prominence to the Conservative Party itself. Minority parties were virtually ignored, with the UK Independence Party being allowed only one negative interview, although it went on to win 7% of the votes and 3 seats. The best statistic of all is that not a single Labour Eurosceptic, not even the noble Lord, Lord Shore of Stepney, and not even the noble Lord, Lord Stoddart of Swindon, went on air for a single minute in 400 hours of coverage monitored.

Further reports

Since then, we have commissioned five further reports into the BBC's political coverage, two of which concentrated on the *Today* programme, given its political influence. In one of these, for the period from 21st May to 21st July 2000, the report found that *Today* put on air two-and-a-half times more people in favour of the single currency than those against it. I leave your Lordships to decide upon the BBC's defence against this finding from the Assistant Director of BBC News: 'Clearly if the Government is having difficulty in deciding its European strategy and tactics there is bound to be regular questioning of Labour MPs and supporters about those difficulties'. Indeed, but without putting a single Labour Eurosceptic on air?

Another survey of *Today* from 9th January to 3rd February 2000 covered a series of three programmes lasting 30 minutes, which were billed as a discussion of the case for the UK to leave the European Union. But, in the event, only one person was allowed to put that case for some 35 seconds, perhaps because he was live and the BBC could not cut him out.

Consistent findings

In fact, all those reports tell the same story, but I do not have time to give more detail tonight. We are putting all the reports on our research unit's website www.globalbritain.org. We are also putting on the web most of our correspondence with the last and present chairman of the BBC, with some of the BBC senior staff, including the Director-General, and with the last and present Secretary of State for Culture, Media and Sport.

All this leads me to lay two complaints about the BBC. The first concerns the fact that its coverage entirely excludes any debate as to whether or not we should be in the EU. Millions of British people wish to debate this issue, and the BBC has a clear duty to help them have such a debate. It has a duty to do so because its charter and guidelines demand that: 'No significant strand of British public thought should go unreflected or under-represented on the BBC'.

The BBC's defence, when accused of this omission, is understandable, but not very good. It says that none of the main political parties wants to talk about leaving the European Union. But surely that makes its duty even more clear and urgent. And there can be no doubt that we are looking at a significant strand of public thought. I know that opinion polls are unreliable, but in this area they remain remarkably firm.

In answer to the consistent question from MORI, 'If there were a referendum on whether the UK should stay in or leave the European

Union, which way would you vote?', the vote to leave rose to 52% during the last general election campaign and indeed it has not fallen below 40% of those expressing an opinion since 1987.

Another consistent answer, supported by some 80% of respondents, is that the British people do not think that they have been given enough truthful information about our relationship with the European Union to be sure what their opinion is, and they would like more. Surely the BBC should meet this need.

Internal problems

My second major complaint against the BBC concerns its internal procedures. It appears that all our reports have been given by the chairman to the BBC's management, and not to the governors, for consideration. I have to say I simply cannot understand this. How can it be right for the management to sit in judgement upon programmes which it has produced? Surely, it is for the governors to judge whether the BBC's management's output is impartial, wide-ranging and fair, and not for the management themselves.

I suppose I have only two areas of questions concerning this matter. First, are the governors equipped to deal with the kind of deep, complex, and lengthy reports that we have been giving to the chairman? If not, will the Government, encourage them to so equip themselves? There may be a chink of light in the new committee of 10 people which the chairman has recently proposed to assist the governors, but who will appoint those 10 people, who will pay them, to whom will they owe allegiance, to the BBC's management or to its licence fee payers? Failing a satisfactory new system here, is not the obvious answer to put the BBC wholly under Ofcom, which I know is not the Government's present intention?

Secondly and finally, if the Government are genuine when they say that they want to encourage public debate about the next and possibly last EU inter-governmental conference in 2004, will they start that debate? Will they ensure that the BBC covers that debate? Or are the Government not genuine about wanting to encourage that debate? Is the real situation that the BBC will not hold the national debate which is so clearly needed, at least in part because the Government do not in fact want it and the BBC does not want to offend the Government lest it ends up under Ofcom? Could the Minister tell us the truth of the matter?

MARKET PRICES AND THE IMPACT OF CHANGES IN DUTIES

By Brian Lewis

The recent 30% rise in US steel duties has caused a political outcry around the world. This makes some believe that politicians do not fully comprehend what duties actually do in practice. The main effect of an increase in US steel duties is to transfer money from the pockets of domestic consumers into the pockets of domestic producers. It has some effect on foreign suppliers – but not to the same extent. The explanation involves a consideration of both market prices and the delivered duty paid prices received by the foreign supplier.

What do we mean by a market price? Inside your own market, perhaps what you mean is the price the customer pays to you on delivery. To the foreign supplier/importer, the same market price looks to be the delivered duty paid (DDP) level. However the local supplier in his own market does not think of his price being a DDP price. (And he never mentions incoterms!)

So what happens to the market price if the government changes the duty levels (tariffs) in order to protect the local producer' The USA government has just imposed a 30% duty on steel imports into the USA. What does that do to the USA steel market and price, and who gets the advantage and disadvantage of the 30% rise?

If the USA price for steel was US$250/ton delivered, a 30% duty will allow USA steel producers to put up prices by $75 per ton to US$325/ton. What happens to the netback of a Korean or German producer of steel if the USA increases the duty by 30%? Answer - it depends on how much the US steel producer increases his price. If the price rises by the full 30% duty? then the foreign producer's netback is not changed.

However, with a 30% rise in price, the USA producer is now much more profitable and able to take on foreign competition in a way not possible before, perhaps by increasing production. To drive foreign competition out of the market (since with a 30% price increase the foreign competition has not yet suffered a fall in netbacks), the USA producer will have to lower the domestic price a little. A price rise of 25% will still give the USA producer a large increase in price and profit, but will now force the foreign competitor to face a 5% fall in netbacks.

The advantage to the domestic USA producer of steel is two fold. It increases his profitability and allows him to drive out some of the foreign competition by not raising prices by the full 30%. But the decision is not an easy one, The domestic producer of steel has to decide – does he take the full benefit of the 30% price rise into his profits or does he sacrifice some of the rise to drive out the foreign competition.

The other point is that the rise in USA steel duties by 30% is not necessarily affecting the profitability of the foreign supplier. His netback may fall as USA producers refuse to raise prices by the full 30% and the foreign company may lose market share. It does not follow that he will stop selling to the USA and supply other markets (which may be saturated anyway). The political outcry around the world at the USA raising steel duties suggests that the political world does not fully understand who pays the costs of high duties. Any rise in price for raw steel in the USA is going to be paid by USA steel consumers. If this is the case, then it is the US industry that uses steel in manufacturing products that has the chief cause for complaint. Foreign producers of steel will suffer a fall in their netbacks from USA sales, but this is far outweighed by the extra costs of steel to USA domestic industry .

THE ENGLISH REGIONS AND THE LAW OF UNINTENDED CONSEQUENCES
A response to David Saunders's 'Reflections on the Role of Regions in England'

Peter Davison

Recently a Professor of Geriatrics wrote to *The Daily Telegraph* to explain that the reason notable English footballers had broken their metatarsal bones was the replacement of the round football-boot stud by one wedge-shaped. I don't know if this is correct but it is a perfect example of the Law of Unintended Consequence. You adopt a stud that will give you greater stability on the football field and end up breaking the bones in your body. When I read this in the last week of May, I was reminded of the brilliant exposition given by David Saunders at a meeting of the ERC earlier in the month*. It has been my fate to lecture on a topic that (as, my

* To be published in *Britain and Overseas* Autumn 2002

wife kindly and frequently tells me), is indescribably boring and is surfeited with intricate detail which is not conducive to being readily followed in spoken format. David Saunders had to marshal a mass of data and I was greatly impressed by the skill he had obviously shown in managing the complexities of his task as Regional Director of the Government Office for the South East but also by the way he explained his work with such clarity. The planning was as perfect as a wedge-shaped boot stud, but beyond the excellence of the planners' work, what were the politicians intending to do with the product they had commissioned? What are the Regions *for*? Are there hidden purposes and are there likely to be unintended consequences? First, a glance at the origins of the English regions in the twentieth century.

The idea of dividing England into regions, even in the twentieth century, goes back longer than many of us imagine. Some of this I discussed in a talk to members on 5 February 1998 (see *Britain & Overseas*, Spring 1998) and I don't intend to go over that again. However, this May, *The Sunday Telegraph* gave regionalisation of England some attention. It began on the twelfth when Christopher Booker, a scourge of the EU, suggested that the regions into which England is now divided go back to a plan drawn up by a French official of the EU, Paul Romus, in 1971; the plan was therefore, to him, inevitably suspect. In response, on 26 May 2002, David Robins showed the divisions actually went back (through various versions for different purposes) to 1938, 'when England was divided into regions for civil defence purposes'. He maintained that Mr Prescott's regions stood in a different tradition, owing more 'to the iron rule of Cromwell's Major-Generals [to which I had referred in my talk] than to any celebration of regional identity and distinctiveness'. In the same issue, Emeritus Professor H. Maddick of the University of Birmingham roundly condemned Booker's article as 'rubbish': 'These boundaries were introduced in 1915 and have been used for Central Government ever since. The Regions would have become separate "kingdoms" had the Germans invaded in the Second World War'. Further, he maintained that the case for 'their democratic control' had been argued since 1915 'most notably in the report of the 1969 Royal Commission which recommended Provincial Councils with virtually the same boundaries'. From the two responses to Booker, it is plain that these regions were initially designed for what might be called 'defensive government' in a national emergency. Thus they implied a desire to maintain the integrity of England within the United Kingdom. However, is this the function the regions of England would serve today? Are these regions defensive or divisive? If the latter, why?

Some people (and I am one) suspect that the regionalisation of England is part of the European Commission's agenda for the organisation and rule of Europe. The regions are represented in Europe by the Committee of the Regions, sitting in Strasbourg, and that has 222 unelected representatives of which 24 are from the UK: 14 represent fifty million English, 5 represent one-tenth that number of Scotch,[1] there are 3 for Wales, and 2 for Northern Ireland. What has roused some resentment is that the English regions are not called regions of England in the Commission's pamphlets but, for example, 'The South West – a Region of the European Union', whereas Scotland has implied statehood: 'Scotland – in the European Union'. And, as has often been mentioned, even in the press, England's name was omitted from the EU Commission's map of 1997.[2] I mentioned in my talk Heinrich Hunke's 1942 plan for Europe when the Nazis had won the 1939-45 war (*Die Europäische Wirtschaftgemeinschaft* – which in English might be translated by the familiar 'European Economic Community'), but I have recently come across more interesting, more subtle, and perhaps more profound explanations as to how this proposal for a united Europe has come about. Let me start, a trifle dangerously, with fiction, but a fiction with a curious source in fact.

In 1938, the French author, Jules Romains, published as part of his great series, *Les Hommes de Bonne Volonté*, Book XV, *Prélude à Verdun* and Book XVI, *Verdun*. They were translated into English in 1939 and I read them in the English reprint of 1973 (Granada) and the French edition of 1958 (Flammarion, Paris). The books are a kaleidoscopic depiction of France

1 That excellent Scotch nationalist novelist, Lewis Grassic Gibbon, wrote in Sunset Song (1934), that those who object to Scotch and prefer Scots, are 'split-tongued sourocks'. I have eschewed the fashionable affectation 'Scots', not wishing to be thought a sourock with or without a split tongue.

2 What is not often discussed – indeed, I cannot recall it *ever* being mentioned – is what the absence of an England will imply for the Church of England. This will not trouble politicians nor most English people, but it should concern those bishops who jump up and down on European bandwagons. There is a Church of Scotland, a Church of Wales (bilingual), and even a Church of Ireland. What will that of England become? The Church of the Regions? Or nine separate organisations, one for each region – 'The Church of the South West Region of the European Union'? If so, perhaps we could then satisfy ourselves (those of us who care) with one bishop per region, a considerable saving in cost when parishes are being bombarded with demands for money and more money. That thought might limit the excitement of the upper echelons of the Church of England for the European Project. Perhaps we could manage with one cathedral per region, asking the EU to pay for the upkeep of the rest as historic buildings.

and its people and these two volumes are far from a systematic account of the Battle of Verdun. Like Vassili Grossman's magnificent Russian epic, *Life and Fate*, we see events from both sides and there is a mixture of fact and fiction that cannot easily be disentangled. I was much struck by Chapter 18 of the Prelude in which an international journalist, Maykosen, visits Kaiser Wilhelm II. To my surprise, the Kaiser is shown as deeply anxious about launching an attack at Verdun. He is aware that there will be a huge loss of life on both sides. He asks Maykosen for advice and Maykosen tells him, 'I should be tactful with France. I should offer her an extremely advantageous peace. I should insist on the establishment of a European customs union'. In what immediately follows, it is clear that this is a Continental European Customs Union (the French has 'le principe d'un Zollverein europeen') because Maykosen continues, 'There remains England, and England, I admit, is a hard nut to crack (*Evidement le morceau est dur*). But she would not be in a position to carry on the struggle single-handed' (this, ironically, written two years before Dunkirk!). I thought this just a pretty fiction, but by chance the next book I read, *The First Day on the Somme* by Martin Middlebrook (1971, read in the new Penguin edition of 2001), backed up Romains's fiction with fact.

The first day of the Battle of the Somme, in which we lost so many men, was 1 July 1916. In the *preceding* month 'the Germans, for the second time at least, sent an emissary to the French Government suggesting the possibility of discussing peace terms …. In spite of their supposed desperate position at Verdun [which the British attack was designed to alleviate], the French sent a haughty reply' rejecting the idea (Middlebrook, p. 272). Only a handful of British leaders (the King, the Prime Minister, the C.I.G.S., and Haig among them) knew of the peace moves: 'The War Committee was probably not told … the ordinary man in the street and the soldier in France, of course, knew nothing'. In January 1917, Germany again made an effort to secure peace but nothing came of this and, 'In desperation the Germans turned to unrestricted submarine warfare, hoping to starve Britain out' (p. 296). The war of attrition continued.[3] So in his fiction, Romains was on to something, though I have not been able to trace a real-life Maykosen. Is this an *emotional* origin of the European Union? And is not the United Kingdom ('England/Angleterre' as Romains puts it) as hard a nut to crack now as in 1916 and 1940–41 and as much regarded with dislike by the Continental Europeans?

3 Britain sustained 522,206 casualties on the Western Front up to the end of June 1916; thereafter there were 2,183,930 (Middlebrook, p.275).

Is one unduly suspicious in thinking that the EU's scheme for European regionalisation is in part designed to crack that hard nut, to divide and conquer? Current regionalisation of England is not 'defensive government'. I don't know how familiar Mr Prescott is with Jules Romains, Martin Middlebrook, Verdun and the Somme, but I fear that the scheme will have consequences he would not intend, just as the gift of our coastal waters to the EU and its ensuing fisheries policy has led to the loss of most of the fish from around our shores and what is left is at the mercy of the Spanish. Our surrender has been more successful for Spain than were any the four armadas it launched against us in the first Elizabeth's reign.

This historic background to regionalisation might be indicative of the EU's hidden agenda to our being divided up, but it is not that which most concerns me here. It is the future problems regionalisation poses for England, and what are, doubtless, its unintended consequences. I wish to mention three aspects: finance and tensions arising therefrom; the lack of independence for England (as compared to that enacted for Scotland and Wales); and racial divisiveness.

It is becoming better known now how much more generously Scotland, Wales and Northern Ireland are financed from the UK's budget than is England. The latest figures I have are, for expenditure per head: England £4,283; Wales £5,052; Scotland £5,271; and Northern Ireland £5,939; to take a single illustrative detail: capital expenditure on education in Scotland is 47% higher than in Leicester (DT, 5.12.01). Leicester, of course, has a large immigrant community and that means it bears additional costs. (As I write, on the occasion of the Queen's Golden Jubilee, her visit to Slough coincides with a statement that a quarter of the Priory School's pupils come from ethnic minorities, many of them from two large estates and presenting 'challenging' behaviour; 42% have 'special needs'; that costs a great deal of money.) As Simon Heffer ironically put it, England sends ten billion pounds 'up the Great North Road to keep the Scots in the style to which they have become accustomed' (DT, 2.6.02). That allows for more teachers working shorter hours than in England, a better deal for university students, much better care for old people, and a palatial Assembly that the Medicis might envy. It is ironic, almost comical, that despite such affluence at England's expense, Scotland's only two football teams of any significance, Celtic and Rangers, wish to desert their fellows and secede to the English League. As the Mayor of London said, he could do a lot for London with the £5 billion or so raised in London but sent to Scotland. Now, it is not the minutiae (if such sums are minutiae) that I am concerned with but with the financial expectations that will be raised, say in the North-East Region, when it has its regional government. Will not it, and other needy regions, want financing on the scale of Scotland, Wales and Northern Ireland? In Berwick, will they not want what they can see so liberally dispensed across the Tweed? How are such expectations to be met; if they are not met, what resentments will be roused? A Scotch-dominated Parliament will not share out money fairly if it means cutting money for the Scotch. History tells us that: there will be no *Book of Bounty* (1610) to restrain Brown *et al* as there was to stop James VI and I who 'most unwarrantably diverted the stream of English wealth into the channel of Scottish well-being?.[4] Thus, my first concern about the regionalisation of England is that it will lead to serious tensions between the English regions and the other three nations, especially Scotland, and between the English regions themselves. This is not simply a matter of financial disputes. One can readily imagine the effect on the regions of the government's attempt to set up a series of Sangattes which will overwhelm small communities in selected regions; curiously, and surely by chance, the first three are all in Conservative-dominated areas, few enough though there are of those. Although nothing to do with political regionalisation, a straw in the wind of what lies ahead was provided by the recent decision of railway companies in the south east to scrap travel discounts adversely affecting those travelling from other regions. If railways can operate unilaterally, might not political regional governments follow suit?[5]

The second problem may be more long term, but then regional government is long term. I have reiterated several times that my ideal is the maintenance of a genuinely United Kingdom but a belief that, should any part wish to go its own way it ought to be able to do so. There is a certain momentum for Scotland to become independent and we should all benefit were Northern Ireland to be separated off from the 'mainland' and become part of Eire, where both could enjoy sharing their history and their 'throubles'.[6] Scotland and Wales have a mechanism, if imperfect, for going their own ways. Each has an Assembly and although independence is not written into their constitutions, an Assembly provides a forum in which

4 For details and sources, see my article in Britain & Overseas, Spring 1998, pp. 11-13.

5 A railway official showed remarkable economic skill when asked whether the scrapping of discounts was not, in effect, tantamount to an increase in price. No, he responded, because the railways would offer smaller discounts!

6 It was noticeable that though millions, literally, celebrated the Golden Jubilee happily in England, especially the huge masses in London, with not a hint of trouble, simultaneously the Irish were shooting each other in Belfast.

independence could be debated and, if voted for, achieved. But what for England? It has no Parliament of its own and the Commons is ruled by a vocal self-serving minority owing allegiance to a mere 10% of the population. Splitting England into regions will make its future as England, never mind its independence, problematic. This might well be the Scotch-dominated government's wish (it has probably passed Mr Prescott by). It would certainly suit Brussels to have England emasculated – the 'morceau' would be truly cracked. Or would this be short-termism? One of my old friends traces his ancestry back to King Alfred in one line and William I in the other. (Rather charmingly, he hangs the family tree in his downstairs loo. He wears his ancestry very lightly. Two of his ancestors appear in one of Shakespeare's plays.) When I discussed regionalisation of England with him he foresaw problems. When I pressed him, all he would say was that 'the English are a tribal people'. Tribes are notoriously recalcitrant. Might the Regionalisers be biting off more than they can chew? What if the English think they might have a brighter future independent of those to the north and west, never mind the south?

My final anxiety is one that I am uncertain as to whether I am nowadays allowed to discuss. I am a white Anglo-Saxon – and more Angle than Saxon. Can I legally mention other ethnic groups? Perhaps I can if I quote from something in print. Professor Howard Lexitter writing from Norwich in the *Sunday Telegraph* (2.6.02) showed that the numbers of Asians, Blacks, Muslims, Kurds, etc. in the U.K. was now about 6.5 million - about 12% of the population - and as many as the combined populations of Scotland and Northern Ireland. He went on, 'The recent prediction that whites will be in a minority by 2060 would seem to be accurate'. Now, I am not concerned here with immigration, but with regionalisation. Will this influx be spread evenly or will some regions benefit more from the presence of Asians, Blacks, and Muslims than other regions? Might, say, the London region be predominately from what are at present ethnic minorities? Might that also apply to, say, the West Midlands Region? Could Burnley or Bradford become an ethnic capital in fifty years' time? We seek racial harmony, not without some success, but will regionalisation promote harmony or divisiveness, especially if whole regions are ruled by one ethnic group, Asian, Black, or white? Is the Government thinking of fifty years ahead rather than as for a ten-year quick-fix transport plan? Could we be fostering a Northern Ireland or even a Kashmir within our midst? This is a revolutionary constitutional change, have no doubts about that. I am sure Mr Prescott will have thought this through, as he has the transport fix (*pace*

Mrs Dunwoody and the Commons Transport Select Committee), but it would be handy to be taken into his confidence. And what if that contrast between white, Anglo-Saxon regions and Indo-Afro-Caribbean regions is complicated by financial disparities? Of course, one ready source of financing our regions through our regional governments would be by the importation of drugs. Holland would be delighted to export legally the drugs it now sends us illegally. One can imagine a profitable trade between Schipol and London City Airport. That could provide the necessary finance.

It was once the prime duty of a ruler not to split his kingdom – see *1 Henry IV* and *King Lear*. Alas, it now seems to be the purpose of our rulers to split up England and gift it and its surrounding waters to foreigners. This is a revolutionary shift and we should face up to how momentous it is. George Orwell wrote, 'No revolution in England has a chance of success unless it takes account of England's past'.[7] England has developed through a process of unification (which is indeed our best hope for the assimilation of immigrants) over the past 1200 years.[8] This attempt to break up our unity at the behest of nations who have found it so difficult to unite themselves, and for whom national unity is very recent, is not only to turn back the English clock but could be dangerous.

I began with a reference to the risk that a wedge-shaped football-boot stud could break a metatarsal bone. Regionalisation will thrust a wedge into the English body politic; such a wedge could well break its bones.

7 From 'Will Freedom Die with Capitalism?', April 1941, The Complete Works, XII, 463.
8 Since the sattle of Ellandune, 825, fought a mile or two from where I write.

SIR PETER PARKER, KBE, LVO

Sir Peter Parker, who died in April, aged 77, from a heart attack, served as Vice-President of the Economic Research Council for 20 years alongside a truly astonishing range of business and other interests. He was chairman of Mitsubishi Electric Europe, Chairman of British Rail – speaking at an ERC meeting to the title ‘British Rail – The Non-Utopian Line’ (See *Britain and Overseas* Vol 12) he said that the Government should not *subsidize* the railways but should award specific contracts with payments for socially valued but commercially loss making services – and the Rockware Group, amongst many city and business interests. Amongst his academic and other interests he was deputy chairman of the Court of London University, honorary fellow and chairman of the Court of Governors of the London School of Economics, vice chairman of the British Institute of Management and founder of the Council of the Foundation for Management Education. And much lay beyond all this, especially in connection with China and Japan.

Having studied Japanese at university and having spent part of his childhood in Shanghai Sir Peter developed a keen appreciation of the importance of the Far East and spoke Japanese with some fluency, working, for example through the UK-Japan 200 Group and lending his name for the ‘Sir Peter Parker Annual Prize for spoken Japanese’, awarded for the best speech given in Japanese by a university student with no family connections to Japan.

Commended as a truly ‘Renaissance man’ with wide interests, eclectic style, a love of balanced judgement and a willingness to work in the messy world of real events and organisations in a spirit not of doctrinaire belief so much as a reliance on reason and communication, (and, on occasion, flamboyant style) the footnotes to his extraordinary life and achievements must surely mention the remarkable range of publications in which tributes have been published. In Britain, Japan and elsewhere, national newspapers, university publications, diplomatic service circulars and more have published obituaries to acknowledge his service.

LETTER

A further thought on a point taken from 'Liberal Imperialism', Britain and Overseas, Spring 2002 from Mr David Fifield

Sir,

May I expand on a view expressed in Aidan Rankin's article 'Liberal Imperialism', where multiculturalism is considered an ideology still contentious in the West. Linked with 'society' multiculturalism becomes an even more contentious ideology.

A dictionary definition of culture is given as 'trained and refined state of the understanding and manners and tastes', while society is given as 'social mode of life, the customs and organization of a civilized nation'.

I believe a case can be made, when the above definitions are linked, for rejecting the notion of multiculturalism and in particular the concept of a multicultural society. In its place the UK might better be described as a multiethnic society. Is it possible the view, there is no such thing as 'society', grew out of the recognition it could not be linked with multiculturalism?

Oaklands,
Weston Underwood,
Olney, Bucks.,
MK46 5JS.

European Monetary Symposium

Britain, Germany and the EMU
What have we learned in the ten years since Black Wednesday?

Monday 16 September 2002
10th anniversary of sterling's departure from the ERM

Hong Kong Lecture Theatre, London School of Economics

(for details – see leaflet enclosed)

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

APPLICATION

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

APPLICATION FORM

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

Date ....

APPLICATION FOR MEMBERSHIP

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

This application is for
(delete those non-applicable)

Individual membership (£25 per year)
Corporate membership (£55 per year)
Associate membership (£15 per year)
Student membership (£10 per year)
Educational Institutions (£40 per year)

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

NAME OF ORGANISATION ....
(*if Corporate*)
ADDRESS ....

....

....

PROFESSION OR BUSINESS ....
REMITTANCE HEREWITH ....
SIGNATURE OF APPLICANT ....
NAME OF PROPOSER (*in block letters*) ....
SIGNATURE OF PROPOSER ....