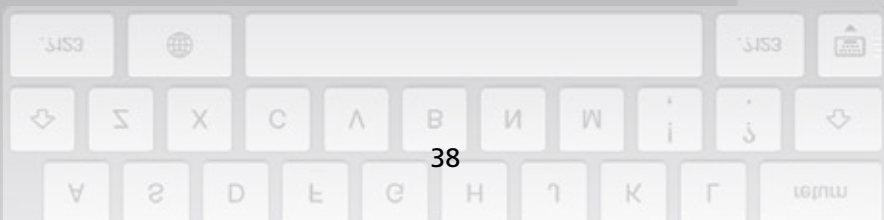




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STATISM

ReBRANDED?



For as long as I can remember, the herbal schnapps Jägermeister has had a reputation for being an old man's drink.

So when I moved to the UK, I was amazed to discover that here, Jägermeister was considered trendy and 'cool' among teenagers. It would appear that, in the UK, the company was simply lucky to find trendy 'early adopters', who then became multipliers.

The realm of political ideas, too, follows fads and fashions, and the statism of the 1970s is currently experiencing a Jägermeister effect.

For a while, free marketeers were benefiting from the fact that crude statist ideas were simply considered old-fashioned. Price controls, wage controls, public ownership, bloating the public sector, deficit spending, idolising unions, punitive top tax rates, interventionist industrial policy – those terms used to sound so 1970s, even to people who, like me, have no personal memories of those years. They used to stand for the bad old days, for a past that few people wanted back.

But like Jägermeister, these ideas have become trendy again without any reworking or even a rebranding. The likes of Owen

Jones or Russell Brand do nothing to update the rhetoric of Arthur Scargill, Michael Foot or Tony Benn. They just lend them an air of youthfulness.

There is a slight difference with Jägermeister, though: there is

Free-market liberalism, in contrast, is quite able to absorb and learn from real-world experiences which are widely seen as failures of 'neoliberal' policies, justified or not. There are, for example, excellent 'neoliberal' contributions on the

THE STATISM OF THE 1970S IS CURRENTLY EXPERIENCING A JÄGERMEISTER EFFECT

nothing inherent in herbal schnapps which makes it either old-fashioned or trendy. But the previous fall from grace of crude statism was more than a matter of changing fads. It had been the dominant ideology for a long time and failed. And bloating the powers of the state did nothing to 'empower' working people. Statism only empowered the state and its cronies.

It would be one thing if those of the Jones/Brand ilk acknowledged those past failures, and came up with a reason why things will turn out differently this time. But what they really do is simply to ignore all past experience with the kind of ideas they are advocating.

causes of the 2008 financial crash, on the problems with British railway privatisation in the 1990s, and so on.

It is rather fortunate that Jägermeister never changed in substance, because it has always been a fine liqueur, long before a travesty like mixing it with an energy drink would have occurred to anyone.

In contrast, no matter how 'cool' the command-and-control statism of the old left becomes, in substance it remains as wrong as ever.

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Full version at: www.iea.org.uk/blog/the-j%C3%A4germeister-effect-without-a-change-in-substance-1970s-style-statism-has-become-trendy-aga



Productivity Puzzle

There was a time when it was normal for the productivity of labour in the UK to be rising year by year, and for money wages increases to reflect this by forging ahead of price increases.

The last few years, however, seem to have turned these norms upside down. Has the economy hit an iceberg, or just an unusually strong headwind?

The case for believing the latter, and thus for hoping for better things in due course, takes off from

HAS THE ECONOMY HIT AN ICEBERG, OR JUST AN UNUSUALLY STRONG HEADWIND?

the fact that businesses have lately been coming to rely more on the use of labour in their productive processes and rather less on capital equipment of various kinds.

This unusual shift in 'factor proportions' has occurred partly because, under the pressure of unemployment, money wages have risen less than prices, so that labour

has become cheaper in real terms.

But at the same time, the upheavals in the banking system since 2008 have made it very hard for businesses to raise funds to invest in capital equipment. Under these two influences, the normal process of increasing capital per worker leading to increasing output per worker, and so to increasing real wages, has evidently ceased to operate.

Or has it just been suspended? It is reasonable to suppose that

per worker should be resumed, and with it the secular growth of labour productivity and real wages.

Nevertheless, the above could well fail to provide a complete explanation of recent developments, since increasing capital per worker is not the exclusive determinant of productivity growth. That also depends upon the flow of innovations of various kinds which enable more output to be produced from given quantities of capital and labour.

The American economist Robert J. Gordon has recently assembled evidence for the USA from about 1900 which appears to indicate what he calls "faltering innovation", and his paper poses the question "Is U.S. Economic Growth Over?"

Since the influence of the innovations he studies is much wider than the USA alone, his hypothesis implies what has recently been happening to productivity in the UK could be rather more than just an episode.

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Full version at: www.iea.org.uk/blog/the-uk-productivity-puzzle-%E2%80%93-or-is-it

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ENERGY: Nationalisation or Liberalisation?

The British energy industry has gone from nationalisation to privatisation and back to government control in the space of 25 years.

In the 1970s and early 1980s, the consumer got a raw deal because long-term investment plans and contracts promoted by the government required electricity companies to use expensive indigenous coal. Government planning also dictated the development of a nuclear programme that is probably one of the most expensive government project disasters in history, losing £32bn.

The energy industry is, once again, controlled by the state. The same underlying drivers dictate policy in the new world of state control. It is not rational economic thinking and public-interested civil servants that determine policy, but interest groups.

Going back 30 years, it was the coal industry – both management and unions – and the nuclear industry that dictated policy. Today, it is green pressure groups, EU parliamentarians and commissioners and, often, the energy industry itself that are loading burdens on to consumers.

When the state controls the energy industry, whether through the back or the front door, it is vested interests that get their way and the consumer who pays.

In the late 1980s and early 1990s, the industry was entirely privatised. It was recognised that there were natural monopoly elements and so prices in these areas were regulated. At the same time, the regulator was given a duty to promote competition. From 1998,

all domestic energy consumers could switch supplier for the first time and then wholesale markets were liberalised, allowing energy companies to source the cheapest forms of energy.

Privatisation was a great success. Instead of investment policy being dictated by the whims of government and interest groups, it became dictated by long-term commercial considerations. From 1986 to 1997, domestic gas bills fell by an average of 2.6% a year in real terms – a very large cumulative reduction. From 1990 to 1999, electricity charges for domestic consumers fell by 26%, with a larger fall for industrial users.

WHEN THE STATE CONTROLS THE ENERGY INDUSTRY...IT IS VESTED INTERESTS THAT GET THEIR WAY AND THE CONSUMER WHO PAYS

The trend towards liberalised markets, rising efficiency and lower bills then reversed. In the first place, there are carbon reduction targets. Even if carbon reduction is deemed desirable, it could have been achieved through the emissions trading scheme.

Alternatively, a simple carbon tax could be charged. A carbon tax would allow energy businesses and consumers to reduce carbon emissions in the most efficient way for them.

But the government has added to the emissions trading scheme a carbon price floor, a requirement to allow households to produce their own electricity and sell it back, and an obligation to produce energy using incredibly expensive

renewables up to three-and-a-half times more expensive than the cheapest methods of generating electricity. As a result, we get carbon reduction but only at an unnecessarily huge cost.

As part of its environmental strategy, in a strange echo of the 1970s, the government has signed a long-term contract for nuclear power to be supplied at twice the current price of electricity.

The UK once had an inefficient and expensive energy industry. After privatisation, costs plummeted as the industry served the consumer rather than the mining unions and pro-nuclear interests.

Today, after a decade or more of increasing state control, we have an industry that serves vested interests rather than the consumer interest once again. Electricity prices before taxes are now 15% higher than the average of major developed nations. Electricity could be around 50% cheaper without government interventions.

We must liberalise again and not complete the circle by returning to nationalisation.

A longer version of this article appeared in the Observer newspaper.

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Full version at: www.iea.org.uk/blog/far-from-a-return-to-nationalisation-more-liberalisation-of-energy-markets-is-required