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WELCOME

To quote the poet Alfred, Lord Tennyson: 'In the spring a young man's fancy lightly turns to **thoughts of love**'. (Slightly sexist, perhaps, but he did write it in 1835...)

It's perhaps fitting, then, that love is in the air for this spring edition of **EA**.

In our cover story (page 11) we take a surprising look at the **Economics of Dating** – and the **key role numbers play in the matchmaking game**.

Of course, love and happiness are said to go hand in hand. So, on page 14 we look at the sometimes bizarre attempts by governments to **measure happiness** – and ask whether it really is all that matters.

But it's not all love and harmony. In **'The Ascent of Dissent'** (page 30) we look at the debate on **free speech in public life** – and examine the costs that accompany self-expression.

Elsewhere, we look at ways of **solving the UK's housing crisis** (in separate articles on pages 16 and 23), ask whether **renationalising key industries** would work (page 36) and assess **the impact of legalising cannabis** in parts of the U.S. (page 6)

All that – plus a look at the **future of Britain's high streets** (page 36), an **examination of gender pay** (page 4), and, on page 24, we get our teeth into a proposed **pudding tax**!

As ever, we trust this issue of **EA** will make **enlightening**, **entertaining** and **essential** reading.

Richard Wellings
Editor
March 2019

PS: If you're new to **EA**, you can **download all previous editions (for free!)** at **www.iea.org.uk/eamagazine**.

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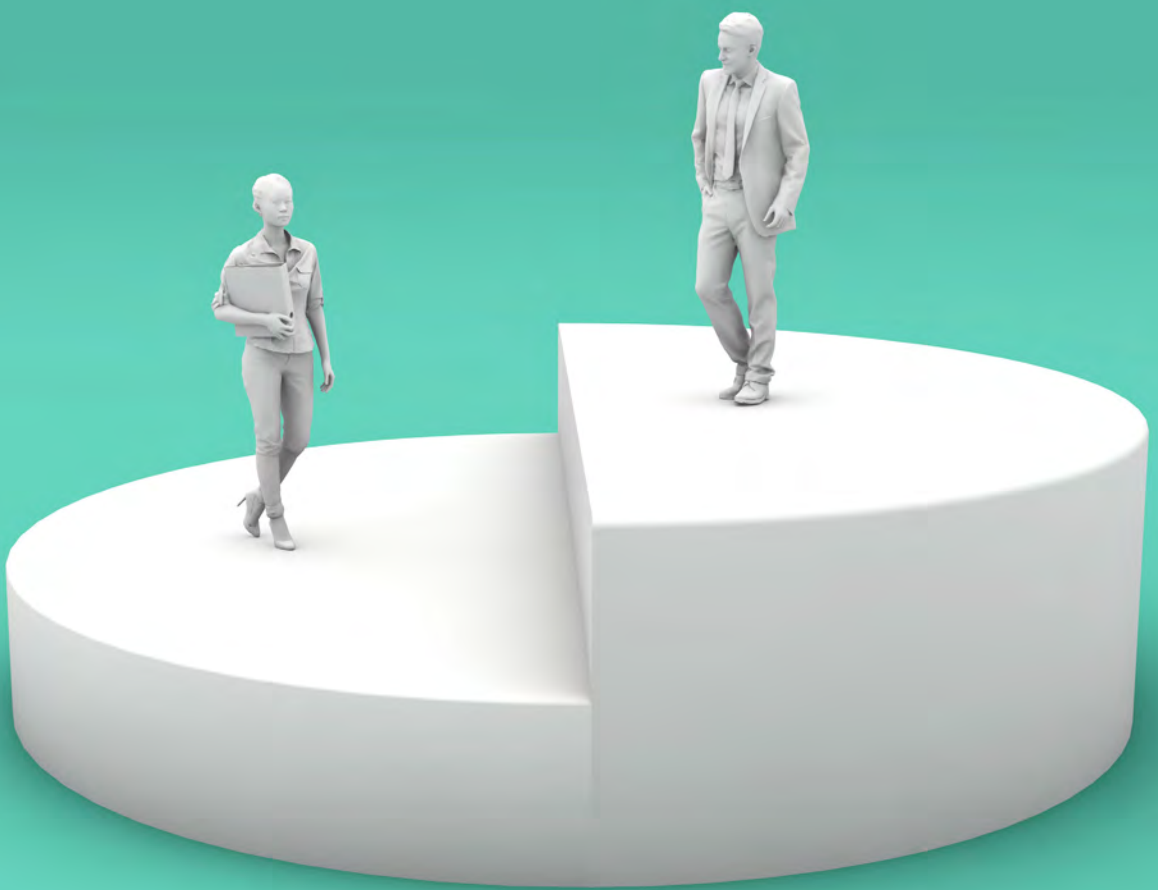
Institute of **Economic** Affairs

HIDDEN A-GENDER?



If women are cheaper to hire than men, why don't businesses just hire women? STEVEN LANDSBURG casts an economist's eye on the gender pay gap…

Alice has just heard that on average, women (in the US) are paid 77 cents for every dollar earned by equally skilled men.

Bob, who has just completed his first course in economics, explains to Alice that this is impossible. If it were true, he says, profit-maximising firms would clamour to hire cheap women instead of expensive men, and men would be unemployable until the wage rates equalised.

Alice, who has a little more experience in the real world, observes that the people who run corporations are not always single-minded rational profit maximisers. Therefore, it's perfectly possible for discriminatory wages to survive.

Cheryl, who has studied more economics than Bob and worked in industry longer than Alice, points out that they're both right and both wrong. Corporate managers routinely overlook small profit opportunities, but rarely pass up large ones. So the right question to ask is: If Alice is right, how big is the profit opportunity that Bob is pointing to?

Pure logic can't answer this question. But a little back-of-the-envelope calculation can point to the most probable resolution.

We'll need some numbers. First, the workforce is currently roughly about 50% female.

The next number is one you're less likely to have at your fingertips. Corporations pay out roughly 2/3 of their revenue in employee compensation. The remaining 1/3 goes to stockholders and bondholders.

The next number is one I wasn't sure of myself until I googled it: to a very rough approximation, the total value of the bond market and the total value of the stock market are equal. So, for our back-of-the-envelope purposes, we can assume that of every £300 that comes in, about £200 goes to the employees and the remaining £100 is split equally, with £50 going to the bondholders and £50 to the stockholders.

Now suppose Alice is right about that 77% bit. Then employers face the opportunity to fire half their workforce (the men) and replace them with women who are 23% cheaper. That's a saving, on average, of 11.5% per worker. Instead of paying your workers £200, you're now paying them 89.5% of that, or £179 – a saving of £21. All of that goes to the stockholders. (After all, where else could it go?)

Bottom line: instead of earning $50 for each $300 of corporate revenue, the stockholders now earn $71. That's a 42% increase. The company's stock is now 42% more valuable.

That's huge. A corporate manager who raises the company's stock price by 42% in a single stroke is on the road to a brilliant career. If Alice is right, corporate managers everywhere are seeing that opportunity and choosing not to grab it.

Might there be a manager here and there who chooses to ignore such opportunities? Absolutely, and Bob is wrong to deny it. But might such laziness be as widespread as it would have to be to sustain what Alice claims is a 23% wage differential? That's too implausible to take seriously.

Notice that the numbers really matter here. If our calculation had come out with a number like 2% instead of 42%, then Alice's theory would have been at least plausible. At 42% it's not.

This leaves unanswered the question: What does account for gender gaps in wages?

The answer surely is a conglomeration of a great many factors, possibly including differences in training, differences in interests, differences in wage negotiation tactics, differences in career choices, differences in priorities, and, yes, discrimination.

We've determined that discrimination can't account for a 23% wage gap or anything close to that. Might it still be a significant contributing factor? The evidence, pro and con, could fill a book – a different book, because this book is largely about other things.

The further evidence that will be collected and analysed in the next couple of years will probably be enough to fill a second volume. People are working on this. They're making progress, but they're not done yet.

Often, progress takes the form of ruling out some inference that seems plausible on the surface, or recognising that what seems obvious is not always true

Steven Landsburg
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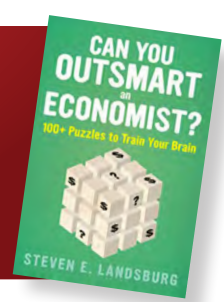
This is a modified extract from Steven Landsburg's *Can You Outsmart an Economist? 101+ Puzzles to Train Your Brain* (Mariner Books, New York 2018)



GROWTH INDUSTRY

SAM COLLINS looks at the impact of legalising marijuana in some American states – and assesses the effect of regulation on this fast-growing industry

There are few products which have been through such a regulatory revolution over the past decade as marijuana in the United States.

For years following the first wave of anti-cannabis laws in the early 20th century, the United States fought what would become known as the 'War on Drugs' robustly and to often devastating effect for minority communities.

A decade ago more than three-quarters of a million people were being arrested each year for possession of marijuana[1] and while imprisonment for cannabis possession is a relatively rare occurrence, possession charges can result in people losing their jobs, or the funding for their university education.

But, while the federal restrictions are still in place, we have seen an incredible shift at the state level over the intervening period.

As of 2019, almost two thirds of the American population live in states where possession of marijuana, whether for medical or recreational purposes, is legal, and a quarter of Americans live in states where possession and use of cannabis products for purely recreational purposes is legal.[2]

This means we have a unique opportunity to not only track the effect of cannabis legalisation across a range of regions – including the effect on the local economy, law enforcement and health outcomes – we can also see the effect from the wide range of different tax and regulatory environments that various states have set up in the aftermath of legalisation.

From the light-touch regulatory regime of Oregon, to the high-tax, strict regulatory environment of California, we have seen radically different outcomes for businesses, governments and consumers.

Colorado was one of the very first states to legalise recreational marijuana in 2014. And the economic effects – after a few years of bedding in – have been impressive.

Although the regulatory regime in Colorado has been described as 'overwhelming' (with approximately 222 pages of state regulation[3] – plus any local by-laws that might need to be followed) – the industry there has seen $1.5bn in sales in 2018 and is responsible for up to 22,000 jobs directly or indirectly in the state.

In taxation revenue, the state gained some $250m in excise and sales tax in 2018, more than alcohol, tobacco and cigarette excise taxes combined.[4]

The rate of growth has been stratospheric as well. Total income from sales in the

[1] Drug War Facts calculation, using figures from Department of Justice FBI Uniform Crime Statistics (https://www.drugwarfacts.org/chapter/crime_arrests#overlay=table/total_arrests)
[2] Own calculations from US Census Bureau population statistics overlaid with current recreational drug policies as of January 2019 – both New Jersey and New York are expected to legalise recreational marijuana use in 2019.
[3] 'Reefer Madness': Tony Mecia, *Weekly Standard* (https://www.weeklystandard.com/tony-mecia/reefer-madness)

state rose 250% over the first four years, while the tax take rose almost 400% over the same period.

In other states, the rate of growth has been similarly impressive. Oregon's tax take from the first to the second year rose some 300%, and Washington State's also grew by some 400% over the first three years. In each state, not only is the economic effect significant, but growing.[5]

However, while Colorado, Oregon and Washington are impressive, the results in nearby California – the first state to allow medical marijuana, but only a recent legaliser of recreational cannabis – are not so remarkable.

Now, California being California, their policy is in something of a unique position. Their medical marijuana laws were considered so lax that recreati onal use has been effectively legalised for years before the law caught up.

But any hope of a so-called 'Green Rush', where state officials expected the marijuana market to potentially increase by $1bn per year following legalisation, failed to materialise.[6] Indeed, it is distinctly possible that marijuana sales will decline compared to when the drug was officially illegal for recreational purposes!

Why is this? Well, there are a number of possible reasons.

As mentioned above, other states saw significant growth after the first year of legalisation – it is possible that the teething problems in the legal market still need some work.

Added to this is the fact that medical marijuana was so accessible in much of California that possibly there were not the same number of black-market customers who would buy their product from legal dispensers (although the 160,000 drug misdemeanour charges against Californians in 2015 makes this seem unlikely).

But the most likely reason for this significant difference is the regulatory regime that California sought to introduce to make it deliberately difficult for cannabis-based businesses to operate across much of the state.

As in other states, local authorities at a city or county level can choose whether or not to allow marijuana sales in their locality.

However, while a significant part of the business model in states like Colorado and Oregon involves 'weed delivery services' from states that allow sales to those that do not, in California this has been banned by regulators.

The licensing requirement has also had a significant effect. Before legalisation almost 1,800 stores and dispensaries existed to supply the medicinal marijuana market, yet strict new licensing rules following legalisation have reduced this number by 70%, with only 547 suppliers being issued a licence in 2018.[7] Oregon, a state with only 10% of California's population, provided more supplier licences for recreational marijuana last year.

This lack of supply can be seen in the difference in prices paid by the consumer. Marijuana buyers in Washington and Oregon can expect to pay about 20% less per ounce than in California, despite the fact that Washington's sales tax rate on recreational marijuana is 2% higher than in California.

THE RESULTS IN CALIFORNIA – THE FIRST STATE TO ALLOW MEDICAL MARIJUANA, BUT ONLY A RECENT LEGALISER OF RECREATIONAL CANNABIS – ARE NOT SO REMARKABLE

While marijuana can be a significant boon to the local economy of a country that embraces legalisation, simply legalising is not enough. A well-thought-out, liberal regulatory and taxation regime needs to be set up around such new industries.

But, as history shows, a guaranteed way of stubbing out a developing industry is to burden it with high taxes, a heavy regulatory burden, and strict licensing requirements•

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[4] Colorado Department of Revenue Tax Profile and Expenditure Report 2018 (https://www.colorado.gov/pacific/sites/default/files/2018%20TP%26E%20%28DR%204016%29.pdf)
[5] Tax Foundation, quoted in Polifact Truthometer (https://www.politifact.com/truth-o-meter/article/2018/oct/26/marijuana-legalization-5-charts/)
[6] 'One year of legal pot sales and California doesn't have the bustling industry it expected. Here's why': Patrick McGreevy, *LA Times* (https://www.latimes.com/politics/la-pol-ca-marijuana-year-anniversary-review-20181227-story.html)
[7] 'Greedy Politicians are already wrecking the legalised cannabis industry': Brittany Hunter, FEE (https://fee.org/articles/greedy-politicians-are-already-wrecking-the-legalized-cannabis-industry/

KEYING IN TO...

To some, capitalism is a dirty word.

But EAMONN BUTLER begs to differ.

In this summary of his latest IEA book, Eamonn explains what capitalism is, assesses its achievements and its weaknesses, and demonstrates how it has brought billions of people out of abject poverty…

The word 'capitalism' was coined by its opponents, and even today, most of what is written about it is ill-motivated.

You can read the Oxford University Press *Capitalism: A Very Short Introduction*, for instance, and come away no wiser about what capitalism is (though better informed on Marxist history); while the Wikipedia entry on *Capitalism* is a mishmash of things that have little to do with the idea at all.

So when 'capitalism' is mentioned, most people think of greed, profiteering, cronyism, exploitation, and probably subsistence wages and dark satanic mills too—all baggage loaded onto capitalism by its critics. Hence the need for a book that explains, simply, what capitalism is, what drives it, its achievements and its weaknesses.

The idea of capitalism is actually simple. The word has two parts: capital and ism. Capital is simply the various things we accumulate and use in order to make our production easier. And ism means that this is a general way of life.

Routinely, for example, we make tools and machines to enable us to produce what we want better, cheaper and with less effort. And we have been hugely successful at it.

In just 300 years, capitalism's power looms, production lines and farm machinery have made clothing, transport and food vastly cheaper and more accessible. Not even the richest 18th Century monarch could have dreamt of the functionality we now all have in our pocket smartphone.

But *capital* is not just tools and machines. There are many other forms: the *infrastructure* that moves us and our products around; the *markets* that allow us to exchange what we produce; the *financial capital* that finances it all; and the *networks* that enable us to collaborate.

There is our *cultural capital* – things like the *justice system* that protects our *property* rights and enables us to invest and prosper without our goods being stolen.

And perhaps the most important of all is *human capital* – all the education, training and personal traits that we cultivate to make ourselves more useful, productive citizens.

CAPITAL IS NOT SOMETHING OWNED AND CONTROLLED BY A FEW … WE ALL OWN CAPITAL – FROM OUR SAVINGS TO OUR SKILLS

That means capital is not something owned and controlled by a few. We all own capital – from our savings to our skills. It is remarkably democratic.

And honest. You do not acquire capital by stealing it from others: respect for people's property is fundamental to capitalism. You acquire capital by *creating* it.

To do that, you have to forgo consumption.

Perhaps you spend less time working to produce things to make time for building a tool or machine or network that will help you produce those same things better and more easily.

Perhaps you take time off for training to learn new techniques. Perhaps you save money from your regular income to build up your *financial capital* so that you can grasp new opportunities when they arise.

Capitalism's critics imagine that having capital is like having a tree that provides you with an endless supply of fruit for no labour, suggesting that capital owners inevitably get richer and richer. Hardly. Just like a fruit tree, capital requires work and expense. It has to be protected, and nurtured, and maintained. When its yield falls it may need to be pruned or even replaced.

Moreover, when creating capital, you face *risk* and *uncertainty*: the uncertainty, for example, about how much demand there will be for what it produces, and the risk that your investment decision was a catastrophic mistake.

Capital can also be lost very easily. It can be stolen (e.g. your song track being pirated) or destroyed by fire, flood, warfare, neglect and much else.

It can be made useless by new laws and regulations. It can be eroded by taxes on it. It can be lost (and often is) through profligacy: a successful business can be ruined by bad management or by the owners depleting its capital by taking out too much income.

Another thing that critics overlook is that capital is not a homogeneous thing but a complicated network of

diverse things.

And those different kinds of capital all have to come together if they are going to be effective at producing more and better things for our enjoyment.

A car factory, for example, relies on countless specialist suppliers to produce the parts it needs – their capital equipment turning out the right things at the right times to feed the carmaker's production lines. It will rely on the distribution firms that get the parts to the factory on time, and the finished cars to the dealers on time.

It even relies on the network of fuel retailers and garage mechanics that customers need to keep their cars on the road. It is a hugely complicated *capital structure*.

It is a fragile structure, too. Changes in customers' tastes and in public policy (e.g. higher taxes on fuel, or new safety regulations) can upset the whole network.

The economic busts and recessions that invariably follow after central banks create false booms through cheap credit and the oversupply of money, can destroy the capital structure of not just a few firms but the whole economy. And while some capital goods can be re-used for other functions, much purpose-built equipment has only scrap value.

Capitalism is a moral system. It allows millions of people to resolve their different, often conflicting, interests peacefully and productively.

It does not rely on the false promise of 'common interest' being agreed. Nor does it rely on force to achieve its ambitions, but on *voluntary* exchange.

It creates value, and private owners nurture and maintain capital better than distant public institutions.

Contrary to popular assumptions, it even produces more equal societies.

And while 70 years of socialism had little impact on world poverty, a mere 30 years of trade globalisation has brought around two billion people out of abject poverty•

CAPITALISM IS A MORAL SYSTEM... IT ALLOWS MILLIONS OF PEOPLE TO RESOLVE THEIR DIFFERENT, OFTEN CONFLICTING, INTERESTS PEACEFULLY AND PRODUCTIVELY

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FOR MORE

An Introduction to Capitalism is available for **FREE DOWNLOAD** at

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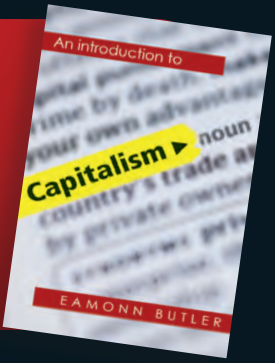
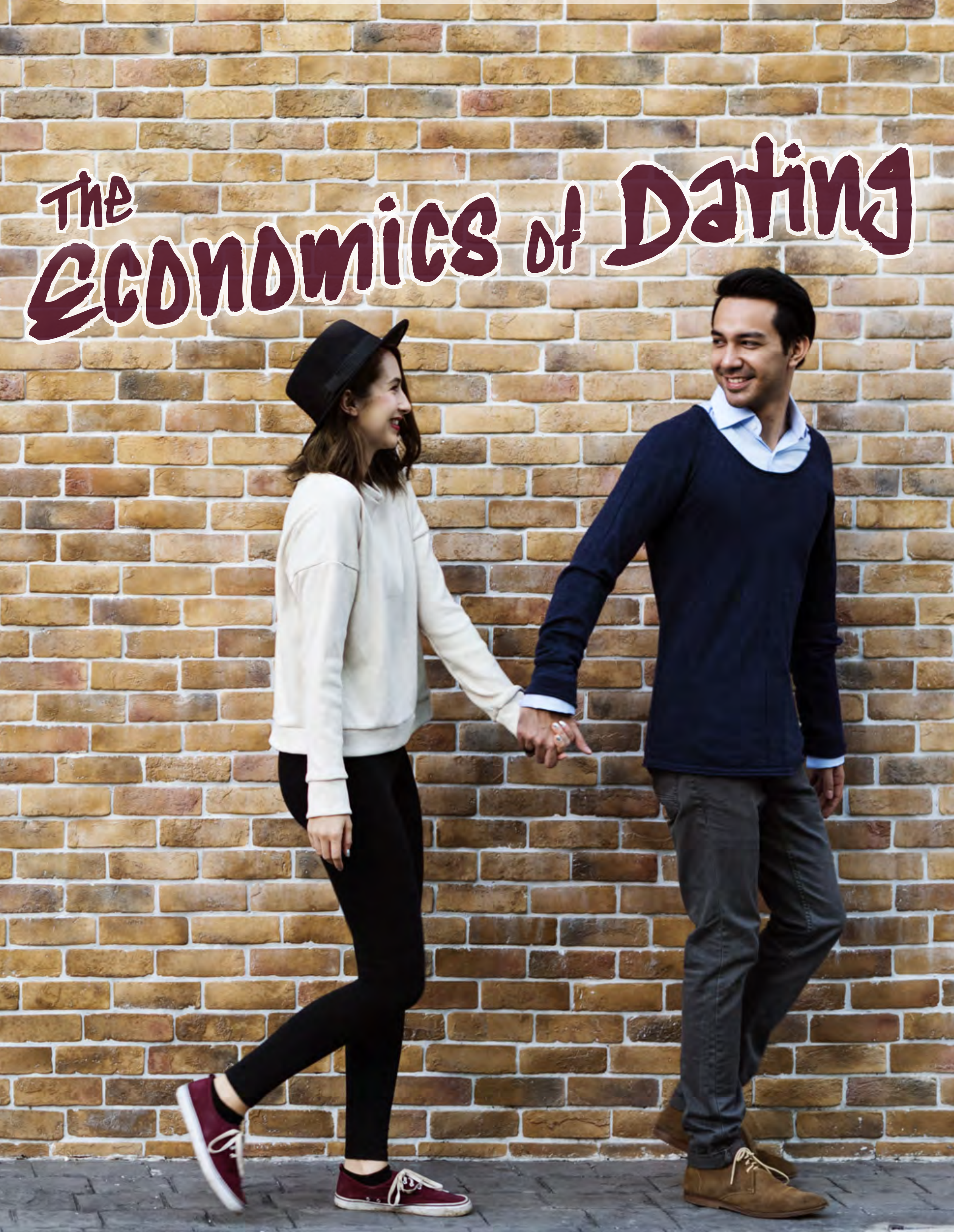
Eamonn's latest IEA book ***101 Classical Liberal Thinker***s will be released later this year.



MADELINE GRANT looks at the mating game – and concludes it's all about the numbers…

The Economics of Dating



In 1992, Gary Becker received the Nobel Prize for extending economic analysis to spheres of human behaviour previously considered the preserve of sociologists and psychologists.

These included education, racial discrimination, medicine, drug addiction and even traffic flows.

Becker's 'people-centric' approach has been hugely influential, and he remains one of the most cited economists of the last 50 years.

One of Becker's key insights was simply that humans respond to supply, demand and incentives away from traditional arenas like the labour market.

In a seminal paper, he emphasised marriage as a crucial, if neglected issue to which economic analysis should be applied.

'Econ 101' may seem like a clunky and unromantic way to view love, but people have employed economic principles in their relationship decision-making for generations.

Economic trends govern even our basic understanding of love. Although Jane Austen wrote about it, and Shakespeare's Romeo and Juliet acted it out, it wasn't until the Victorian era that love and companionship were widely accepted as pre-requisites for marriage.

In Britain, Queen Victoria and Prince Albert are credited with helping turn the tide towards romantic love and the nuclear family by living out their domestic idyll in public.

The couple popularised many of the romantic traditions we nowadays take for granted, including engagement rings, the white wedding dress and gift-giving on anniversaries.

Yet the expansion of the family unit developed from economic realities as well as changing sensibilities.

Industrialisation and the boom in material wealth triggered a huge expansion of the middle classes. Millions of additional households could establish themselves as independent economic units for the first time, away from extended families.

The inward-looking, traditional nuclear family with its emphasis on companionship and division of labour into 'separate spheres', was hugely influenced by these shifts. Even the concept of 'dating' didn't exist until industrialisation and changing demographic trends expanded freedom, leisure time and disposable income.

ROYAL COURTSHIP... IT WASN'T UNTIL THE VICTORIAN ERA THAT LOVE AND COMPANIONSHIP WERE WIDELY ACCEPTED AS PRE-REQUISITES FOR MARRIAGE

Throughout history, scarcity on the dating market has impacted our behaviour in significant, if hidden ways.

Between the 17th and early 20th centuries, thousands of otherwise 'unmarriageable' British women, the illegitimate or those without dowries to recommend them, were shipped out to colonial India to find mates. Nicknamed the 'Fishing Fleet,' these groups sought to take advantage of the huge surplus of men working there, compared to available 'marriageable' women.

It didn't take long for East India Company officials to see a business opportunity. Rather than paying women to travel out to India, the company realised they could start charging husband-seekers who had been unable to make a good match at home, so desperate were families to offload their unwed daughters.

In China, the legacy and skewed demographics of the One Child Policy have left a highly competitive marriage market, where decision-making power rests with women.

This, combined with the fact that Chinese women are increasingly well-educated and financially independent, means that men must work harder than ever to capture a woman's heart, by signalling their trustworthiness and ability to provide.

Chances of marrying in this female-scarce environment are materially increased by owning your own home. One survey of Chinese mothers found that more than four fifths would object to their daughters marrying a non-homeowner.

In contrast, societies where men are in short supply tend towards permissiveness and lower levels of commitment.

The First World War had a seismic impact on romantic behaviour. More than 700,000 British men were killed during World War One, with as many left seriously wounded or incapacitated. According to the 1921 UK census, there

were 1,209 single women for every 1,000 men aged 25-29.

Following the war, many blamed jazz music and even the burgeoning automobile for the emergence of the 'Flapper' generation and the growing permissiveness documented in poems like TS Eliot's *The Waste Land*.

Yet a far more likely explanation is simply a good old-fashioned numbers game. Author Jon Birger hypothesises that the wartime death toll created a lopsided dating market which persisted into the 'Roaring 20s'. The remaining men, responding to their inflated value on the marriage market, 'shopped around' and postponed commitment.

Birger believes similar demographic disparities drive contemporary 'hookup culture', particularly on college campuses.

Women in the UK are now 35% more likely than men to attend university. American women outnumber men at most universities, sometimes by ratios of more than 3-1. When men 'control' the dating market through supply and demand, hookup culture quickly becomes the norm, as single males, like their forebears in the 1920s, play the field and delay marriage.

However, just as economic trends shape our fates on the dating market, data and algorithms offer solutions to some of the associated pitfalls.

Recent years have seen a surge in online dating apps, led by number-crunchers and maths majors in Silicon Valley. These allow users to bypass many of the traditional obstacles to meeting new people, thereby expanding their own personal dating market.

According to economic theory, increasing the size of the market in this way should improve dating by making successful matches more likely, which is largely borne out in the evidence.

Survey data suggest that online dating generally leads to 'better matches' and greater reported happiness – presumably because of the wider choice of partners.

In heterosexual apps, women are often in short supply and effectively the 'shared resource'. Female users of apps like Tinder tend to lose patience and interest if bombarded with 'low-quality' messages. Since it usually costs no money to match with someone, the opportunities for such messages are

APP-Y EVER AFTER? SURVEY DATA SUGGESTS ONLINE DATING GENERALLY LEADS TO BETTER MATCHES AND GREATER REPORTED HAPPINESS

Online and app-based dating carry especial benefits for people whose preferences make discovering partners harder due to social or geographical isolation. One big winner has been same-sex dating, which necessarily operates in a smaller pool than heterosexual romance and is illegal or socially unacceptable in many places around the world.

Yet the skewed gender ratio on many apps can also destabilise. Men, in the main, outnumber women on heterosexual apps (two-to-one on Tinder).

This disparity can in turn trigger an economic effect known as the 'Tragedy of the Commons', where individuals try to reap the greatest benefit from a given resource, yet end up hurting the common good of all individuals in their shared setting.

practically endless.

The app Bumble has attempted to correct this by only letting women send messages first, thus shifting the power balance, lowering the possibility of vast amounts of meaningless messages being sent from men (and of women abandoning the app in frustration).

One of the most powerful arguments against the hubris of central planners is the ubiquity of markets. As Gary Becker knew - and the modern-day dating scene attests - even our personal relationships can't be divorced from economics●

Madeline Grant
Madeline is the former Editorial Manager at the Institute of Economic Affairs. She's now on the Comment team at the Daily Telegraph.

Is HAPPINESS all that matters?

JAMIE WHYTE contemplates happiness – and the cult of 'Wangchuckism'

Jigme Dorji Wangchuck, the former King of Bhutan, declared in 1972 that 'gross national happiness (GNH) is more important than gross national product'.

The Centre for Bhutan Studies dutifully constructed a survey-based measure of GNH, whose increase is now the goal of Bhutan's five-year plans.

Wangchuckism has slowly caught on outside the Happy Kingdom.

President of France, Nicolas Sarkozy commissioned the economists Joseph Stiglitz and Amartya Sen to construct a measure of French happiness. The United Nations, World Bank, European Commission and Organisation for Economic Co-operation and Development also measure not only wealth but well-being.

And here in the UK, the Office of National Statistics (ONS) measures the population's happiness through the household survey.

The data collected from such surveys can then be used to analyse the causes of happiness. Do the things that people commonly pursue – money, status, education, marriage, and so on – actually make them happy?

In a recent book (*Happy Ever After*), Paul Dolan, a professor of behavioural science at the London School of Economics, shows that, on average, they do not.

For example, unless you live in poverty, which is indeed a cause of misery, getting richer does not make you happier. Nor does increasing education increase happiness; nor being more successful; nor just about anything that modern Westerners seek.

From this, Dolan concludes that we should place less importance on these common ambitions.

But this follows only if happiness is all that matters in life, only if these other aspirations are merely means to the ultimate goal of happiness.

For each of the aspirations that he discusses, Dolan invites the reader to ask himself a question. Which do you prefer:

- Achieving the goal in question (wealth, education, etc.) and often feeling miserable, or
- Achieving the goal in question and rarely feeling miserable.

After his discussion of the goal and its relationship with happiness, he reveals what proportion of people (independently surveyed) prefer the goal to happiness. It ranges from 10% to 60%, depending on the goal.

This shows that happiness is not everyone's ultimate goal. Some people are willing to trade happiness for other things they value, such as money or success or… what-have-you.

Dolan and the other Wangchuckers may think these people are making a mistake. They ought to value nothing except happiness. But what kind of mistake is it? How will Dolan show that someone willing to trade happiness for success is making a mistake? He does not even attempt to answer this question in his book.

Wangchuckism is a deviation from standard welfare economics. It analyses welfare or well-being (as it is sometimes called) as happiness.

An outcome increases welfare if it makes you happier. And the greater the happiness, the better the outcome. Standard welfare economics instead analyses welfare in terms of people's preferences, whatever they are.

Suppose you prefer apples to oranges. You would be willing to pay £1 for an apple but only 50p for an orange. If you are given your fruit – that is, you pay nothing for it – then you are better off getting an apple than an orange. To be precise, your 'consumer's surplus' from getting a free apple is £1 – this being the difference between what you would be willing to pay for it and what you actually paid for it – and 50p when you get a free orange.

Standard welfare economics thus makes each individual the arbiter of value for himself. It is your willingness to pay for something (combined with what it actually costs you) that determines the welfare it provides you.

Welfare economics itself has nothing to say about what you should or should not want and how much you should be willing to pay for it. Someone who took this view of welfare, and who wanted to maximise welfare, would be inclined to let people make decisions for themselves. When acting on their own preferences, they will maximise their welfare.

By contrast, Wangchuckers see people as acting against their own interests whenever they put something ahead of happiness.

So they will be more inclined to coerce people to act against their own inclinations. They will see this coercion as helping people to overcome preferences that they should not have, to live in a way that will make them happy even if it is not the way they would otherwise choose to live.

SOME PEOPLE ARE WILLING TO TRADE HAPPINESS FOR OTHER THINGS THEY VALUE

And, indeed, Dolan and other Wangchuckers recommend using taxes and other forms of state power to make people lead happier lives.

Parents often tell their children that they do not mind what they do, so long as it makes them happy.

Alas, Wangchuckers do mind what you do, because they think they know what will make you happy, and they believe that happiness is all that matters•

Jamie Whyte

Jamie is a journalist and former Research Director of the IEA

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WHAT'S THE BEST **'FREE-MARKET *BREAKTHROUGH* POLICY'** TO SOLVE THE UK'S HOUSING CRISIS?

THAT'S THE QUESTION WE POSED FOR OUR SECOND ANNUAL **RICHARD KOCH *BREAKTHROUGH* PRIZE**

THE COMPETITION – CARRYING **A FIRST PRIZE OF £50,000** – ATTRACTED OVER 330 ENTRIES FROM AROUND THE WORLD, FROM STUDENTS, ACADEMICS, THINK TANKS, JOURNALISTS AND MORE

THE WINNERS WERE ANNOUNCED AT A **GLITTERING CEREMONY** IN CENTRAL LONDON IN OCTOBER AND THE BEST OF THE ***BREAKTHROUGH* PRIZE** ENTRIES WILL FEATURE IN A FORTHCOMING **IEA** BOOK ***RAISING THE ROOF***

HERE WE HIGHLIGHT THE TWO MAIN WINNING ENTRIES...

BEN CLEMENTS was the £50,000 winner of the 2018 Richard Koch *BREAKTHROUGH* PRIZE.

Here he summarises his winning entry, calling for the release of huge swathes of government-owned land

'The roots of the UK's housing crisis date back to the 1947 Town and Country Planning Act, which created a framework for the strictest planning laws in the OECD.

The Act designated vast swathes of land as 'green belt' and imposed height controls, which have significantly reduced the number of homes being built, especially since the 1970s.

Government interventions to address this – such as the Help to Buy scheme, changes to inheritance tax, and higher taxes on buy-to-let landlords – have made the problems in housing worse, not better.

Indeed, the initiatives have inflated the demand for housing, while having a negligible impact on quantity.

Although government-imposed restrictions have prevented people from getting on to the housing ladder, a number of government departments are among the largest landowners in the UK.

Large swathes of government-owned land are also located in areas where there is a high demand for housing, and there are estimates that public land nationwide could deliver around two million new homes.

Releasing surplus public land would improve access to housing.

I therefore propose the 'Land Purchase Act': a policy that makes underused public land available for housebuilding.

This would involve the government entering into a contract with the occupier, who would take out a mortgage to cover the cost of building a property on the land.

The occupier would decide on the style of house to be built. And they would be given choice over the timescale and structure in which they acquire ownership of the land.

This would include options such as paying rent for the land, purchasing the land at set intervals over time, or buying the land at a discounted rate after living on it for a set period of time.

To ensure the scheme is not captured by short-termist developers, certain safeguards would be put in place. Age, employment status and whether the occupier is a recipient of government assistance related to housing could be included in the criteria.

The policy would also reduce the number of planning restrictions on houses built on land made available under the scheme.

GOVERNMENT INTERVENTIONS HAVE MADE THE PROBLEMS IN HOUSING WORSE

Lowering the cost of housebuilding by removing certain restrictions would make it easier for the new occupier to be approved for a mortgage, ensuring their financial security.

Moreover, targeting those who currently receive government assistance with housing would alleviate the pressure on the existing social housing stock.

A free market in housing is the remedy to the current housing crisis. Removing government restrictions and liberating the market would increase the supply of land, lower the price of acquiring a home and allow people to build homes they want which are aesthetically pleasing.'

LIBERATING the MARKET

THOMAS SCHAFFNER took home two awards in the 2018 Richard Koch *BREAKTHROUGH* PRIZE – winning our STUDENT PRIZE as well as a HIGHLY COMMENDED trophy

His successful entry puts forward measures that would stimulate the supply of land for housing...

'Why do we have a housing crisis?

My essay focused on how restrictions on the market for land have contributed to skyrocketing house prices.

In particular, I looked at how the 'Green Belt' has held down the supply of new homes, and what could feasibly be done to fix it.

Designed to protect rural land from the unrelenting force of urban sprawl, the Green Belt now accounts for 13% of land in England.

Despite its draconian nature, political support for the measure has remained incredibly strong.

Comprehensively liberalising the legislation therefore verges on the politically impossible at present.

THE GREEN BELT NOW ACCOUNTS FOR 13% OF LAND IN ENGLAND

With this in mind, the solution I proposed sought to reform the way in which we protect 'Green Belt' areas, focusing on the externalities associated with house building.

Referred to sometimes as 'Transferable Development Rights' (TDR), the idea draws on the same principles which underlie tradeable pollution permits.

Briefly put, a TDR scheme seeks to create a market where previously none existed. This would involve allowing the rights to limited housing development to be bought and sold, putting a price on the social costs associated with urbanisation.

Ensuring that the developer pays this cost would 'internalise the externality' and fix an instance of market failure.

But how would we go about applying such a scheme to current UK planning law and, in particular, the Green Belt?

We would have to begin by dividing the land into zones, to distinguish protected areas from those which are suitable for house building.

Secondly, TDRs would be allocated to landowners in the protected areas. Thirdly, in order to build in a development zone, one would have to purchase TDRs from those that own them.

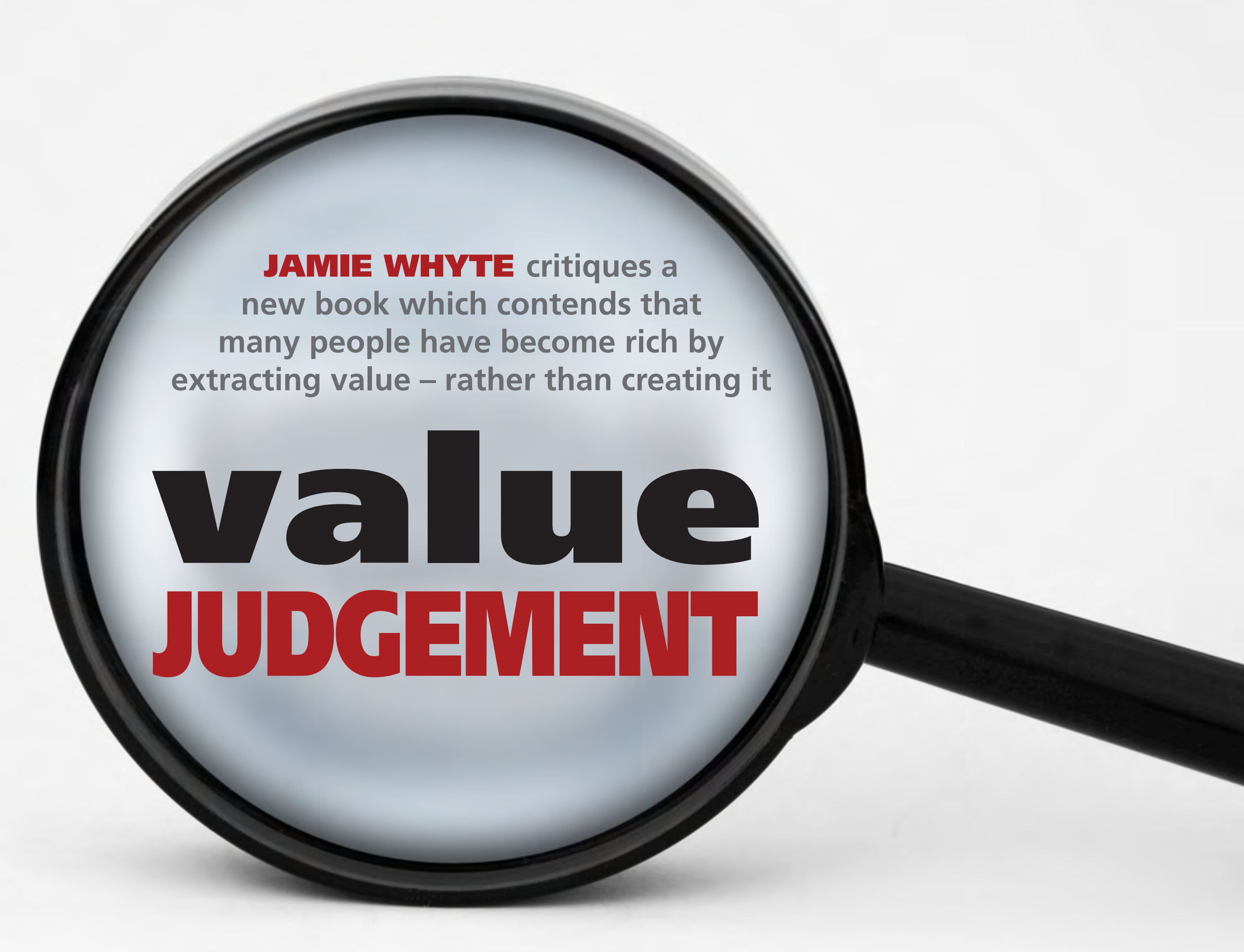
Finally, in order to ensure the market for rights operates efficiently, local authorities would be tasked with facilitating a 'credit bank' system, so buyers and seller can be brought together.

Essentially, a TDR system would create areas of permanent conservation, free up land for development, and simultaneously compensate those affected for the inconvenience of construction.

In economic terms, it seeks to assign the social cost of house building to those responsible for it. In political terms, it gives landowners an incentive to support the reformation of Green Belt land.

Ultimately, adapting our planning legislation in this way might just be necessary in order solve the housing crisis.'

UNBUCKLING the GREEN BELT

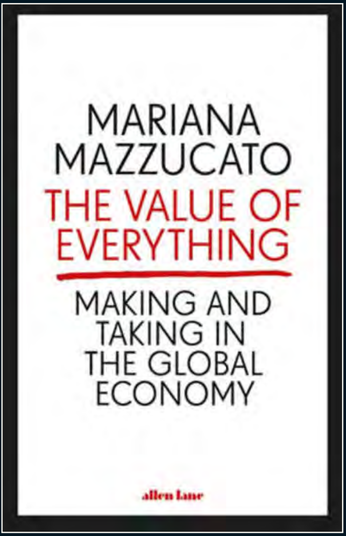


JAMIE WHYTE critiques a new book which contends that many people have become rich by extracting value – rather than creating it

value JUDGEMENT

Mariana Mazzucato is a professor of economics at University College London. She came to prominence following the publication of her 2013 book, The *Entrepreneurial State*, in which she argued for a bigger economic role for the state, claiming that politicians and bureaucrats are more innovative than people risking their own money. According to the *Financial Times*, she contributed to the Labour Party's 2017 manifesto and to the Conservatives' new industrial strategy.

Now she has published another book, *The Value of Everything: Making and Taking in the Global Economy*. Her central thesis is that many people have become rich over recent decades not by creating value but by extracting it – financiers and internet entrepreneurs, among others. We have failed to see this because we are wedded to the false idea that 'price determines value'.



Mariana Mazzucato (2018)
The Value of Everything
London: Allen Lane. pp.358

More specifically, we are fixated on the 'marginalist' theory developed in the late 19th century by economists such as Stanley Jevons and Alfred Marshall (to name just the main English contributors).

Marginalism is the idea that the price of a good is determined by its 'marginal utility' – that is, by the subjective value placed on consuming the next or marginal unit of the good (which declines as the quantity increases) and by its value to the marginal supplier.

The market price is found when the most the marginal buyer is willing to pay is equal to the least the marginal supplier is willing to accept. (Which should make it clear that, contrary to Mazzucato's claim, on this theory, value determines price.)

Refuting marginalism is the main task of Mazzucato's book, not only because its falsity is central to her argument, but because of its near unquestioned status within economics. Anyone who studies Econ 101 and is taught about prices being determined by supply and demand is imbibing the theory. Yet it is difficult to even locate Mazzucato's attempted refutation.

At the beginning of her chapter on marginalism, she suggests that Jevons and the rest were merely doing the bidding of wealthy capitalists: 'Faced with these threats … [from socialist critiques of capitalism], the powers that be needed a new theory of value that cast them in a more favourable light.'

Mazzucato provides no evidence that this was the marginalists' motivation. Yet, even if it were, it is irrelevant. You cannot refute a theory by pointing to the motives of those who developed it.

Later in the chapter, there is a paragraph that seems to be some kind of critique of marginalism. Marginalism, she alleges, cannot 'measure what Smith called 'the wealth of nations', the total production of an economy in terms of value. As value is now a merely relative concept… we can no longer measure the labour that produced the goods in the economy and by this means assess how much wealth was created'.

This is impossible to follow. How does marginalism prevent anyone from measuring the amount of work done in the economy? And how would measuring this work allow us to assess how much wealth was created?

Mazzucato seems to be merely asserting the long-refuted labour theory of value advanced by Adam Smith and Karl Marx. If she gave some new defence of that theory, it might be a decent argument against marginalism. But she doesn't.

The closest Mazzucato gets to providing a positive account of value occurs in a subsection of the introduction entitled, 'What is value?': 'I want to be clear about how these two words are used. I use 'value' in terms of the process by which value is created – it is a flow. This flow of course results in actual things, whether tangible (a loaf of bread) or intangible (new knowledge). 'Wealth' instead is regarded as a cumulative stock of the value already created.'

What does it mean to say that value is a process by which value is created? How can anything be the process by which it is, itself, created? What does it mean to say that value is a flow? Or that wealth is the stock of this flow? It's gobbledygook.

Mazzucato's failure to refute marginalism, or to offer any coherent theory of value of her own, undermines her subsequent claims about who is making and who is taking, who is a producer and who a mere rentier. These assertions are entailed by no theory of value; they are the personal judgements of Mazzucato about who is deserving and who not.

It is ironic, because Mazzucato complains about the subjectivism of marginalism thus: 'If the assumption that value is in the eye of the beholder is not questioned, activities will be deemed to be value creating and others will not, simply because someone – usually someone with a vested interest – says so, perhaps more eloquently than others.'

MAZZUCATO'S FAILURE TO REFUTE MARGINALISM, OR TO OFFER ANY COHERENT THEORY OF VALUE OF HER OWN, UNDERMINES HER SUBSEQUENT CLAIMS ABOUT WHO IS MAKING AND WHO IS TAKING…

This gets marginalism hopelessly wrong. Value is not determined by 'beholders'; it is determined by transactors bearing their own costs. If you pay £6 for a Big Mac meal, that is because it is worth at least that much to you. No beholder with a vested interest deemed it to be worth that much.

It is, of course, Mazzucato who is the beholder deeming what things are really worth. Despite lacking any plausible theory of value, she is so confident in her judgements that she wants the state to force people to allocate resources to her preferred uses.

The Value of Everything is incoherent and authoritarian•

Jamie Whyte

Jamie is a journalist and former Research Director of the IEA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Unlocking Britain's housing crisis

The housing crisis is Britain's most urgent economic and social problem. This is not exactly news, but until serious steps are taken to address it, it cannot be said often enough.

In this sense, Shelter's report '*A vision for social housing. The final report of Shelter's commission on the future of social housing*' is a welcome contribution. As a description of the problem, and of some of its devastating effects on people's lives, this report is spot on.

Unfortunately, it fails to identify the true causes, which renders it ineffective in developing solutions.

Shelter repeats the conventional wisdom that 'the market' simply cannot provide housing. It talks about 'a generation of people failed by the market' (p.183).

The market, it claims, can only build luxury homes for the super-rich, but it cannot work for ordinary people. Only the state can do that.

Shelter therefore demands a large-scale social housing programme, under which the government, with housing associations, would build over three million new housing units over the next two decades.

But Shelter's own data, in the very same report, casts some suspicion on the 'market failure' assertion.

Figure 9 (p.73) shows how much of an international outlier Britain is in terms of house price inflation.

In both the US and in (what is now) the eurozone, house prices have only increased about one-and-a-half-fold, after inflation, since 1980.

In Britain, meanwhile, they have increased three-and-a-half-fold (!!) over the same period.

If 'the market' is to blame – why do we not see the same problem more or less everywhere? Do all these other countries only have state housing?

Absolutely not. In Britain, social housing accounts for one fifth of the total housing stock. By international standards, that is a high proportion.

Shelter mentions social housing in the Netherlands and Austria as positive examples, but fails to mention that these are the only two countries in Europe where the share of social housing is higher than in Britain (with Denmark being about on a par with Britain).

In Germany, where house prices have been flat since 1980, social housing only accounts for one in twenty housing units.

Shelter avoids such comparisons. Instead, it chooses pre-Thatcher Britain as its reference point, so it can peddle the old 'residualisation' hypothesis, which blames the privatisation of council housing for the current malaise.

Social housing is a sideshow. If we want to see the levels of housing affordability that we currently see in places such as Germany, Switzerland and Japan, we need to make it as easy as they do to release new land for development, and to get planning permission for new housing.

If we fail to do that, social housing cannot be a solution, because social housing providers will simply be held back by the same planning constraints and the same NIMBY ('not in my back yard') opposition that currently block private development●

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ZERO or HERO?

Unemployment was the great evil when I was studying for my economics A-level.

In the early 1990s, one in ten people were out of work and unemployment had been the biggest problem in the British economy for a decade. Within a couple of years, however, it began to fade as an issue.

For most of the Blair era it hovered at around five per cent. The Great Recession caused it to jump to eight per cent for several years but it fell sharply again after 2012.

By the end of 2018, the rate of unemployment dropped to just four per cent, lower than at any time since the spring of 1974. With 32.53 million people in work, the employment rate was 75.8 per cent, the highest since records began in 1971.

Some say that Britain's employment miracle is more of a mirage, with full-time jobs being replaced by insecure zero-hours contracts and ‘chronic underemployment’.

The implication is the employment figures have been massaged by including people on zero-hours contracts.

Office for National Statistics (ONS) figures show that there has been a large rise in the number of people who say that they are on zero-hours contracts, from 252,000 in 2011 to 903,000 by 2016.

Most of this increase took place in a single year (between 2012 and 2013) when the term ‘zero-hours contract' began to be used by the media for the first time, so the extent to which the rise was real is debatable.

The ONS concludes that it was 'due mainly to increased recognition and awareness of “zero-hours contracts”’.

Although there is not enough evidence to conclude that there has been a big increase in the number of people on zero-hours contracts, ONS figures suggest that 901,000 people – 2.8 per cent of the total workforce - are on them.

Are they 'chronically underemployed’? It seems not. The average person on a zero-hours contract works 25.2 hours a week. This is 31 per cent less than the average full-time worker, but that is hardly surprising given that two-thirds of people on zero-hours contracts work part-time and nearly a fifth are in full-time education. It is 55 per cent more than the average part-time worker.

Only a quarter of people on zero-hours contracts say that they would like more hours, down from a third in 2014. This is a significant minority, but it is not unusual for workers who do not work full-time to want more hours.

CHRISTOPHER SNOWDON ON ZERO-HOURS CONTRACTS

In the UK, 15 per cent of part-time workers would prefer to be working full-time and the ONS notes that zero-hour contract workers are more likely to want more hours than the average employee but acknowledges that this 'could be linked to a higher proportion of “zero-hours contract” jobs being part-time'.

The average person on a zero-hours contract works longer hours than a part-time employee and although some would like more hours, a growing majority do not.

Even if you take the dimmest view of zero-hours contracts, the number of people involved is simply not big enough to make a significant impact on the employment statistics.

If every zero-hours contract worker who wants more hours was issued to be effectively unemployed - a ludicrous assumption - it would still only take the employment figures back to where they were last September.

Employment would still be at a record high and unemployment would still be at its lowest level since 1975

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TRIFLING with our FREEDOM?

CHARLES AMOS
tucks into a proposed 'pudding tax'

Dr Alison Tedstone, Public Health England's 'Head of Diet and Obesity', has recently proposed a new 'Pudding Tax'.

The justification for this new tax hinges on the idea that obesity is a public health crisis. It also assumes that the government should use any means at its disposal, including the tax system, to overcome this problem.

The first of these ideas contains an implicit assumption, which in itself poses an interesting philosophical question. This is the notion that there is one objectively 'good' lifestyle and body shape to which all people should drive towards. From this, the NHS recommends men consume 2,500 calories per day and women 2,000 calories. Most people take little to no notice of these recommendations. Yet instead of accepting the fact that most people reject their advice, PHE has decided to use more force than ever to perpetuate their Platonic ideal of the 'perfect man'.

The Sugar Tax is the epitome of this paternalist ideology. Taxation is used to manipulate choices to the supposedly objective ends set by PHE. In most cases this end is longevity, something we reject every day of the week and knowingly too, as Christopher Snowdon sets out in his book, *Killjoys*. Ultimately, as Mises would say, value is subjective. Very few people share PHE's lofty ideals. For most of us, drinking a Coca Cola – even if it means potentially shaving a few minutes off our lifespan – is worth the trade-off.

Once we accept paternalism, it becomes almost impossible to reject other authoritarian policies when they emerge. For if tax can be used in principle then why not extend this principle to cover all 'bad' goods? And if each tax increase is designed to reduce consumption of 'bad' goods further still, and if health and longevity is PHE's only goal, then the movement of taxation can only go in one direction.

Already, PHE has called for more central planning to tackle these issues, including zoning bans on fast food outlets. Even more shockingly PHE has proposed outright calorie caps on a range of foods. An onion bhaji could face a cap of 134, well below its current average. In practice, such measures would amount to outright bans on certain foods as we know them, either through recipe reformulation or 'shrinkflation'.

Supporters of the 'Pudding Tax' might talk about offsetting the cost of obesity to the NHS, yet the grounds for such a Pigouvian tax are seriously shaky. Estimates of the net cost range from the NHS's estimate of £6.1bn to the IEA's £2.47bn figure. Some studies have even suggested that obesity saves the taxpayer money due to the premature death of obese individuals.

Let us accept though that there is a cost. Would it justify a 'Pudding Tax'? Either way, the policy sets a dangerous precedent in assuming that the existence of socialised healthcare represents a valid reason for eroding individual liberty. Following the logic behind the 'Pudding Tax' to its full conclusion would result in no choice, no personal responsibility and no freedom. The public health movement's current direction of travel is clear – first, tax 'bad' food, then regulate it, then ban it outright.

Unless the principles behind paternalism are challenged, and those of liberalism firmly asserted, the road to total control is clear. Freedom is now under threat●

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This article was written by Charles during his spell as an intern at the IEA. He's currently planning to study PPE at university. Read more about our internships in **CAMPUS** *on page 29*

Our student programme is kindly supported by **METRO BANK**

SMART TALKING...

Thought-provoking economists, the **best and brightest young people**, and talks looking at what the future holds and how creativity and innovation have helped halve world poverty in recent decades…

… all in one place on **Saturday July 6, 2019** at the **Royal Geographical Society, London**.

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Speakers will include renowned U.S. economist **THOMAS HAZLETT**.

Thomas is author of the bestseller ***The Political Spectrum*** (hailed as 'a masterpiece of wisdom and wit') and directs the Information Economy Project at Clemson University, South Carolina.

At **THINK**, he'll discuss the seeds of the smartphone revolution – and the amazing future of the wireless world.

If you want to find out more, or want to buy tickets – **on sale now at a cheaper price and for a limited time only!** – please visit **thinkiea.com**

Look out for more on **THINK** 2019 at **www.thinkiea.com**!

ON the MARCH!

This month sees us travelling to schools right across the country.

Sixth Form A-Level and IB Economics students will have the chance to hear from top economists on topics as varied as 'Robots and Jobs: see it from an economist's point of view', 'Is there such a thing as the gender pay gap?', and 'Market failure and government failure: The case of healthcare'. **These conferences are FREE to attend.**

We're also staging conferences in the autumn. If you're interested in attending one – or you would like to host a conference at your school – please contact Ralph Buckle: **rbuckle@iea.org.uk.**

SCHEDULE

SPRING

Tonbridge School, Kent	Monday March 11
Stowe, Buckinghamshire	Thursday March 14
New Hall School, Essex	Thursday March 21
Harris Westminster Sixth Form, London	Thursday March 28

AUTUMN

Simon Langton School, Canterbury	October TBC
Ardingly College, West Sussex	Wednesday October 9
Loretto School, East Lothian	Friday November 8
Southend High School for Boys	November TBC
Notting Hill and Ealing High School	Friday November 29

DOES THIS WORK for YOU?

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We provide a dedicated one-week internship at our offices in London especially for sixth formers.

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WHAT THEY SAY:

'I believe I've come out more knowledgeable and with friends from all over the country. I'd like to thank the IEA for the outstanding internship you provided.'
– IEA sixth form intern, July 2018

'I've very much enjoyed this internship – it's been an invaluable experience I'll never forget.' – IEA sixth form intern, July 2018

'It was a very informative and enjoyable experience; I met many like-minded people who I'm sure I will be friends with for life. I thoroughly enjoyed learning more about the IEA and gained invaluable knowledge from all the lectures.'
– IEA sixth form intern, July 2018

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Visit www.iea.org.uk/essay-competition/ to find this year's question and details on how to enter.

There are also three runner up prizes of £250 each and a £500 prize for the school with the highest number of entries. **The deadline is Friday July 26 2019**.

The ASCENT of DISSENT

STEVE DAVIES examines expression – and its costs…

In theory most people welcome the idea of free speech and discussion.

This means accepting, even welcoming, dissent, disagreement, and debate and the expression of views and positions in various ways, even if we find those views or their expression disagreeable.

Right now however, there is warm debate about this very matter with people asserting an almost unlimited right to free expression on the one hand or arguing that in fact expression should be limited in the interests of a higher good, such as autonomy or well being.

This finds expression in controversies and even court cases over particular instances that then go on to attract media attention.

It might seem that this is a matter for the philosophers, and a difficult one at that, as it deals with clashing rights or claims.

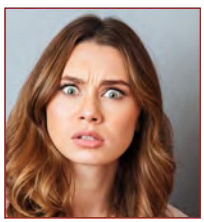
In fact there are a number of basic rules that we can all use to parse particular situations, which derive from basic law and economics. The outcome however will probably not please either side of the current debates.

The default position should be that all adults have an entitlement to hold views and express them.

However that right is not unlimited. Obviously it does not extend to speech acts that incite criminal acts or ones that provoke reckless and risky behaviour. This has been recognised in law for centuries.

Does that mean that apart from that there is or should be no limit on expression? Not so fast.

At this point property rights come into play. There is no unqualified entitlement to expression on someone else's property.



WHAT WE CAN SEE ON THE WEB TODAY IS AN ERUPTION OF INCIVILITY AND VERBAL AGGRESSION … NOT DIALOGUE OR DEBATE BUT ABUSE

I may say what I like in my own home. If I say something in someone else's home that they find offensive they are perfectly entitled to ask me to cease or leave.

This means a private company can restrict expression by its employees on its premises. In particular it means a university has every right to impose speech codes on its staff and students. (Given a university is a self-governing private body). The same applies to private associations or clubs.

This also means that people acting as agents of a private body (the Church or a company, university or club for example) are entitled to express their views by for example refusing to serve people with whom they disagree. (What they cannot do is do so simply on the basis of someone belonging to a particular category such as ethnicity, political opinion, or religion – there should be something pertaining to that particular person that gives proper cause for the action).

A common objection to the way that rights of property and association limit entitlement to expression is to say that this is an attack on free speech.

This reflects a common misunderstanding, which economics makes clear.

All actions have effects and those may bring costs as well as benefits. In this case people are assuming that not only is there a right to expression but also that as an aspect of that right speech acts should not bring any negative consequences or costs to the person making them.

A moment's reflection should show this is a ridiculous position. If I say things that others find rude or aggressive I will bear a cost, which is that other people will think I am an ass and avoid my company.

You are perfectly at liberty to express yourself but this may bring serious costs such as being shunned or losing your job – and there is nothing wrong with that.

None of this justifies using force or threats against people whether before or after the expression in question. However this will mean that the cost of expressing beliefs can be high.

However, if discussion is limited in this way ideas will not be tested by debate as much as they need to be and new ideas will not develop as much as we would like.

From an economist's point of view this is hugely important because of the central place of innovation in economic growth.

The solution is to have spaces and institutions where people can say what they think without the cost being too high. These can be both formal and informal.

The obvious formal example is universities and other institutions of learning.

What then about the well-founded complaints that higher education lacks intellectual diversity? The answer is that this is a problem of aggregation. Any one university can be committed to a particular set of values and intellectual approach.

A Catholic university should not be expected to allow arguments that go against the Church's teaching, given that the mission of such a university is, inter alia, to teach the faith.

What you should have is a variety of approaches at different institutions. The problem now is not lack of intellectual diversity in any particular higher education institution but lack of it between them and in the sector as a whole.

internet. This shows the need for the final and self-imposed constraint on expression, which is civility. What we can see on the web today is an eruption of incivility and verbal aggression. What happens is not dialogue or even debate but abuse.

THE SOLUTION IS SIMPLY GOOD BEHAVIOUR – CIVILITY, RESPECT AND ENGAGEMENT

What though about informal public spaces where private property constraints do not apply and the effects of shunning are less?

Historically places such as coffee houses and (later) pubs filled this role (with the same proviso as applies above to higher education).

There have also been public spaces controlled by government but these have always been regulated (for good reasons, to do with public order).

Today however we have the

This has the effect of driving polarisation into just two bitterly opposed camps.

The reason is the dynamic, which is an example of the dynamic of conflict first identified by the economist Thomas Schelling.

In this, extremists are normally constrained by checks. If they are not, a situation arises where moderate people just to one side or other of the divide find themselves gravitating to one extreme to get protection from the other.

This explains how stable societies collapse into civil war but it also explains how discussions can turn into shouting matches.

The solution is simply good behaviour – civility, respect for the other and engagement rather than abuse.

If enough people do this then dissent does not necessarily mean a huge row. For that to happen though we all have to make the effort•

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SOUNDBITE

Robust and razor sharp views

What's GOOD for the GOOSE...

CHRISTOPHER SNOWDON takes a gander at tax revenues and the Laffer Curve

If taxation is about plucking the most feathers from the goose with the smallest amount of hissing, as Jean-Baptiste Colbert famously said, the Laffer Curve tells us when the hissing gets too loud.

Devised by the economist Arthur Laffer, the curve shows how tax revenue rises as the rate of tax increases. Eventually, however, revenues reach a point at which further tax rises bring in less money. This may seem paradoxical, but it doesn't take much imagination to see how it could happen. A tax rate of zero on a product produces no revenue but an infinite tax rate also produces no revenue because nobody is able to afford it. Working backwards from infinity, there must be a sweet spot (from the government's perspective) at which the tax rate is high enough to produce large revenues without being so high that it excessively dampens demand.

This is not a theoretical proposition. Laffer Curves can be spotted in the wild. In 2011, Ireland's Office of Revenue Commissioners noticed that revenue from tobacco duty was declining and concluded that: 'It seems likely that a Laffer type effect exists in the cigarette market in Ireland and the current level of taxation may be beyond the optimum. Therefore higher tax rates (higher prices) will lead to lower tax revenue.' For decades, governments have been able to grow their revenue from tobacco, despite the number of smokers falling, by putting up the tax rate, but this has reached its limit in many countries, including Britain where revenues peaked in 2012 and have fallen every year since.

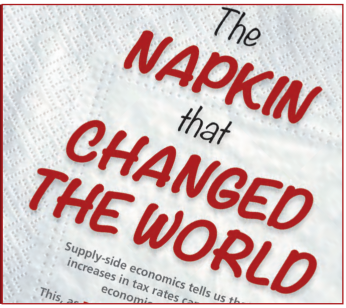
Dwindling tax revenues are not necessarily a bad thing when the intention of the tax is to discourage consumption,

FOR MORE

The original Laffer Curve arose from a discussion between Art Laffer and US government officials Dick Cheney and Donald Rumsfeld in the 1970s.

Laffer famously scribbled down his new theory on a napkin to illustrate his argument. To find out more, read 'The Napkin that Changed the World' at:

iea.org.uk/wp-content/uploads/2017/03/EA-SPRING-2017-TAX_NAPKIN.pdf



as it is with cigarettes, but less revenue does not necessarily mean people are avoiding the product. They might just be avoiding the tax.

Take Estonia, for example, which learned its lesson the hard way when it introduced some sharp tax hikes on alcohol. Between 2016 and 2018, spirits duty rose by 30 per cent, wine duty rose by 50 per cent and beer duty doubled. The result? Estonians travelled to neighbouring Latvia for their booze shopping while people from Finland, who had long made the trip to Estonia to buy cheaper alcohol, also went elsewhere. When the Estonian government announced the tax rises, it expected alcohol revenues to rise from €251 million in 2016 to €276 million in 2017. In fact, they fell to €229 million. In 2018, alcohol revenues were 30 per cent lower than expected, losing the treasury €101 million. This sobering experience led the government to drop plans for further tax hikes on alcohol in 2019 and 2020.

If the tax rate is on the wrong side of the Laffer Curve, lower taxes are a win for taxpayers and a win for tax collectors. This, too, has been seen in the wild. When Ronald Reagan cut corporation tax in 1986, revenue rose and exceeded projections of what it would have been had the old tax rate been kept in place. This was no fluke. Economic evidence suggests that most of the cuts to corporation tax seen around the world since 1986 have led to a rise in tax revenue because they incentivise inward investment and stimulate GDP.

The lesson here is not that governments should always aim for the peak of the Laffer Curve. Taxation should be based on what the state needs to spend, not what it can squeeze out of the public. But it is senseless to go beyond the inflection point. A hissing goose is likely to run away●

TAXATION SHOULD BE BASED ON WHAT THE STATE NEEDS TO SPEND, NOT WHAT IT CAN SQUEEZE OUT OF THE PUBLIC

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DESIRABLE OR DAMNED?

Can the renationalisation of key utilities – such as the water industry – ever work, asks LEN SHACKLETON

Economics students have long been taught that privatisation of the UK's state-controlled industries in the 1980s and 1990s boosted productivity and consumer choice.

Where privatised businesses possess some monopoly power, or where there are significant externalities, they should be regulated, perhaps, but otherwise the market should rule.

This may soon change. Shadow Chancellor John McDonnell confirmed at the 2018 Labour Party Conference that his party intends to bring water, energy, Royal Mail and railways back into public ownership should it win the next election. Opinion polls suggest this is popular with the public.

Some economists have advocated nationalisation where there are 'market failures' such as externalities, information problems or 'natural' monopolies (where economies of scale, possibly the result of 'network effects' mean that the market becomes dominated by one producer).

However, these arguments were rarely used when the big burst of nationalisation happened in the 1940s.

Politicians argued that nationalisation could increase efficiency by cutting duplication (for example, railway routes) – or simply asserted a belief that common ownership was a good thing in itself.

Under nationalisation, an industry's assets were vested in a board, rather than coming under the direct control of a government minister. Boards operated on a 'top-down' basis: there was no question of nationalised industries being directed by the workers.

There were several recurring problems. One was instability of investment, requiring government spending: it was usually easier, in times of economic downturn, to cut this rather than welfare benefits. Another was frequent changes of direction as ministers came and went.

Lack of competition, and the fact that businesses could not go bust, meant little incentive to innovate and meet consumer needs, while powerful trade unions enforced over-staffing and raised pay above private sector levels.

Consequently, the financial and productivity performance of many industries was poor, and deteriorated over the 1960s and 1970s.

Under Margaret Thatcher and John Major, privatisation meant that the public sector shrank dramatically in size. The 1997-2010 Labour governments didn't try to reverse this trend.

However, railway infrastructure was taken back into public ownership (as Network Rail) after the collapse of the privatised Railtrack, and Gordon Brown's administration nationalised a number of banks and building societies after the financial crisis of 2008.

Generally, though, privatisation has been seen as a success both in Britain and abroad; the Thatcher/Major reforms were copied in many countries.

But there has always been left-wing opposition, and with changes of leadership in the Labour Party there has been a resurgence of belief in nationalisation.

This has been boosted by the failings of some privatised industries. Although railway passenger numbers have increased dramatically and investment has risen, commuters have reacted against rising fares and service disruptions.

In the water industry, prices have risen, infrastructure renewal has been slow and some water businesses have a poor record on reducing leakages. Similarly, energy prices have risen sharply and complicated tariffs have confused customers.

Some of these problems have been caused by poor regulation rather than anything privatised businesses have done. Others are the direct result of government policy.

LACK OF COMPETITION, AND THE FACT THAT BUSINESSES COULD NOT GO BUST, MEANT LITTLE INCENTIVE TO INNOVATE AND MEET CONSUMER NEEDS

Rail fares have increased faster than inflation because politicians of all parties wanted to reduce taxpayer subsidies. Electricity prices have been pushed up so that we can move to renewable energy (usually more expensive than coal-fired power stations).

Mr. McDonnell promises that renationalisation will avoid the errors of the past, and will be based on new forms of organisation.

For example, he envisages a network of regional publicly-owned water companies run by local councils, trade union and worker representatives and customers, with 'unprecedented levels of openness and transparency'.

Whether this would overcome the systemic problems of public ownership remains to be seen●

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FURTHER READING

W. L. Megginson and J. M. Netter (2001) 'From State to Market' *Journal of Economic Literature* 39 pp. 321-389.

House of Commons Library Briefing Paper CB8325 (2018) *Public ownership of industries and services.*

From GOOD BUY to GOODBYE?

KATE ANDREWS
on the challenges facing Britain's high streets

Generally speaking, it's good practice to leave the past in the past.

But sometimes it's inevitable you'll look back, especially when the cold facts of last year could shape your following year – and the years to come.

This is the position the high street finds itself in, as reports of retail sales were released this January for 2018, published by KPMG with the British Retail Consortium.

The figures are bleak, highlighting a poor period of Christmas trading and raising yet more questions about the future of consumption and the value of bricks-and-mortar shops to British customers.

Some have argued that the stagnation in retail sales is a symptom of the Brexit negotiations – which, regardless of your stance on the topic, has admittedly been a bumpy ride.

There may be some truth in this – businesses despise uncertainty, and it can affect the habits of customers as well.

But to frame the high street debate in the context of Brexit is to overlook the major driver of last year's Christmas downturn: the rise of online shopping, which has transformed the way customers consume goods, throwing a spanner in the works for our traditional way of life.

Online shopping is convenient, efficient, and an extremely effective way of getting your goods or presents from point A to point B.

Understandably, customers like it – and are indicating to us through their choices in the market that online shopping is the way of the future.

'One in every five pounds spent in UK shops is now online,' according to the *Daily Telegraph* – a record that is only set to increase.

And while some traditional high street businesses are feeling the benefits too (online sales for Marks & Spencer increased by 14 per cent in the weeks leading up to Christmas), they are still taking a hit from the decline in in-store purchases.

As the overall picture looks increasingly bleak for physical shops, it is understandable that frustrations with Britain's tax system are on the rise.

An outdated system of business rates and prolonged failures with corporation tax do put high street shops at a disadvantage, and these should be addressed for the sake of businesses and consumers alike.

Indeed, it seems inconsistent (and a product of a tax code behind the times) that online giant Amazon was revealed earlier this year to have paid only £63m in business rates in 2018, despite reporting UK sales of close to £9bn.

What we must avoid, however, is a race to the bottom for all retailers.

Rather than dragging Amazon into a tax war with John Lewis, business rates need to be overhauled and reformed, to allow shops to become increasingly competitive with the newer, mainly online options.

The high street won't find salvation by fighting a losing battle against online shopping. Nor is there a fixed, one-size-fits-all model for what the high street should look like. Transforming to cater to the local needs of residents is the most certain way to keep high streets vibrant places.

But it should be the market, not the state, that determines whether it's shops, restaurants, cafes, experience-driven outlets, or more homes that occupy this space – and it must happen organically, not though a government-led drive to pick winners and losers.

Last year's Christmas figures should be a warning to the high street, but let's refrain from panic.

The goal should be to have the best options for consumers at their fingertips, and this surely will involve the high street in new and innovative ways. The real mistake would be to treat them, and protect them, as if they are relics of the past●

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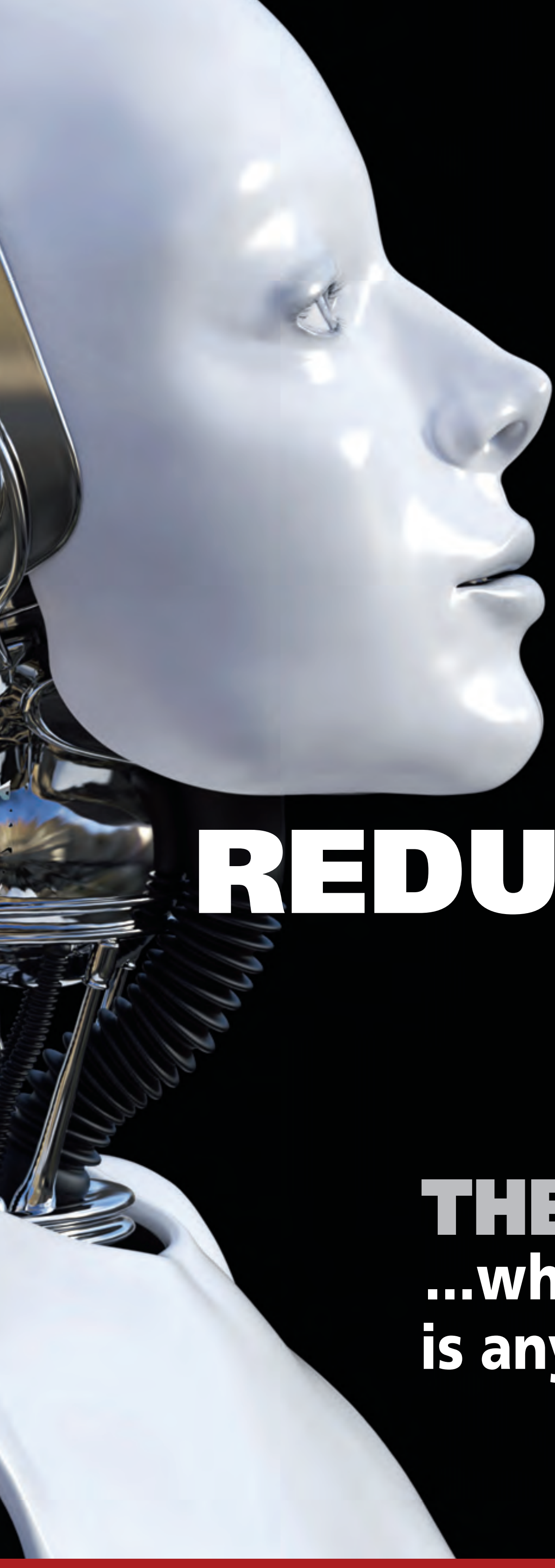
This is based on an article by Kate which originally featured in CITY A.M.



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