



From the **Institute of Economic Affairs**

Inside

EXECUTIVE PAY

Are **CEOs** paid too much?

ATTITUDES

MATT RIDLEY
ponders people
and pessimism

RADICAL IDEAS

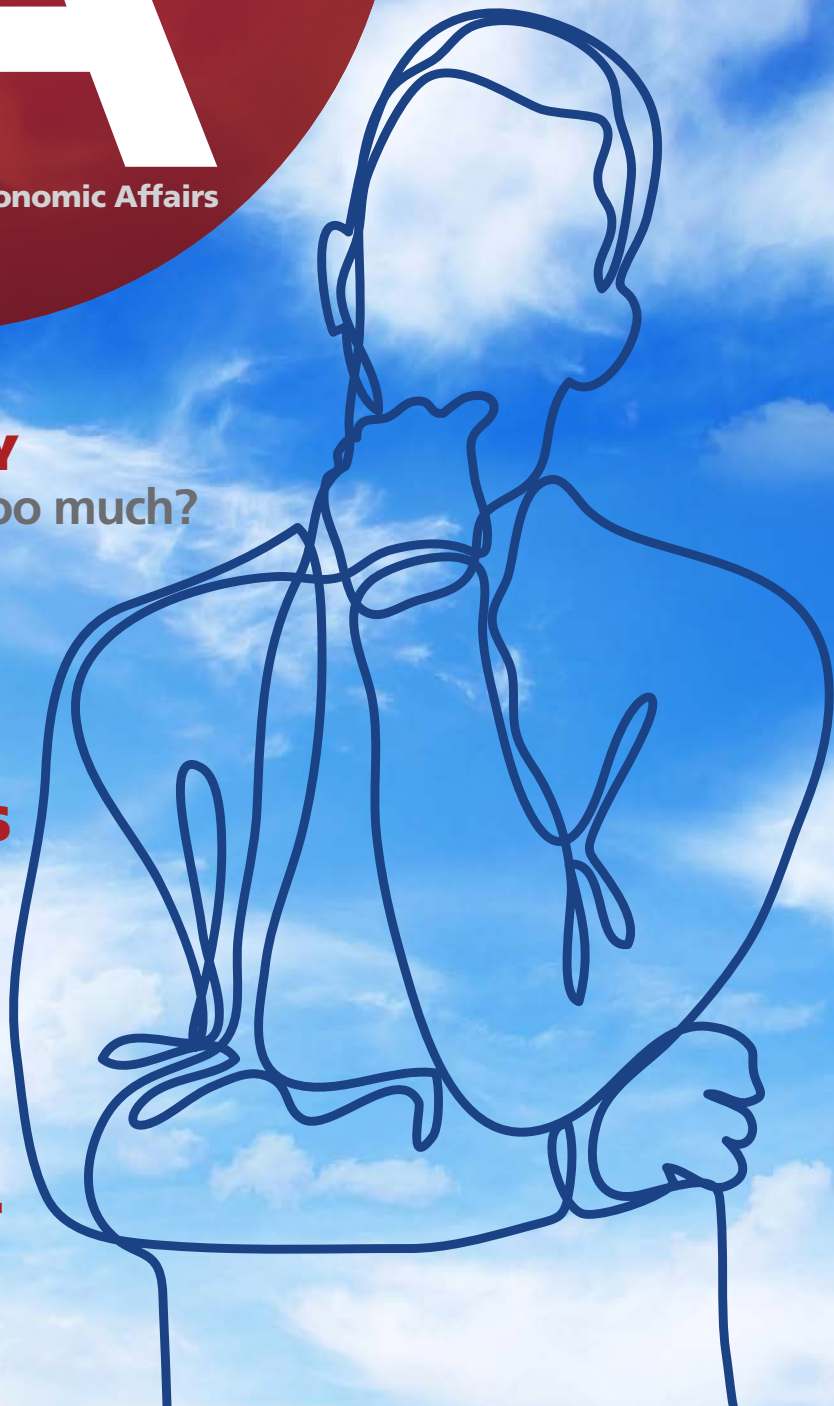
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leaders

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PROPERTY**

Whose **idea**
is it anyway?



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WELCOME

It may be very early in the school year, but it won't be long before **exam fever** kicks in – with your parents and teachers no doubt coercing you to concentrate on **getting results**.

To that end, this autumn edition of **EA** features a special four-page article on **How to get an A* grade** in your A-level economics (starting on page 16). Written by teacher and examiner George Vlachonikolis, it contains a **host of tips and tricks** to help you **get that coveted A***.

But George is also at pains to point out that making your mark in economics isn't all about exam technique. Spending time **exploring the subject** will also **pay dividends** – and this edition of **EA** lets you do just that.

In **Top Dogs & Fat Cats** we tackle the controversial topic of **high pay**. Are CEOs paid too much? Are sports stars over-rewarded? Just some of the questions we ask from page 4 onwards.

In **Whose idea is it anyway?** (page 13) we step into the debate on **Intellectual Property** – with two IEA staffers putting forward their **radically differing views**.

Elsewhere, **acclaimed author Matt Ridley** asks why bad news is deemed to matter, whilst good news is readily dismissed. Find out more in **Why the gloomy face?** starting on page 7.

All that, plus articles on the **radicals** who've shaped thinking on everything from **feminism** to the **role of government** (**School of Thought** page 10) and **China's rapid rise** in economic and political power (**The China Syndrome** page 20). And, as they say, **much more**.

I hope this all makes for an **A* edition** of **EA**!



Glynn Brailsford
Editor
September 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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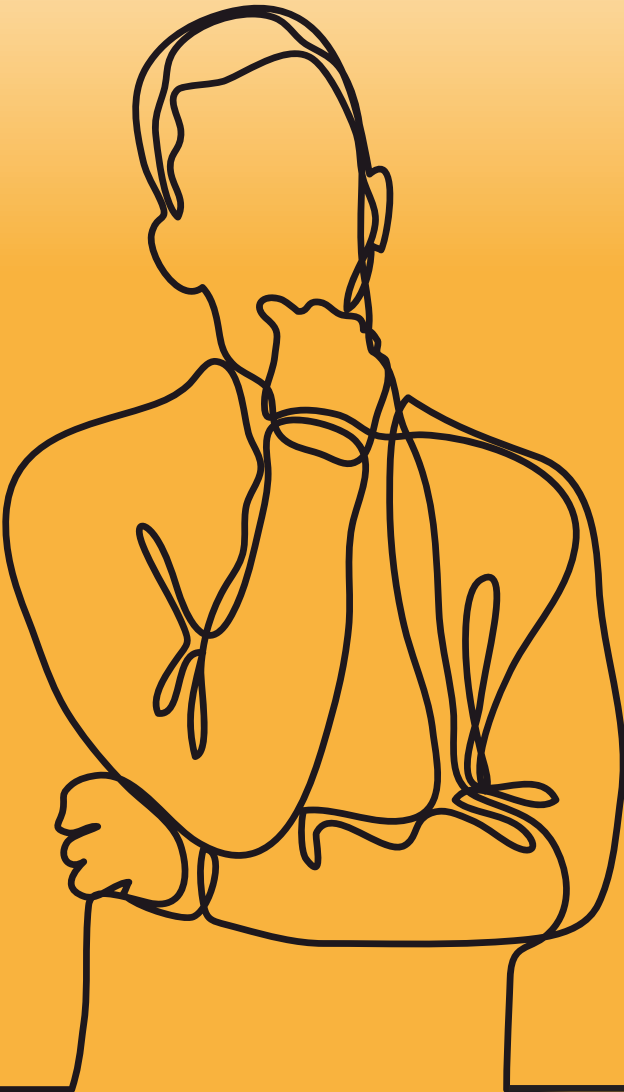
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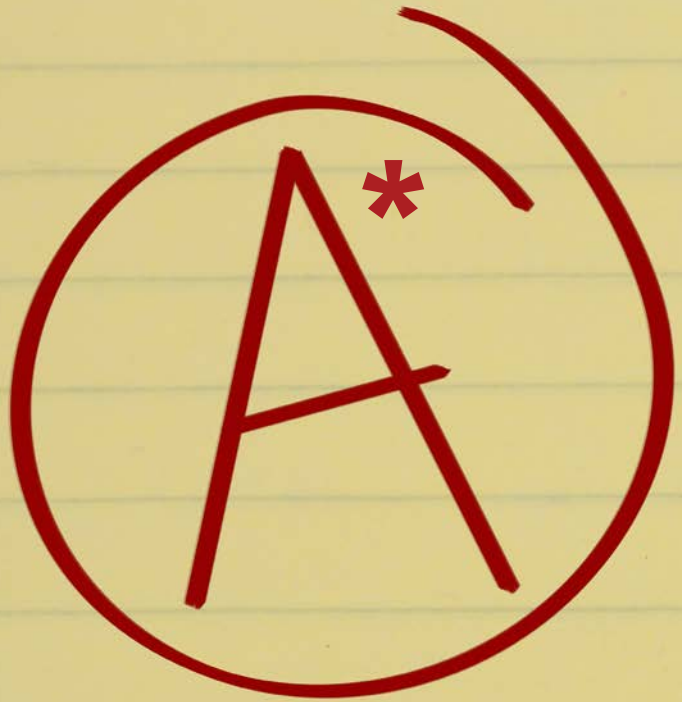


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Getting top marks

How to get that coveted A* star grade
in your A-Level economics essay – from
examiner **GEORGE VLACHONIKOLIS**

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TOP DOGS & FAT CATS



Are CEOs paid too much? **LEN SHACKLETON**
explores the debate on high pay

The apparent excesses of some company pay structures have fuelled intense political debate recently.

Over the last twenty years, top pay has risen much faster than average levels of pay, share prices and other key indicators, as the chart below illustrates.

Why is this, and is there some sort of “market failure” requiring government action?

According to Luke Hildyard of the High Pay Centre (a pressure group for reform), although rising pay for Chief Executives (CEOs) may partly be the result of increasing global competition for top talent, it may also be a result of rigged markets.

We may be experiencing what critics call “crony capitalism” – where business and government are too close, allowing company bosses to gain favourable access to contracts and get an easy ride from regulators, protecting them from competition and unfairly boosting profits.

Hildyard also argues that the ultimate providers of capital – the owners of company shares

– would prefer to see more modest levels of executive pay.

But they are separated from the operation of corporations by a web of financial advisors, asset managers and pension funds. These intermediaries are themselves highly paid and see no problem in paying company executives generously.

It is often asserted that CEO pay bears little relationship to company performance – the “rewards for failure” argument. As Professor Alex Edmans of the London Business School reasons, this claim requires rather more sophisticated econometric analysis than is usually employed by activists and the media.

Using such analysis, it seems that in reality pay does react to changes in performance. CEOs who perform badly do suffer financially – though Edmans points out that it is their wealth rather than their income which is affected, as much of their pay takes the form of company shares and share options (the right to buy shares on favourable terms) which lose value with poor performance.

While he believes strongly

in the reform of company pay, Professor Edmans argues that compulsory disclosure of CEO/average pay ratios (imposed by Theresa May, who felt strongly on this issue) can lead to the wrong conclusions and have unintended consequences which may harm workers. For example, firms may outsource low-paid work to improve their showing on these indicators.

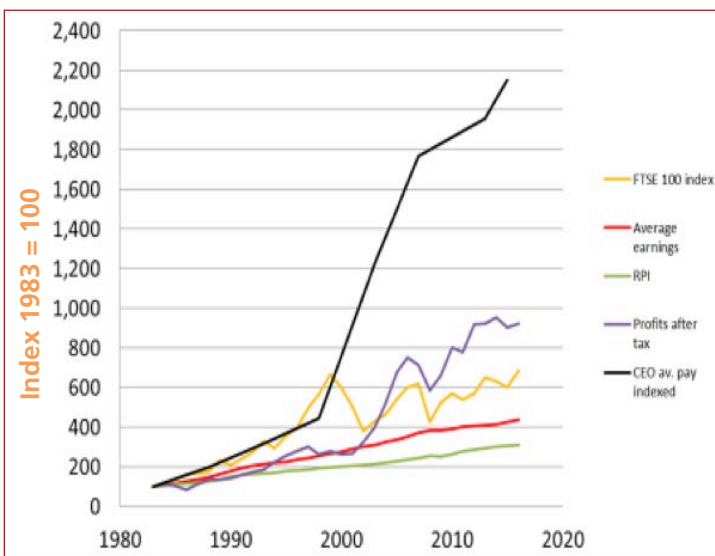
Edmans argues that reform efforts should focus on simplifying the often complicated structure of remuneration schemes, rather than the absolute level of chief executive pay.

He wants pay to simply be in cash and shares with a long holding period. And if shares can at the same time be awarded to employees, they will gain in line with CEOs, which will help address concerns about fairness.

Some defenders of high pay point to the big gains in the value of company shares associated with the reputation of top executives. When Tidjane Thiam left his job as CEO at Prudential in 2015 to join Credit Suisse, the Prudential share price fell by 3.1%, knocking £1.3 billion off the firm’s value. At the same time, the Credit Suisse share price rose by 7.8%, adding £2 billion to the company’s value.

Others dismiss the idea that the search for rare talent justifies high CEO pay, pointing out that most companies promote their CEOs from within the company.

Luke Hildyard argues that long-established successful businesses (as opposed to entrepreneurial start-ups) are built on effective organisational systems rather than the abilities of the current incumbent CEO, who therefore has in many cases rather little influence over a company’s success.





FOR FURTHER DISCUSSION

- Discuss possible reasons why pay for CEOs of big companies has outstripped average pay in recent decades.
- What skills are required to head a major international company? Why do you think 40% of FTSE-100 companies were headed by a non-UK national in 2017?
- What do you think would be the consequences of imposing a “pay cap” on UK-based companies?
- Why do you think the public seems less bothered by high pay for entrepreneurs and top footballers than for CEOs of top businesses?

In the last few years we have moved from cross-party neutrality about the acceptability of high pay – most famously summed up by former Labour minister Peter Mandelson being “intensely relaxed about people getting filthy rich” – to Conservative minister Caroline Nokes recently asserting that no one should get a salary of more than £1 million a year.

Opposition leader Jeremy Corbyn and Shadow Chancellor John McDonnell have at various times proposed giving workers a direct say in executive pay in large companies through requiring worker representation on boards, and to impose pay caps (maximum ratios of top pay to that of the lowest paid) on the public sector, on utilities such as energy and water which they hope to renationalise, and on firms working on government contracts. Survey research suggests that Mr Corbyn’s proposed pay caps are supported by a considerable majority of the public.

But governments need to be careful in how they react to populist calls for action. The public are often concerned about ‘fairness’ rather than anything else – why should bosses be paid so much more than others?

Even amongst those opposed to high pay, concern is oddly

selective. While executives of FTSE-100 companies are targeted by critics, private equity businesses and entrepreneurs seem to get a free pass – as of course do other high earners such as footballers, musicians and movie stars.

If “fairness” is the criterion, perhaps the tax system is a better way of dealing with it than giving the state power permanently to fix pay ratios or even pay caps.

Government interventions always bring with them the risk of “government failure”, where policies exacerbate rather than resolve concerns, or generate new problems.

The publication of pay ratios may encourage FTSE companies to delist and new businesses to register outside the UK. Companies may try to “game” pay ratios by outsourcing particularly low-paid jobs, or by reducing the use of performance-related pay for executives.

More radical measures such as imposing worker

representation on boards may increase trade union influence over company strategy and thus inhibit rapid change and restructuring, with consequent negative effects on productivity in the long run.

Imposing pay caps or maximum pay ratios will squeeze pay distributions within organisations, with negative effects on the pay of middle management and functional experts such as accountants and engineers.

In the case of international businesses, it could make it difficult to retain top foreign executives, who currently make up a high proportion of FTSE-100 leadership.

So the issues are not clear-cut and deserve more careful consideration than they are often given•

Len Shackleton

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FOR MORE

TOP DOGS & FAT CATS, a collection of essays exploring the debate on high pay, is available for **FREE DOWNLOAD** at www.iea.org.uk/publications/top-dogs-and-fat-cats



WHY THE GLOOMY FACE?



MATT RIDLEY, acclaimed author of *The Rational Optimist*, on why people tend to be irrationally pessimistic...

Has the percentage of the world population that lives in extreme poverty almost doubled, almost halved or stayed the same over the past 20 years?

When the Swedish statistician and public health expert Hans Rosling began asking people that question in 2013, he was astounded by their responses.

Only 5% of 1,005 Americans got the right answer: Extreme poverty has been cut almost in half. A chimpanzee would do much better, he pointed out mischievously, by picking an answer at random. So people are worse than ignorant: They believe they know many dire things about the world that are, in fact, untrue.

Before his untimely death in 2017, Rosling (with his son and daughter-in-law as co-authors) published a magnificent book arguing against such reflexive pessimism. Its title says it all: *Factfulness: Ten Reasons We're Wrong About the World – and Why Things Are Better Than You Think*.

As the author of a book called *The Rational Optimist*, I'm happy to include myself in their platoon, which also includes writers such as Steven Pinker, Bjorn Lomborg, Michael Shermer and Gregg Easterbrook.

For us New Optimists, however, it's an uphill battle. No matter how persuasive our evidence, we routinely encounter disbelief and even hostility, as if accentuating the positive was callous. People cling to pessimism about the state of the world.

John Stuart Mill neatly summarised this tendency as far back as 1828: "I have observed that not the man who hopes when others despair, but the man who despairs when others hope, is admired by a large class of persons as a sage." It's cool to be gloomy.

Studies consistently find that people in developed societies tend to be pessimistic about their country and the world but optimistic about their own lives. They expect to earn more and to stay married longer than they generally do.

The Eurobarometer survey finds that Europeans are almost twice as likely to expect

their own economic prospects to get better in the coming year as to get worse, while at the same time being more likely to expect their countries' prospects to get worse than to improve.

The psychologist Martin Seligman of the University of Pennsylvania suggests a reason for this: We think we are in control of our own fortunes but not those of the wider society.

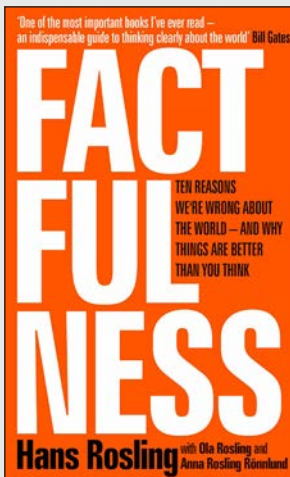
There are certainly many causes for concern in the world today, from terrorism to obesity to environmental problems, but the persistence of pessimism about the planet requires some explanation beyond the facts themselves. Herewith a few suggestions:

Bad news is more sudden than good news, which is usually gradual. Therefore, bad news is more newsworthy. Battles, bombings, accidents, murders, storms, floods, scandals and disasters of all kinds tend to dominate the news. "If it bleeds, it leads", as they used to say in the newspaper business.

By contrast, the gradual reduction in poverty in the world rarely makes a sudden splash. As Rosling put it, "In the media the 'newsworthy' events exaggerate the unusual and put the focus on swift changes".

Plane crashes have been getting steadily scarcer, but each one now receives vastly more coverage.

This is part of what psychologists call the "availability bias", a quirk of human cognition first noticed by Amos Tversky and Daniel Kahneman in the 1970s. People vastly overestimate the frequency of crime, because crime disproportionately dominates the news. But random violence makes the news because it is rare, whereas routine kindness doesn't make the news because it is so common.



Bad news usually matters; good news may not

In the prehistoric past, it made more sense to worry about risks – it might help you avoid getting killed by a lion – than to celebrate success. Perhaps this is why people have a "negativity bias".

In a 2014 paper, researchers at McGill University examined which news stories their subjects chose to read for what they thought was an eye-tracking experiment. It turns out that even when people say they want more good news, they are more interested in bad news: "Regardless of what participants say, they exhibit a preference for negative news content", concluded the authors Mark Trussler and Stuart Soroka.



People think in relative not absolute terms

What matters is how well you are doing relative to other people, because that's what determined success in the competition for resources (and mates) in the stone age.

Being told that others are doing well is therefore a form of bad news. When circumstances get better, people take those improvements for granted and reset their expectations.

Such relativising behaviour affects even our most intimate relationships. An ingenious 2016 study by David Buss and colleagues at the University of Texas at Austin found that "participants lower in mate value than their partners were generally satisfied regardless of the pool of potential mates; participants higher in mate value than their partners became increasingly dissatisfied with their relationships as better alternative partners became available". Ouch.

As the world improves, people expand their definition of bad news

A recent finding by the Harvard psychologists David Levari and Daniel Gilbert, known as "prevalence-induced concept change", suggests that the rarer something gets, the more broadly we redefine the concept.

They found in an experiment that the rarer they made blue dots, the more likely people were to call purple dots "blue", and the rarer they made threatening faces, the more likely people were to describe a face as threatening.

"From low-level perception of color to higher-level judgments of ethics", they write, "there is a robust tendency for perceptual and judgmental standards to 'creep' when they ought not to".

Consider air travel: Plane crashes have been getting steadily scarcer – 2017 was the first year with no commercial passenger plane crashes at all, despite four billion people in the air – but each one now receives vastly more coverage. Many people still consider planes a risky mode of transport.

We're even capable of fretting about the bounty of prosperity, as "Weird Al" Yankovic highlights in his clever song, "First World Problems": "The thread count on these cotton sheets has got me itching/My house is so big, I can't get Wi-Fi in the kitchen".

Sheena Iyengar of Columbia Business School became a TED star for her research on the debilitating modern illness known as the "choice overload problem" – that is, being paralysed by having to choose from among, say, the dozens of types of olive oil or jam on offer at the supermarket. North Koreans, Syrians, Congolese and Haitians generally have more important things to worry about.

Other psychological effects apply as well. There is a tendency to remember the good things about the past and to forget the bad, a phenomenon known as the "reminiscence bump": People have rosy nostalgia about the days of their youth, whatever it was actually like. There is also the vested interest that pressure groups have in selling bad news in exchange for donations.

Finally, there is what I call "turning-point-itis". This is the tendency to think that things may have improved in the past but will no longer do so in the future, because we stand at a turning point in history.

It's true, as brokers like to say, that past performance is no guide to future performance. But as the historian Lord Macaulay wrote almost two centuries ago, "On what principle is it that with nothing but improvement behind us, we are to expect nothing but deterioration before us?"

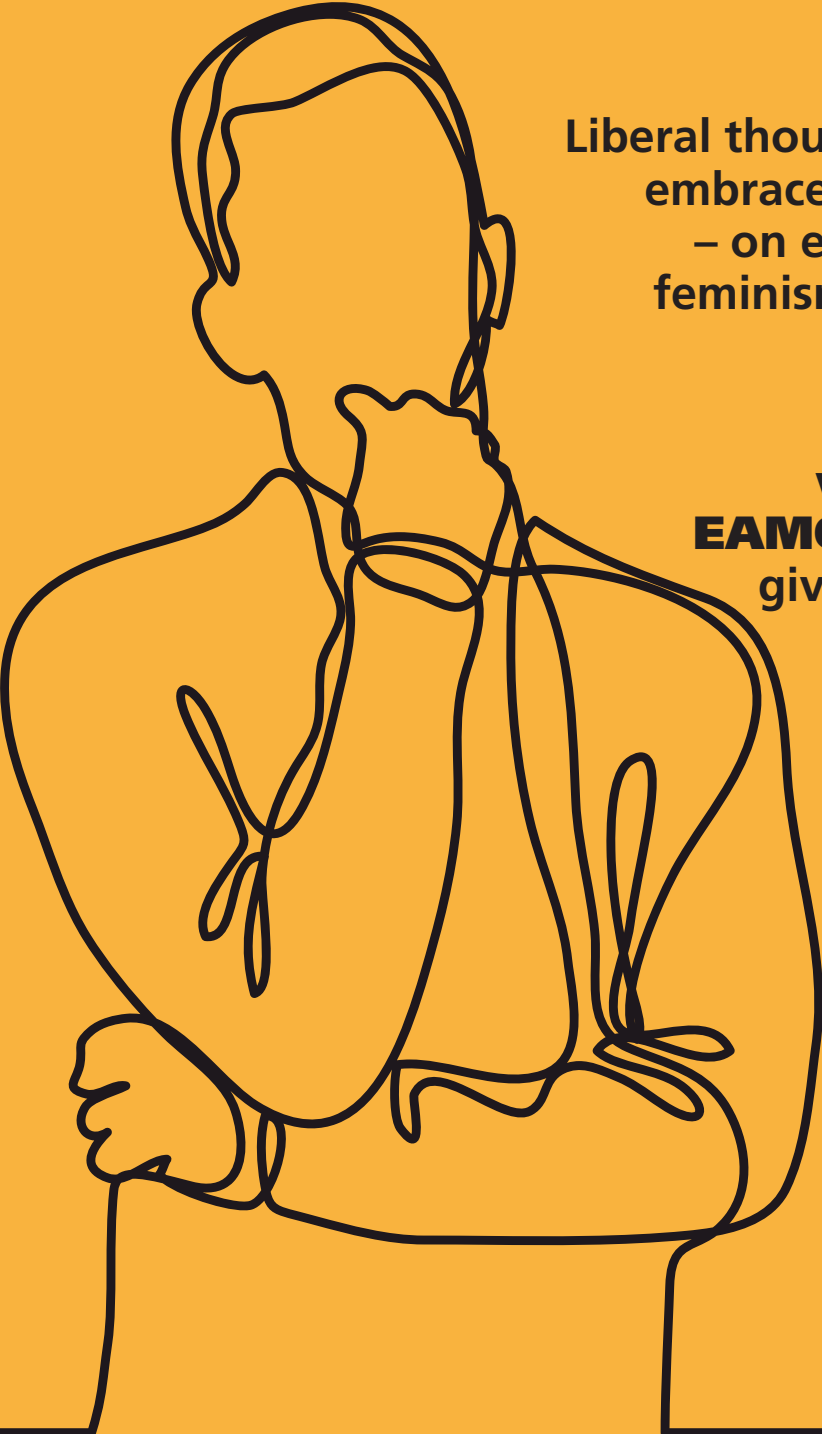
So cheer up. The world's doing better than you think.

This article originally appeared in the *Wall Street Journal*.

You can read more from Matt Ridley at www.rationaloptimist.com

And look out for Matt's forthcoming IEA book, *HOW MANY LIGHTBULBS DOES IT TAKE TO CHANGE THE WORLD?*

SCHOOL OF **THOUGHT**



Liberal thought has always embraced radical ideals – on everything from feminism to the role of government

Here, award-winning author **EAMONN BUTLER** gives us a glimpse of his latest book, which profiles the lives and ideas of some of the leading thinkers on individual liberty – from ancient times to the present day

What exactly is classical liberalism? What do liberals believe? What are the key social, political and economic issues they have debated and thought about? What does it mean to be a ‘liberal thinker’? And who are the greatest liberal thinkers of all time?

These questions are answered in my new book, *SCHOOL OF THOUGHT – 101 great Liberal thinkers*.

In it, you will find famous names like Pericles of Athens, John Milton, David Hume, Adam Smith, Thomas Jefferson, John Stuart Mill, F. A. Hayek and Ayn Rand, all of whom advanced the ideas of personal and economic liberty – as well as less familiar ones such as Asoka the Great, John Lilburne, Josephine Butler and Harriet Martineau, who all played their part.

Liberal thinking is not something confined to Britain or America, as some critics suggest. As we make our way through the great liberal thinkers, we find them in ancient China, India, Greece and Rome; in France, Germany, Italy, Finland and other countries of Enlightenment Europe; in nineteenth-century Australia and Austria.

For each I list their main contributions to liberal thought – the role of government and the limits to state power, the opposition to arbitrary taxes, individual rights, the due process of law, competition and the division of labour, the spontaneous order of a free society, free trade, free speech, property, liberal feminism, prison reform, constitutions and much more.

And I list their key outputs – Jefferson’s drafting of America’s Declaration of Independence,

for example, or John Locke’s *Letter Concerning Toleration*, or Alexis de Tocqueville’s *Democracy in America*.

Then I explain very briefly – this is the ultimate liberal crib book – their background, the issues they faced, their main ideas and the impact of those

Then there is William Godwin, who started life as a church minister but ended up an anarchist. A friend of the Romantic poets Coleridge, Byron and Shelley, his scandalous activities and ideas made him famous – or notorious. He called for the complete overthrow of



THERE IS A WIDE SPREAD OF COLOURFUL IDEAS IN THE CLASSICAL LIBERAL SPECTRUM – RANGING FROM ANARCHISTS AT ONE END TO “SOCIAL LIBERALS” AT THE OTHER

ideas both at the time and on our lives and thought even today.

Take the Chinese scholar Zhuang Zhou, who lived 24 centuries ago. He argued that human knowledge is limited and that human values are individual and personal. So no authority can wisely or humanely interfere in people’s lives and business. The world, he said, “does not need governing; in fact it should not be governed”.

Or the Anglo-Dutch author Bernard Mandeville, who in a scandalous but witty satire on eighteenth-century life, argued that society rested on self-interest rather than benevolence – and that rather than try to curb such “vices” we should in turn channel them to become “publick benefits”.

law, property and politics, insisting that government promotes only ignorance and dependence.

Or his wife Mary Wollstonecraft, who argued that the education system was holding back women by schooling them to be good companions for men, rather than free and independent individuals.

And there is the twentieth-century American libertarian Isabel Paterson, a *New York Herald Tribune* columnist, who showed that the fastest-growing countries were those whose economic and legal principles allowed individual creativity to flourish. She also argued that monopolies grew out of privileges conferred on firms and individuals by government.

There is also the Anglo-Austrian philosopher Sir

Karl Popper, who in his 1945 book *The Open Society and its Enemies* considered how a tolerant society should deal with those who would destroy toleration.

He chided social scientists for focusing on groups and “historical laws” rather than individuals, the real source of all action. And he observed that the main political question was not “Who should rule?” but how we can prevent rulers from doing too much damage.

Plainly, there is a wide spread of colourful ideas in the classical liberal spectrum,

individuals have purposes and interests, only individuals do things.

Classical liberals are tolerant of others, and believe that people have to deal with others, despite their differences – rather than trying to force them into conformity. They want to minimise coercion.

While some liberal thinkers see no use for government at all, most believe that the state has an important – but strictly limited – role. It exists to defend individuals against violence and theft from others at home or abroad, and to


orderliness, of a spontaneous society. Nobody consciously invented markets, money, language or justice: they have simply evolved and persisted because they have served us well.

Given our limited knowledge, consciously trying to redesign society is a fairly sure way to ruin society. In the social sphere, that means maximising freedom of action. In the economic sphere it means free markets with the minimum of intervention and regulation.

Being sceptical about power and the likely self-restraint of those who are given it, classical liberals call for strict limitations on the state – what it can do, and how it can do it. They much prefer the organising ability of civil society – the clubs, associations, unions, religions, schools, online communities, campaigns and charities that bring people together for their common purposes.

That, after all, is what everyone on the left and the right say they want. But the spontaneous collaboration of free individuals achieves it much less clumsily than any centralised government ever could.

We owe a lot to the classical liberal thinkers of the past 24 centuries. Just how much? You will have to read the book •



CONSCIOUSLY TRYING TO REDESIGN SOCIETY IS A FAIRLY SURE WAY TO RUIN SOCIETY

ranging from anarchists at one end to “social liberals” at the other. So what do they actually agree on?

They start from the idea that we should try to maximise individual freedom. As John Locke pointed out, the whole point of government is to set people free, not to control them.

They disagree on the role of the state but believe that people should be restrained to the very minimum that is necessary. They also see individuals as more important than collectives. Only

dispense justice when violence is used. They also believe in the rule of law – that laws should apply equally to everyone, so that those in power cannot use the law to further their own interests.

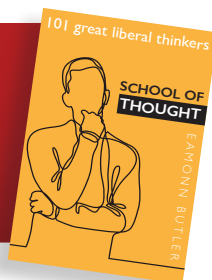
Classical liberals understand the creative power, and the

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FOR MORE

You can download *SCHOOL OF THOUGHT – 101 great liberal thinkers* FOR FREE at:

iea.org.uk/wp-content/uploads/2019/08/Great-Liberal-Thinkers-Interactive.pdf



FACE OFF

Whose **IDEA** is it anyway?



Intellectual Property (**IP**) is a controversial topic in today's knowledge-based society

Overleaf IEA staffers **CHRIS SNOWDON** and **STEVE DAVIES** go head-to-head on the importance – or otherwise – of protecting people's ideas



Economic liberals do not question the importance of property rights to the free market.

The idea that we have exclusive ownership over our material possessions is so instinctive that it almost feels like a law of nature. It is not.

Societies have existed without them in the past and revolutionaries spent much of the twentieth century trying to get rid of them. Property rights were not handed down by God but were created by mankind because they confer a number of practical benefits, not only for the property owner but for everybody.

Entrepreneurs tend not to invest in countries where there is a possibility of confiscation by arbitrary and capricious government. Without the guarantee that you can keep what you have produced, there is little incentive to create. If you can't profit from your brilliant invention, why bother being an inventor?

Strong property rights, and a clean legal system to enforce them, are at the heart of successful capitalism. They are one of the reasons why Britain has been an attractive place to do business since

IP: THE CASE FOR...

the 18th century.

Intellectual property is less tangible than conventional property– you cannot hold it in your hand – but it is no less important in providing security, incentivising innovation and promoting creativity.

Why write a book if it is going to be republished on a website for free? Why spend millions of dollars developing a new medicine when it is going to be copied by a rival pharmaceutical company immediately? Why spend years building a strong brand when a fly-by-night company can plaster your trademark over their products?

I am in the fortunate position of being paid to write

enough to be inventors or poets in their spare time. But most people work to put food on the table. Without the financial incentive to create, less will be created.

We can argue about what form intellectual property rights should take. Perhaps the existing system makes life too easy for patent trolls. Perhaps 75 years is too long for a song to remain in copyright.

But there should be no argument over the basic principle that people should be rewarded for ideas that make the world a better place. By the same token, individuals should not be allowed to profit from stealing other people's work.

Intellectual property rights

PEOPLE SHOULD BE REWARDED FOR IDEAS THAT MAKE THE WORLD A BETTER PLACE

books by a think tank which then gives them away for free. Most authors are not. Some bands are so successful that they can make a living from concerts and not worry about their music being pirated. Most are not.

There will always be people who create for the love of their art. There will always be a lucky few who are rich

are no more artificial than conventional property rights. Both serve the same ends: they give innovators, artists and inventors the security they need to produce work that benefits us all•

Christopher Snowdon
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Intellectual property (mainly patents and copyright) is an incoherent idea, is not needed, and is increasingly damaging. We should be trying to severely cut it back or even scrap it.

Intellectual property is not like other kinds of property, not least because it is time limited (unlike e.g. property in land). If treated like other kinds of property it leads to bizarre results such as perpetual copyright. Moreover, ideas are inherently not scarce, so a major justification for property is absent.



IP creates a time limited monopoly. This creates a monopoly rent for the holder – by design. Monopoly rents reduce general economic welfare so this requires a justification. The justification is that without the incentive of the time-limited supernormal profits created by the IP there would not be an incentive to create innovations and artistic works.

IP: THE CASE AGAINST

In other words, without IP there would be much less creativity and innovation (there would still be some but much less). This is an empirical claim but the evidence does not support it.

Firstly, there is the evidence of periods and countries where such protection was absent or limited, such as the nineteenth century.

At that time patents and copyrights could only be enforced in the country that granted them and many jurisdictions (Italy for example) did not have a patent regime. Despite that we do not see lower levels of innovation than we have now, if anything the opposite.

The case that there is a positive tradeoff between the costs of an IP monopoly and the benefits of higher innovation is weak to non-

existent, by imitation, copying, and amendment of ideas, technologies and literary forms. IP stops this process and in the form it has taken over the last 30 years actually inhibits innovation.

Instead it creates monopolies with a powerful incentive to stop others amending or improving the patented technology and it leads to damaging activity such as patent trolling. The relentless extension of copyright terms by the US Congress is actually inhibiting the diffusion and exchange of ideas and art.

What we should be thinking about is at least severely reducing the scope of IP. Patent and copyrights should be limited to a short period, say six years, never more than ten.

We should revert to only granting them for genuine innovations, not amendments or tweaks, and we should stop the creep by which patents are awarded for pure knowledge or ideas rather than (as originally) applications of ideas.

We should think very seriously about abolishing IP altogether. If there is a need for an incentive for innovation this can be provided easily by things such as prizes, whether publicly or privately funded.

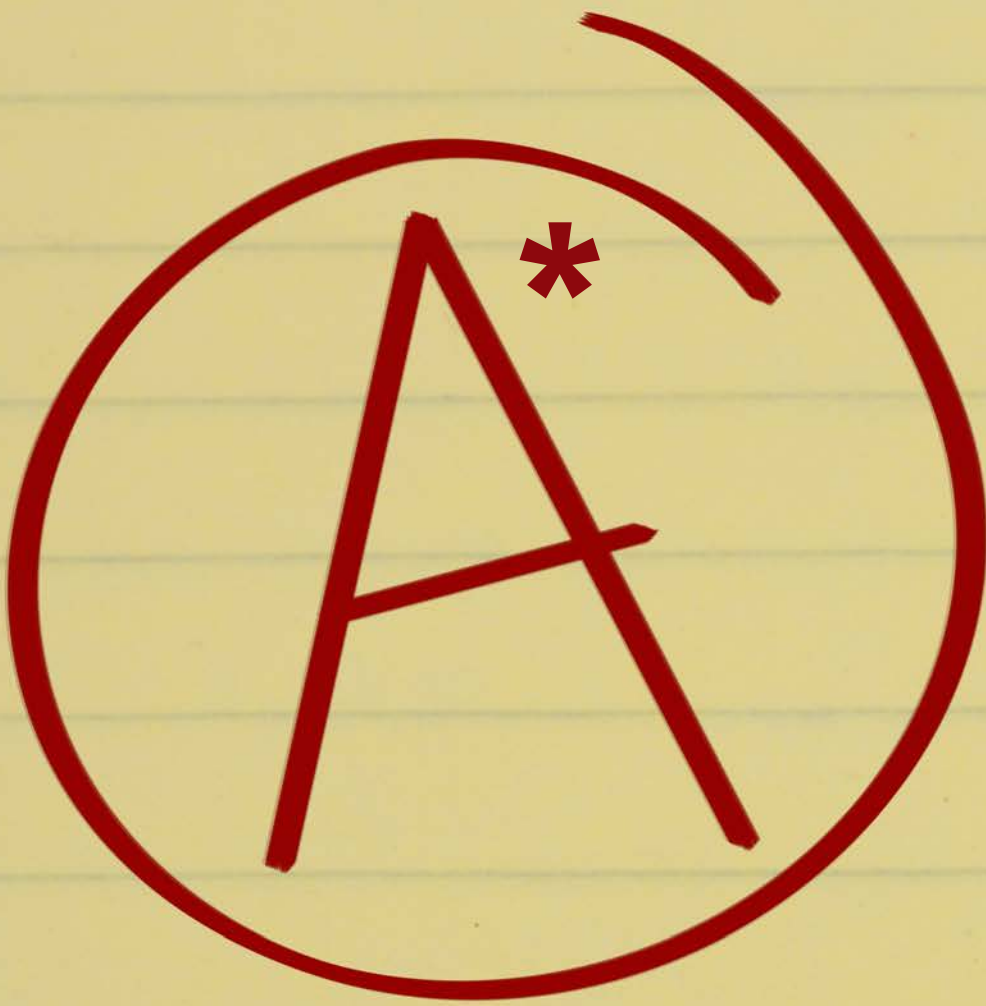
IP is an idea that has shaky foundations, does not bring the benefits that are claimed and even if it were useful once, is increasingly a dangerous force in the world and an obstacle to true innovation and progress.

Steve Davies

Head of Education

Institute of Economic Affairs

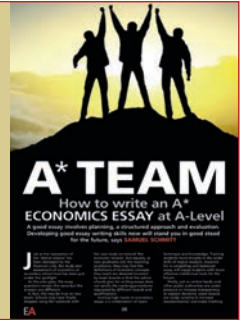
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OUR GUIDE TO

GETTING
TOP MARKS
IN YOUR A-LEVEL
ECONOMICS ESSAY

BACK IN 2015, EA FEATURED AN ARTICLE ON HOW TO WRITE AN A* ECONOMICS ESSAY AT A-LEVEL. STUDENTS AND TEACHERS TOLD US IT WAS REALLY USEFUL – SO HERE WE REVISIT THE TOPIC WITH THIS UPDATED AND EXPANDED GUIDE TO GETTING THAT COVETED A*



Some things don't change. The central theme of our 2015 article was that scoring high marks in essays is "a combination of exam technique and knowledge". And that holds true today.

The author of the original article, Sam Schmitt, focussed on the idea that not all exam boards are the same; so the onus is on teachers and students to "read the specifications, examiner reports, and any other guidance they may get hold of" in order to understand how to satisfy the criteria of their exam board.

Four years on, it remains abundantly clear that essays matter. A lot.

In 2019 over 30 000 candidates sat the A-Level Economics exam. The vast majority of those candidates sat their exams with the exam board behemoths of Edexcel and AQA. For Edexcel, a third of its entire marks (100 marks out of 300) come from essays.¹ For AQA, the ratio is higher: 125 marks out of 240. When grade boundaries are often determined by less than 10 marks, it is vitally important to get your essay-writing skills right.

What is an essay?

Essays have always been part and parcel of economics. Despite the ever-increasing

mathematicisation of our subject, any economist worth their salt must be able to communicate ideas verbally. With that in mind, principal examiners use essays to test points of theory in depth and to test candidates' ability to write at length. They can achieve the same from a data paper, but essays allow more abstract questions to be asked which might be a bit awkward on a case-study paper.

How do I get full marks?

You don't. Almost no-one gets full marks. A* candidates manage their time

appropriately and spend just enough time on every question in the exam. There is no point spending 60 minutes trying to achieve 25/25 in the essay if the opportunity cost of that decision is to ignore the 30 multiple-choice questions in Section A.

Instead, candidates need to understand how to obtain "top level" marks as efficiently as possible so they have time to move on to the rest of the paper.

Edexcel and AQA (as well as Eduqas and OCR) employ a "levels-marking system" for essays.² That is: they describe the criteria for different levels of marks and the examiner

AQA DESCRIPTORS

Level of response	Response	Max 25 marks
5	<p>Sound, focused analysis and well-supported evaluation that:</p> <ul style="list-style-type: none"> is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors includes good application of relevant economic principles and, where appropriate, good use of data to support the response includes well-focused analysis with clear, logical chains of reasoning includes supported evaluation throughout the response and in a final conclusion 	21–25 marks

EDEXCEL DESCRIPTORS

Level 4	13–16	<p>Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.</p>
Level 3	7–9	<p>Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.</p>

¹ An essay, for both Edexcel and AQA, is considered to be a long-answer 25 mark question.

² As opposed to a point marking system for other, shorter questions – often calculations.

makes a judgement about which level the candidate's answer sits in best. These are known as descriptors.

Each exam board has its own unique descriptors and teachers and pupils alike should become familiar with them. Although essay questions change, the descriptors for what constitutes an excellent essay do not. The descriptors for AQA and Edexcel are shown on p17.

These descriptors are generated from the 4 Assessment Objectives (AOs) that we have all come to know and love from the 2015 Specification

changes. A 25 mark essay carries marks in all 4 AO areas: knowledge, application, analysis and evaluation.

Tricks for teachers

Until such time as there is a Specification review,³ Edexcel and AQA are unlikely to deviate from this marking system. To do so would leave them open to accusations of shifting the goalposts and putting candidates at a disadvantage.

The trick then is to come up with a "structure" for students that will enable them to satisfy

all the top level descriptors quickly: AO1 –tick; AO2- tick; AO3 – tick; AO4 – tick. All chopped-up into examiner friendly blocks. This approach works. But be warned: it can be super-dull to teach!

How to tick the boxes

Imagine an essay question on 'the impact of monetary policy on the UK economy'. Students can build their answers one AO at a time. Here is my suggestion for one block of AO1-AO4:

AO1	If the Bank of England increases interest rates then the Pound should appreciate.
AO1 and AO2	If the Bank of England increases interest rates then the Pound should appreciate. In 2018 the Bank of England raised the Bank Rate from 0.5% to 0.75% (an increase of 0.25 percentage points). As a result, it was expected that the Pound should appreciate
AO1, AO2 and AO3	If the Bank of England increases interest rates then the Pound should appreciate. This is because the increase in interest rates will incentivise people to save their money in UK banks; the reward for saving is greater. Therefore, people from outside of the UK are more likely to buy Pounds. As a result, the demand for pounds on the Foreign Exchange (FOREX) market increases and this puts upwards pressure on the price of the pound which increases its value. This is shown in my diagram below. In 2018 the Bank of England raised the Bank Rate from 0.5% to 0.75% (an increase of 0.25 percentage points). As a result, it was expected that the Pound should appreciate.
AO1, AO2, AO3 and AO4	If the Bank of England increases interest rates then the Pound should appreciate. This is because the increase in interest rates will incentivise people to save their money in UK banks; the reward for saving is greater. Therefore, people from outside of the UK are more likely to buy Pounds. As a result, the demand for pounds on the Foreign Exchange (FOREX) market increases and this puts upwards pressure on the price of the pound which increases its value. This is shown in my diagram below. In 2018 the Bank of England raised the Bank Rate from 0.5% to 0.75% (an increase of 0.25 percentage points). As a result, it was expected that the Pound should appreciate. However, the Pound is unlikely to appreciate to a significant degree. In fact, it may not appreciate at all. Firstly, the increase in the Bank rate is very small (just 0.25 percentage points) and so it is unlikely that people will buy significant amounts of pounds just because of that small increase in reward for saving. 0.75% is still very low, especially when compared to the US Fed's Fund Rate which is over 2%. In addition, the lack of business confidence in the UK economy at the moment – caused by fears over Brexit – means that the demand for the Pound may not increase as much as expected either.

³ Which may be sooner than we think

How to achieve a “top level marks” essay ...

- **AO1** – You must show precise knowledge.
- **AO2** – You must apply the answer to the context. Avoid pre-rehearsed, generic answers.
- **AO3** – Your analysis must have clear, logical chains of reasoning and be well-focussed (i.e. use economic concepts and link back to the actual question)
- **AO4** – You must show supported evaluation throughout and have an informed final judgement that builds on previous analysis (i.e. a nuanced conclusion).

Tricks for students

- Don't regurgitate your notebook; you must answer the specific question being asked.
- Paragraph your work so it's easy for the examiner to see where one block of AO1-AO4 ends and another starts.
- AO2 and AO4 should not be separate. They should be integral to every block.
- Offer at least two AO1-AO4 blocks for an essay – this will demonstrate a range of points. If time permits, you should offer three.⁴
- At the end of the essay, you must offer a conclusion which itself builds on the blocks above. It should not be a summary, nor should it introduce new material. It should link back to

the preceding blocks and offer a nuanced judgement on the question, e.g. 'short-run v long-run', 'yes but not always', 'not in all countries'. A throwaway sentence or two at the end will not do!

Teachers' note

The approach I've described here will work but – in truth – I'd rather it didn't.

The disadvantage of the level-based system is we find ourselves, as economists (and as time-poor teachers!), demanding efficient essay templates which satisfy the descriptors and can be drilled into our students.

But economics essays really should be about more than

this: Using templated essay structures squeezes out reward for flair and original thinking – something we should be encouraging just before our students head off to university.

There is a time to drill but there is also a (lot of) time to debate, create and explore our subject with our students.

Students' note

As I've just said above, the approach I've outlined here will work – so I hope it helps you create that A* grade essay.

But, along the way, I hope you develop a deep love of economics – a fascinating discipline that can provide real and lasting insights into human behaviour.

Take the time to explore the subject. Ultimately it will benefit you at exam time – and far beyond.

Good luck!•

George Vlachonikolis
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Headington School
Principal Examiner

FOR MORE

You can read our original article on how to join the A* Team at: iea.org.uk/wp-content/uploads/2016/08/EA-Spring-2015_WORKSHOP.pdf



⁴ The benefit here is that if one block is not top level, then there are two other opportunities to be considered top level.



The **CHINA** **SYNDROME**



China's membership of the World Trade Organization (WTO) has helped drive huge expansion of trade for Beijing – but it hasn't brought about the domestic freedoms the West believed would follow

STEWART PATERSON's new book paints a sobering picture of this new era – and illustrates the danger it poses for China itself – and for other countries' freedoms and growth

The decisions in the late 1990s that led to China's accession to the WTO in 2001 have been called the height of the great optimism.

China joined because western governments believed membership and the closer engagement it would necessitate would mean democratic capitalism – or at least freer markets leading to freer politics – sweeping China soon enough.

As former US President Bill Clinton put it: "By lowering

the barriers that protect state-owned industries, China is speeding a process that is removing government from vast areas of people's lives.

"In the past, virtually every Chinese citizen woke up in an apartment or house owned by the government, went to work in a factory or farm run by the government, and read newspapers published by the government... That system was a big source of the Communist Party's power."

Advocates of WTO membership and Permanent

Normal Trade Relations with China claimed membership would mean continual political opening – a "one-way street". Tariffs would be steadily cut, intellectual property protected.

Stewart Paterson's *China, Trade and Power: Why The West's Economic Engagement Has Failed* asks why it hasn't turned out this way.

In this well-researched book, Paterson's condemnation of western policymakers' naivety, and the results for the political atmosphere of western

countries, is severe. What has gone wrong?

The collapse of the Soviet Union told the Chinese Communist Party that despite reform at home, continued economic isolationism would exact a heavy price. WTO non-membership was limiting foreign direct investment and technology transfer.

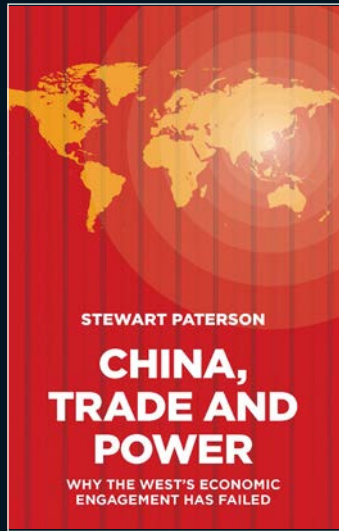
Indeed, the first ten years after Chinese WTO accession saw Foreign Direct Investment (FDI) triple; the Chinese share of world manufacturing expanded four-fold as the country became the world's largest manufacturer.

By 2007 China had surpassed the United States as the world's largest exporter; China's exports that year, at \$1.2 trillion, were larger than its entire economy just seven years before. A rules-based system and legal level playing field would surely follow.

In historic terms the change in attitude has been sudden. Paterson describes growth achieved not by "market forces to allocate resources efficiently [but] economic nationalism that harnessed some aspects of a market [and] societal goals set by a central government."

The loss of (some) jobs in the West has been exacerbated by China's policies aimed at artificially inflating manufacturing (the US lost five million manufacturing jobs in 2001-6; in Mexico, average monthly manufacturing wages were \$2 per hour in 2000; in 2016 they were still \$2 per hour). The mercantilist charge sheet is lengthy.

An undervalued Renminbi (the Chinese currency) has bolstered exports, suppressing domestic demand for foreign goods. That intellectual property infringement has long been a feature of



**CHINA, TRADE AND POWER:
WHY THE WEST'S ECONOMIC
ENGAGEMENT HAS FAILED**

Stewart Paterson
London Publishing
Partnership, 2018

technological catch-up says little of its possible impact in the context of an expansionist China:

"The advertising of Johnnie Walker Red Labial 'Scotch' whisky is amusing... 'Heimekem' lager may not be as refreshing as the real thing... but the remarkable similarity between the American F35 stealth jet fighter and the Chinese J-31 is more sobering".

Yet domestically, these anti-competitive distortions tell us that if China does not let entrepreneurs flourish, then China, as much as others, will pay the penalty. Will the country continue to disincentivise the innovation it badly needs in order to escape the middle-income trap, by allowing state-owned enterprises to better protect patents, for instance?

The book has perhaps relatively little

acknowledgment of how the expansion of markets has raised China from the poverty that socialism helped create, although examples like "'one-pants families' where clothes were worn in shifts" are telling enough.

A market capitalism severely rigged for the benefit of state-backed incumbents is very far from ideal, but it is much better than the recently-tried hard-socialist alternative.

Perhaps the most interesting questions this book leads to are of technology as a challenge to the political elite, much like the printing press in the Reformation.

The era of the smartphone is supposed to set information free, and to a degree has done so in the west. That Beijing is now testing algorithms to grade citizens' behaviour for conformity and political supplication tells us that the counter-attack launched by the Chinese state has turned its online age into one of unprecedented surveillance.

That very few states in human history have managed sustained economic growth is partly because elites tend to suppress the innovation it requires, fearing its capacity to enrich potential rivals.

The Chinese elite now senses the threat from the innovation they simultaneously know China needs.

If the great optimism for the steady expansion of market freedoms towards political choice may be over, for now, this tells us that western countries' own approaches to the markets that sustain innovation and growth have become all the more vital•

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campus



NEW A-GENDER...

Want to hear from top economists on topics such 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"?

Over the next nine months the IEA will be staging our one-day conferences for Sixth Form A-Level and IB Economics students at schools across the country. And they're **free to attend!**

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

2019

Ardingly College, West Sussex

Wednesday 9th October

Southeast High School for Boys

Friday 18th October

Loretto School, East Lothian

Friday 8th November

King Edward's School, Edgbaston

Tuesday 12th November

Notting Hill and Ealing High School

Thursday 28th November

2020

The King's (The Cathedral) School,
Peterborough

TBC January

Portsmouth Grammar School

Tuesday 25th February

Ampleforth College, Yorkshire

Tuesday 3rd March

POSITIVE THINK-ING

Hundreds of 16 to 25-year-olds joined us at our fifth annual **THINK** conference in July...

The conference – staged at the Royal Geographical Society in London – featured some of the most exciting economists and thinkers from across the world. And many of the attendees travelled impressive distances to discuss new economic ideas, challenge views – and forge new friendships.

Highlights included sessions from renowned economist **Deirdre McCloskey**, bestselling author **Professor Thomas Hazlett** and financial journalist (and stand-up comedian!) **Dominic Frisby** (above).

You can watch all the talks on our YouTube channel: www.youtube.com/iealondon

And look out for **THINK 2020** at www.thinkiea.com



HEALTHY BUDGET!

Here's your chance to win £1000 for you and your school!

The **IEA Budget Challenge** enables teams to submit an outline of a budget with taxation and spending policy for the UK in the coming financial year. Teams are also asked to briefly analyse the macroeconomic conditions and set out a broad policy strategy in response to these.

The top 10 teams will be invited to present their proposals at the Budget Challenge final in London in early March. The deadline for entries is Friday 1st February 2020 and you can find more information at iea.org.uk/the-iea-budget-challenge.

Congratulations to 2019's winners, Fortismere School!

"AN EXPERIENCE I'LL NEVER FORGET"



SIXTH FORM INTERNSHIPS

If you're in Year 12 or 13 and are looking for work experience next summer then this is the perfect opportunity for you!

We provide a dedicated one-week internship at our offices in London especially for Sixth Formers. There are 120 places in total across 3 different weeks in July.

You'll be one of 40 interns on each wave of the programme and the week includes lectures, workshops, debates and discussions with expert economists.

To find out more visit www.iea.org.uk/internships. The deadline for 2020 applications is Friday 27th March

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 have very much enjoyed this internship and it has 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

SUMMER INTERNSHIPS

Each summer, the IEA welcomes nearly 80 undergraduate interns (two groups of 40) from around the world for a packed three-week programme of lectures, seminars, debates, discussions, events and social activities.

Each intern produces a supervised research project, chosen by themselves, and is mentored

by one of the IEA's senior researchers.

Want to apply? If you are an undergraduate student and you're interested in learning about ideas, then this is the internship for you.

Visit www.iea.org/internships to find out more. The deadline for Summer 2020 applications is Friday March 27.



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DON'T LOOK BACK IN ANGER...

LEN SHACKLETON on the
folly of rewriting history



The recent furore at University College London – where a committee is considering removing the names of Marie Stopes and Francis Galton from lecture theatres – is typical of today's judgmental view of the past.

Eugenics is the term given to the late 19th/first half of the 20th century belief that some genetic groups are superior to others, and that policy ought to promote a sort of "selective breeding" of the kind which "improved" dogs, cattle, sheep and other domesticated animals.

This could be done by encouraging "superior" genetic stock (perhaps through financial bounties to motherhood) and discouraging "inferior" types from breeding. In the United States, and most notoriously in Nazi Germany, this involved sterilising mentally handicapped people – and in the latter case, actually murdering them.

This seems to us now to be barbaric nonsense.

But this was not the view of many of the most 'progressive' of our great-grandparents. Galton and Stopes were not outliers. They were in distinguished company. Such progressive heroes as George Bernard Shaw, Harold Laski, Lord Beveridge and the editorial staff of the New

Statesman were all keen exponents of the doctrine.

Any witch-hunt of past wrong-thinkers is going to have a busy time, and economists will not be spared. William Stanley Jevons, Alfred Marshall, Irving Fisher and Arthur Cecil Pigou all expressed the view that the white "race" was superior and favoured its promotion.

Most economists, whether on the right or left, would acknowledge John Maynard Keynes as one of the great figures in world economics in the 20th century.

But Keynes was more sympathetic than most to eugenics: he was in fact director of the Eugenics Society from 1937 to 1944. Although he wrote relatively little directly on the doctrine, it is an important sub-text to two of his most famous essays, "The End of Laissez-faire" and "Economic Possibilities for our Grandchildren" in his *Essays in Persuasion*.

Should we rename the University of Kent's Keynes College, or demand that King's College Cambridge (whose wealth Keynes hugely augmented as bursar) pay reparations to today's young people with learning difficulties?

In one view, perhaps. But I would argue that this attitude to the past is foolish. We are

all influenced by the standards of our times, and most of our current orthodoxies will one day seem as stupid and bigoted as eugenics appears to today's "woke" students.

We see this in our own lives. My own ideas when I was twenty were crass and simplistic, and I've changed them (many times) since.

Francis Galton was a polymath who, amongst many other achievements, developed the concept of correlation on which so much scientific analysis depends. Marie Stopes pioneered the promotion of contraception, which greatly eased the lot of many working-class women.

Their association with UCL deserves to be memorialised.

By all means stick up plaques which explain that some of their ideas were wrong – they were probably big enough people to accept this, and today's students deserve to be able to form a rounded view – but please don't shovel them into the dustbin of history just yet.

We're all on the way there anyway●

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The CLOUD on SINGAPORE'S HORIZON



When James Dyson, the British billionaire entrepreneur, announced his company would be relocating its HQ to Singapore it provoked grumbling and controversy here in the UK.

But it's not hard to understand the appeal of this city state. Within one generation, Singapore state transformed itself from a third world country to one of the most advanced economies in the world.

Singapore is focused on maintaining its rapid rate of economic growth, and it has a lot going for it - not least a highly skilled workforce.

Citizens' standard of living ranks among the highest in the world, with Mercer, the global consulting group, once again awarding it first place with respect to best places to live in Asia.

Singapore is committed to attracting foreign direct investment. There's no capital gains tax, no inheritance tax, and corporation tax is charged at a mere 17% with a range of further allowances to reduce the final bill.

What's more, the top rate of income tax is levied at 22%, and this only kicks in for those earning over £180,000 a year - making it one of the most attractive tax jurisdictions worldwide.

UK Finance, the banking lobby group, issued a report indicating that the tax burden for banks operating out of London was now running at more than 50 per cent of profits, twice the prevailing rate in low-tax international centres such as Singapore.

The clear message is that Singapore is mounting a real competitive challenge to European financial centres, not least London.

Looking around Singapore one sees a constant stream of activity with new buildings and facilities going up each year. Downtown Singapore is reminiscent of a US city, with banks dominating the skyline. It's well connected, with one of the world's largest maritime ports, and an international airport with flights to a wide array of cities across the region and beyond. Meanwhile, the first phase of the Cross Island Line, Singapore's eighth mass transit link, stretching 50 km, is scheduled to be completed by 2029.

Singapore is planning for the long term. Whole neighbourhoods have been developed to accommodate the city's fast expanding services sector, which comprises three quarters of the economy and employs a similar proportion of the population. Policy makers currently fret about the source of the next wave of innovation: they are highly aware of the need for lateral

thinking and creative thinking. This welcome self-awareness is refreshing.

But whilst Singapore remains the envy of many cities in the region, leading business figures are concerned about maintaining the country's reputation for robust regulatory standards.

Business leaders are worried about damaging cases such as Goldman Sachs' involvement in the 1Malaysia Development Berhad (1MDB) embezzlement scandal and how this might affect Singapore's reputation for transparent transactions.

Given the perceptions of corruption surrounding neighbouring countries such as Malaysia, Indonesia and Myanmar, it is crucial Singapore is seen to be observing the highest standards of financial probity and to dispel concerns over any moves to launder money through what's become the financial services hub of South East Asia.

As the *2019 Index of Economic Freedom* observes, "Singapore owes its success as a highly developed free-market economy in large part to its remarkably open and corruption-free business environment, prudent monetary and fiscal policies, and a transparent legal framework".

Singapore is ranked second worldwide, a reflection of its public reputation for financial probity and its popularity as an international arbitration centre.

However, Singapore must be constantly vigilant, and in this respect, the absence of a critical, independent press is a big minus. Singapore's media, including *The Straits Times*, tend not to be sharply critical of the government - hardly surprising given the fact that it's owned by the state investment arm Temasek Holding.

What's more, all television and radio channels are government owned, while the Media Development Authority (MDA) maintains a close eye on press and social media.

Singapore's reputation for high regulatory standards is now under intense scrutiny as the US Department of Justice and other investigators dig into the details of what precisely took place in the 1MDB case.

It will be worth seeing what steps are taken by the regulatory authorities to ensure that, in future, Singapore maintains its hard-won reputation ●

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STAT ATTACK



LEN SHACKLETON on the dangers of drawing the wrong conclusions

People can get a very misleading picture from statistics which are not properly understood. Take this, from *The Daily Telegraph*, earlier this year:

“Around 357,000 jobs were added to the economy in the 12 months to April but the jobs boom has largely been driven by the 50-64 age group and even the over-65s. Of those jobs, 304,000 were given to workers above the age of 50.”

Possibly the author really knows better, but the impression given is that there was a stock of jobs in April 2018 which was augmented by the creation of 357,000 jobs over the next twelve months.

For some reason, the vast majority of these jobs went to older workers. The author of the piece (illustrated by a pair of gnarled hands grasping a walking-stick) then goes on to speculate about changes in the nature of jobs suiting

older workers, who are fitter than ever and staying on at work longer to augment their depleted pensions.

But this is not how it works. Over a year there is huge churn in the labour market. A few years ago, a study from the Department for Business Energy and Industrial Strategy showed that over the decade to 2008, 2.5 million private sector jobs were lost on average each year as companies reduced their headcount or closed, while at the same time 2.67 million jobs were created by existing businesses and new entrants.

Overlaid on top of this, hundreds of thousands of individuals entered the labour market and took jobs (school and university leavers, immigrants, women returners etc.), while many others left work as a result of retirement, going to university, having babies, illness and death, emigration and so on.

In addition, hundreds of

thousands more changed jobs, moving to different employers or obtaining promotion to different jobs within the same organisation.

So even where ‘jobs’ remained unchanged, their occupants may well have changed – possibly more than once – over a twelve-month period.

All this means that the jobs and job-holders of April 2019 differ in many ways from those of April 2018. Those taking new jobs during this 12-month period would likely be a random draw from those in the workforce during that period.

A slightly higher proportion in work at the end of the period would be over 50 than was the case at the beginning of the period. This is probably almost entirely the effect of demography, with the bulge of older workers (with a slightly higher proportion of females than previously), plus some delay in taking



retirement associated with actual and prospective changes in state pension age.

Employers taking on a new employee would be very slightly more likely to take on an over-50 for the job – just as they would be very slightly more likely to be taking on a woman and very slightly more likely to take on an applicant from an ethnic minority.

You can infer little from this about the types of jobs done, the suitability of these jobs for older workers (speculation on which is riddled with ageist assumptions, incidentally) or the health and attitudes to work of older people.

In this case, speculation is probably harmless. But too often misleading inferences from employment data lead to poor policymaking. And this should concern us •

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Will ROBOTS make us REDUNDANT?



THE IEA PODCAST ...where the intelligence is anything but artificial •

www.iea.org.uk/films/will-robots-make-us-redundant/



THINKING OUTSIDE THE BOX

STEVE DAVIES casts an economist's eye on **FREEDOM of THOUGHT**

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

Freedom of thought is the subject of much discussion nowadays with many controversies.

Much of this debate is conducted using the language of philosophy, with arguments about rights and competing rights.

However, we can also think about it using economic concepts and perspectives. Looking at freedom of thought as an economic and

social good leads to some interesting conclusions.

In some sense freedom of thought always exists as the interior processes of the mind are beyond control. However, thoughts only have value, to their formulator and others, if they can be expressed.

Freedom of thought means nothing without freedom of speech and expression. This also makes sense economically. A thought or idea that is not expressed or circulated has no value. Once expressed it has value for both originator and

FREEDOM OF THOUGHT MEANS NOTHING WITHOUT FREEDOM OF SPEECH AND EXPRESSION



recipient or consumer.

However, most of the value created by free expression takes the form of externalities, benefits that accrue to people other than the originator and recipient.

This happens in two ways. One is the way in which bystanders benefit from what are originally ideas or expressions (such as works of art) produced for sale to buyers.

The main one, however, is the connection between freely expressed, circulated, and exchanged ideas and innovation and invention. This in turn leads to economic growth and cultural and lifestyle enrichment and variety.

The easier it is for thought to find expression in words, images and actions, and the more widely and easily these are shared, consumed and disseminated, the greater these external benefits. We can draw two conclusions from this.

Firstly, it is public communication of ideas that creates value more than private communication. An idea expressed in private correspondence brings benefits to the two parties but has only an indirect wider impact (if any). Ideas and thoughts that are publicly expressed are the ones that create the spillover effects.

Secondly, as J. S. Mill argued, you need pluralism and variety of ideas and perspectives,

and open and unhindered exchange between them, both in debates and in borrowing or synthesis.

What you do not want is an orthodoxy or consensus that leaves no room for debate and experimentation; that is the intellectual equivalent of a monopoly and just as harmful as an economic one.

That in turn means that you do not want the cost of expressing unconventional views to be so high as to deter it, whether that takes the

LOOKING AT FREEDOM OF THOUGHT IN ECONOMIC TERMS MAY SEEM PERVERSE – BUT IT CAN BE HELPFUL AND CLARIFYING



form of legal barriers or social disapproval and shunning.

However, the economic way of thinking will make us qualify that argument. It may be that some ideas and their expression can produce negative externalities as well as positive, by for example inciting violent behaviour.

So, although you do not want the costs of freedom of thought to be so high as to stop it, you want there to be a cost as well for certain kinds of speech (in economics the negative externalities should be internalised).

This can take the form of

reputational loss or things like reduced employment opportunities. The question is how to strike the balance. Economics helps again here. It shows that free exchange functions best when it happens in a particular institutional environment.

In the context of thought and expressions this means things such as social norms of courtesy and rules of debate and engagement. It means having social and commercial institutions through which expression and debate take place, such as universities and the press.

Additionally, it means regulation by property rights – nobody has an unlimited right of expression on someone else's property.

These kinds of institutions

minimise the external costs while allowing pluralism and varied expression. What you must not do is allow the monopolistic supplier of violence (the state) to do the regulation (outside strictly defined public spaces).

In the fraught atmosphere of today, looking at freedom of thought in economic terms, as a matter of costs and benefits, may seem perverse – but it can actually be helpful and clarifying.

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Why is **CAPITALISM** a dirty word?

And when did socialism become so popular – particularly amongst young people?

In his latest book, author RAINER ZITELMANN compares and contrasts these markedly different ideologies – and their dramatically different outcomes

So many people blame capitalism for all the evils in the world - from hunger and poverty in Africa to climate change. Even in America, a recent poll found that a majority of young people favour socialism over capitalism.

Just ask any socialist how their alternative to capitalism would work out in the real world and they'll respond with little more than vague ideas: more state control over the economy, higher taxes for the rich, perhaps even the expropriation of private property.

Anti-capitalists have a tendency to compare their utopian visions of a "just" society with reality - and it's no surprise that reality comes off very poorly.

In my opinion, it's grossly unfair to compare an abstract ideal with reality: It's like comparing romantic relationships with the idealised visions of perfect love in a chick-lit novel instead of real-life relationships.

In my book *The Power of Capitalism*, I compare the experiences of people all over the world who have lived under different forms of socialism with those in capitalist societies.

More capitalism helps alleviate poverty

Here's something most students never learned at school: At the end of the 1950s, the greatest socialist experiment in human history was launched in China.

Mao Zedong called it the "Great Leap Forward". In reality it was a catastrophe for people all over the country. The historian Frank Dikötter estimates that 45 million people died as a result of

Mao's socialist experiment between 1958 and 1962.

The majority died of starvation, while another 2.5 million were tortured or beaten to death. Other victims were deliberately deprived of food and starved. People were killed selectively because they were rich, because they dragged their feet, because they spoke out or simply because they were not liked, for whatever reason, by the man who wielded the ladle in the canteen.



At the same time, CO2 emissions per dollar of GDP in China were also higher than in any capitalist country in the world because Mao forced farmers to build inefficient blast furnaces in their backyards to produce steel.

Nowhere has the environment been so heavily polluted as in socialist countries such as the Soviet Union and East Germany.

After Mao's death, the previously omnipotent state and its planned economy was scaled back, more and more space was given to the market, and the right to own private property was reintroduced.

At no other point in history have so many people escaped bitter poverty in such a short time as in China.

According to official World Bank figures, the percentage

of extremely poor people in China in 1981 stood at 88.3%. By 1990, this had fallen to 66.2%. And by 2015 only 0.7% of the Chinese population was living in extreme poverty. In this period, the number of poor people in China fell from 878 million to less than ten million.

The Chinese economic miracle began with Deng Xiaoping's economic reforms. It was Deng who declared: "Let some people get rich first!"

Over the next few decades, the Chinese state permitted the private ownership of the means of production and allowed the free market to exert greater influence.

In spite of the fact that the state still exerts a strong grip on the Chinese economy, it has substantially reduced its role since the period under Mao Zedong. And under Deng, capitalist "special economic zones" were created all across China.

The example of China also shows just how wrong people are when they claim that the rich only become rich at the expense of the poor (a belief referred to as zero-sum theory).

Under Mao, China was not home to a single billionaire. By 2010, however, the number had risen to 64 thanks to Deng's capitalist reforms. Today there are 324 billionaires in China, and that's not counting the 71 billionaires in Hong Kong.

Nowadays, no other country in the world - except for the United States - has as many billionaires as China.

If zero-sum theory were correct, this development would be impossible. But zero-sum beliefs are wrong: The sharp decline in poverty and the simultaneous dramatic

increase in the number of billionaires are merely two sides of the same coin.

East Germany: Waiting 12 to 17 years for a crummy car

In *The Power of Capitalism*, I provide a host of examples to demonstrate the superiority of capitalism: In East Germany (also known as the German Democratic Republic or GDR), communists spent decades claiming their socialist planned economy would overtake the capitalist West economically.

When the GDR collapsed, 16% of households had a telephone, compared with 99% in West Germany. East Germans had to wait 12 to 17 years for a Trabant (a no-frills East German car) – in West Germany, every citizen could go to a car dealership and choose from a wide selection of quality vehicles. And the levels of environmental destruction in the socialist GDR were far higher than in capitalist West Germany.

How about another example? Before Korea was divided into a capitalist South and a communist North in 1948, it was one of the poorest countries in the world, comparable to sub-Saharan Africa.

Having embraced the tenets of capitalism, South Korea has experienced an incomparable ascent. We all know and use products from companies such as LG and Samsung, and people in South Korea live in prosperity. North Korea, on the other hand, with its state-run, planned economy, is as poor as it gets; on numerous occasions, famines have cost the lives of hundreds of thousands.

"Democratic socialism" has also failed

The superiority of capitalism has not only been confirmed by the competition between

communist and capitalist countries.

All forms of "democratic socialism" have failed, whether in Britain in the 1960s and 1970s or in Sweden in the 1970s and 1980s. It was only when these two countries, after miserably failed experiments with "democratic socialism", rolled the state back again and gave the market more room that they found their way back to growth and prosperity.

Capitalism has also proven its superiority in South America: Venezuela was one of the richest countries in the world 50 years ago. It became poorer and poorer as a result of state over-regulation, and the final decline began with the rise to power of the socialist Hugo Chávez, so admired by anti-capitalist intellectuals.

Chile, on the other hand, is one of the most capitalist countries in the world, and its people are better off than ever before.

Over the last 30 years, Chile's economy has grown by about 5% a year, while in Venezuela, the country with the world's largest oil reserves, inflation is higher than anywhere else in the world. In recent years, three to four million people have fled Venezuela – largely to escape pervasive hunger.

Does anyone flee Miami to seek a better life in Cuba?

Anyone looking for further proof of which system is

better just need consider the direction of refugee flows.

Have you ever heard of anyone fleeing capitalist Chile to make a new life in socialist Venezuela? Or from capitalist South Korea to socialist North Korea? Or from Miami to Cuba?

No, the direction of refugee flows is always from socialist countries to capitalist countries – IF people can flee at all.

When Germany was divided, the Communists built a wall because millions had fled from socialist East Germany to the capitalist West. After the Wall was built, anyone who attempted to flee from East to West Germany was shot dead.

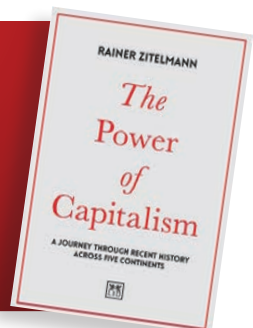
The Index of Economic Freedom measures economic freedom in 180 countries every year. In 2018 the Index rated 34 countries as economically (predominantly) free, including Switzerland, Australia, Sweden and the Netherlands, and 21 countries as completely repressed, including North Korea and Venezuela.

Freer countries perform better economically than repressed countries. Hunger and poverty prevail where there is a deficit of capitalism, for example in Africa.

History is a large experimental field – and the results are clear: In those countries that dare to give capitalism freer rein and reduce the influence of the state on the economy, people's lives improve•

FOR MORE

Rainer Zitelmann holds doctorates in History and Sociology. He is the author of 23 books. This article is based on his latest book, *The Power of Capitalism*. Find it at www.amazon.co.uk/Power-Capitalism-Rainer-Zitelmann/dp/191255500X



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CRATE EXPECTATIONS...

Over the last 3 years of Brexit discussions, one of the few things politicians have agreed upon is the supreme importance of Free Trade Agreements (FTAs).

Those on the Leave side of the argument have talked up future opportunities for "advanced FTAs" outside the EU; those who backed Remain have highlighted the potential loss of agreements negotiated by the EU and accused Leavers of wanting to "have their cake and eat it".

So, what is all the fuss about?

An "FTA" is the blanket term for any agreement involving states or groups of states aimed at reducing barriers between them, whether for goods, services or investment.

The purpose of these agreements is ostensibly to reduce barriers to trade, so

**FELIX
HATHAWAY**
assesses the
importance
of free trade
agreements

that free exchange according to the principle of comparative advantage can yield benefits for all sides.

This is well established in economics; however, it leads to a counterintuitive conclusion when applied to trade deals.

If a country benefits from unilaterally liberalising its trading regime (lowering tariffs, recognising foreign issued qualifications etc.),

then what is the point of an FTA?

This is the paradox of Free Trade Agreements. They promote free trade but do so from a "mercantilist" starting point.

Rather than viewing eliminating domestic trade barriers as a good in itself, this is only done as a "concession" to secure something similar from a partner.

This is why many economists are less excited by FTAs than politicians or the public. In general, FTAs represent a "second best approach" to liberalisation.

Furthermore, while signing "free trade deals" provides a great photo opportunity, many FTAs fail to meaningfully create trade.

Often this is because they preserve protections for politically important industries

or, in reality, contain far less liberalisation than headlines suggest (for both, see the EU's recent Mercosur agreement).

At the same time, these deals often entrench powerful incumbent positions by replacing regulatory competition with harmonisation that preserves or increases barriers to new entrants.

This being the case, what is the point of FTAs, and are they a dead end for a genuine free trader? The answer is: "not necessarily".

While FTAs may be a second best means of liberalising a single country's trading arrangements, there is a body of argument that they can be effective in bringing trade liberalisation to countries which might not otherwise accept it.

In reality, this works both ways, with FTAs also a tool for additional domestic liberalisation, even in countries with few or no import tariffs.

The Trans-Tasman agreement is a model example here of a "free traders' FTA", as it allows for full regulatory recognition of goods and services between Australia and New Zealand, on top of their existing liberal tariff regimes.

The second, and arguably more significant, justification for FTAs is that they "lock in" the benefits of liberalisation.

For instance, if a country unilaterally eliminates barriers to foreign investment, investors may still be reluctant to invest. This is because of the "political risk" that a new government, or a change of heart, could reverse the policy with very little warning.

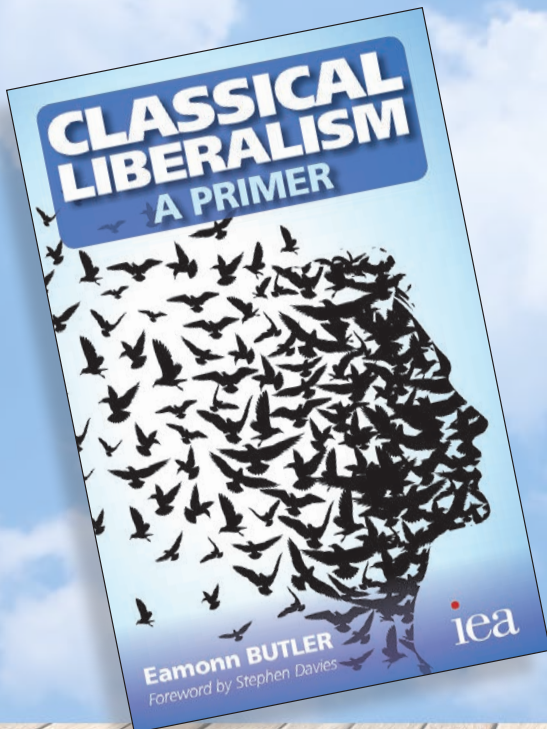
In this scenario, an FTA represents an international commitment to behave in a certain manner, including when ending the agreement, and will often contain provisions for dispute settlement in areas such as investment to provide greater security.

The result is that while FTAs are important, and will be so for post-Brexit Britain, they should not be viewed as an end in themselves.

Even the best FTAs are mostly icing on the "free trade cake". However, if used correctly alongside sensible policies such as unilateral tariff liberalisation, this is one cake we can have and eat●

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UNIVERSAL THINKING?



CHRISTOPHER SNOWDON on two very different interpretations of **Universal Basic Income**

When writing about the Universal Basic Income (UBI) it is almost obligatory to point out that the idea has been supported by free market economists such as Milton Friedman as well as economists on the left.

The devil is the detail, however, and there are big differences between the "socialist" and "libertarian" conceptions of a basic income.

In Friedman's version, which is technically a negative income tax, the UBI would replace all other state benefits and remove the need for the government to provide or subsidise some public services.

Universal coverage of healthcare and education would be achieved, not by the government running schools and hospitals, but by everybody having sufficient income to pay school fees and buy health insurance.

The aim is to make the welfare system more efficient and allow individuals greater

choice in how they procure essential services.

The leftwing version is rather different. When socialists propose a basic income, they see it as a supplement to existing cash benefits and to benefits in kind, such as the NHS. This makes it much more expensive. It is difficult to see how it could be affordable without the government taxing and redistributing a very large proportion of the nation's income.

It has been suggested that a UBI could be paid for by abolishing tax reliefs, which are worth over £400 billion a year. This implies a clampdown on tax avoidance. Strictly speaking, that is what it is, but not the kind that squeezes billionaires.

UK tax reliefs include more than £30 billion 'lost' to VAT exemptions on food, books, water, domestic fuel, children's clothing, wheelchairs and disability scooters. The personal income tax allowance

loses the Treasury a further £107 billion a year. Another £57 billion is lost thanks to the government's reluctance to levy National Insurance on incomes below £166 a week.

These loopholes exist for a reason and removing them would be unpopular. Governments are rarely eager to exempt people from tax.

When they do, it is because they are trying to protect the poor (e.g. VAT exemptions for food), or incentivise saving (e.g. pension tax relief), or because it would be silly to do otherwise (e.g. exempting cabin crew from air passenger duty).

'Abolishing tax relief' is just another way of saying 'raising taxes', but let us say that the government abolishes every tax relief and raises an extra £400 billion a year.

This would increase public spending by nearly 50 per cent and yet would still only provide enough money to offer a UBI of £6,150 per person (or £7,600 per adult). This is well

below the poverty line and for some people below the point at which means-tested benefits could be withdrawn.

Meagre though it is, my hypothetical UBI is generous compared to some of those that have been seriously proposed.

In 2015, the Green Party proposed a basic income of £4,160. Earlier this year, the New Economics Foundation called for a "weekly national allowance" of £2,500 a year. These amounts are too small to give people a decent standard of living and would put another hole in the leaky bucket of Britain's welfare system.

To provide a universal basic income that is enough to live on, governments would have to spend a vast amount of GDP, albeit mostly in the form of cash transfers.

Although I am not convinced by the arguments for such a radical change – including the idea that robots are going to take our jobs – it is at least theoretically possible.

But the idea is only worth considering if it is accompanied by the abolition of all other welfare payments, housing benefit, state-run education and state-run healthcare which, between them, make up over £500 billion of public spending.

This, too, might not be popular, but the halfway house proposed by some groups is the worst of both worlds. They are not really advocating a universal basic income, merely another universal benefit which the government will pay out and then claw back●

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SHAKIN' the system



KATE ANDREWS on proposals to tax milkshakes

The milkshake, once desecibed as tasting of watered-down ice cream, can now be desecibed as the taste of freedom.

Targeted as the next treat to have a "sin tax" imposed on it, the milkshake and its consumers have found a new ally in the shape of Boris Johnson – who said he would oppose a milkshake tax, noting that he didn't think it would be effective.

More importantly, he called for halting the roll-out of all sin taxes, until it could "be clearly demonstrated that such taxes actually make a real difference to people's behaviour and don't unduly penalise the lowest paid".

If Mr. Johnson is serious about basing tax policy on clear evidence, fans of freedom should be relatively optimistic.

The empirical evidence overwhelmingly suggests the poorest in society are disproportionately affected by these taxes.

Nearly all sin taxes take a greater share of income from the poor than from the rich. In some cases, poorer households can be paying up to 10 times

more in sin taxes than richer households as a share of their income.

And while these taxes are clearly regressive by nature, some also fail in their objective to change behaviour. Case studies from around the world have failed to show that a sugary drinks tax helps to reduce overall calorie intake or obesity.

While Mr. Johnson is willing to defend our sugary drinks and milky ice cream, he has stopped short of rolling back the original sin taxes on alcohol and tobacco.

Possibly, he feels that is a step too far – but equally likely is that he understands the financial black hole it would create for the Treasury.

Despite supporters of sin taxes claiming that higher prices encourage users to "improve" their behaviour, many people continue to smoke and drink.

Perhaps some policymakers recognise the taxes don't work, but still support the increased tax take.

In the last fiscal year, the UK government brought in over £11.4bn in alcohol duty receipts.

When bundled together, IEA research shows that the taxes more than cover the costs that smoking and drinking impose on public finances.

Excessive drinking and smoking is unhealthy and often dangerous behaviour, but the vilification of adults choosing to take up such activities is itself another form of harm – especially when you consider that their tax money is topping up health resources, not depleting them.

Whether it's a cut in sin taxes, a change in rhetoric, or a simple acknowledgement that both children and adults can see an advert for strawberries and cream on the Tube without the world coming to an end, perhaps it's time for a shake-up of this nannying mentality.

Perhaps it's begun. Maybe the shake-up starts with the milkshake. ●

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

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