GLOBAL TRENDS  
every smart person should know...

How do you create a true MERITOCRACY?

GIG ECONOMY  
What the music biz can tell us about economics
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WELCOME

Did you get a lift to school this morning? And how many big SUVs were parked outside the gates?

It seems bizarre that hefty cars like these are on the rise in such eco-conscious times. Perversely, small, economical and affordable cars are under threat because of new European CO₂ targets, which deem two-tonne plug-in hybrid SUVs to be twice as “green” as nimble city cars.

This particular outcome probably wasn’t what the legislators had in mind – but it is an unintended consequence of their actions. Sadly, it’s the kind of thing that often happens when politicians rush to legislate. For some staggering examples, read Syed Kamall’s Sting in the Tail on p10.

Of course, cars as we know them could be obsolete in years to come. The emergence of driverless cars could revolutionise our approach to transportation. But autonomous vehicles also deliver a raft of implications for public policy. Andrew Lilico gives us his steer in The Road Ahead? on p22.

But this spring issue of EA isn’t just about cars. In our cover story (p7) we lift the lid on the economics of the music business, and on page 4 we get a sneak preview of a new book detailing 10 global trends every smart person should know...

Along the way we pose some eclectic and intriguing questions: Is the cashless society a threat to our civil liberties? Should struggling football clubs be allowed to go the wall? And why don’t more girls become economists?

And, as exam time approaches, we have details of our revision aids on p31. Hope they help!

Glynn Brailsford
Editor
March 2020

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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Reasons to be Cheerful
Think the world’s going downhill fast? Think again.
ALEXANDER HAMMOND previews a fascinating new book on global trends
REASONS to be CHEERFUL!
It can be difficult to be an optimist nowadays. Turn on the news, or flick through any newspaper, and you might think the world is going to the dogs – fast.

But an upcoming book demonstrates that the world is doing far better than you probably think. ALEXANDER HAMMOND takes an exclusive look for EA…

In 2019, a YouGov poll found a staggering 68% of Britons thought that, generally speaking, the world is becoming a worse place to live. Similarly, when the same question was asked to citizens of 17 countries in 2016, YouGov found Britain was in the least optimistic third. Fewer than one in 20 Britons felt the world was getting better.

It seems pessimism is an engrained part of Britain’s national psyche. But the problem with this gloomy inkling is that it is completely detached from the world we’re living in.

In their new book Ten Global Trends Every Smart Person Should Know, Marian L. Tupy and Ronald Bailey give a detailed and articulate account of the incredible – but largely unknown – progress humanity has made in recent times.

The book will be released in May this year, but the authors have given EA exclusive permission to highlight five of the most jaw-dropping trends from their book – demonstrating how the world is becoming a richer, healthier, and more pleasant place to live.

GLOBAL INCOME IS RISING

Economic historians estimate that in year 1 of the common era, the average global income per person per year was just $800 (2011 US dollars). Fast-forward 18 centuries, and by the year 1800, average global incomes had only increased to a measly $1,140. This meant that in the 1,800 years separating the birth of Christ and the election of Thomas Jefferson to the US presidency, average incomes only rose by about 40%.

However, things began to accelerate during...
the Industrial Revolution, and between 1800 and 1900, average incomes rose from approximately $1,140 to $2,021. Thankfully, this progress has drastically increased in recent decades. Today average global incomes are approximately $14,600 per year – more than 622% higher than they were in 1900, or 1725% higher than they were in year 1.

The considerable increase in global incomes has largely coincided with the decline of extreme poverty...

THE END OF POVERTY
In 1820, nearly 84% of the world's population lived in extreme poverty (defined as living on less than $1.90 per person per day.) Back then only a small slither of society did not have to worry about being able to afford enough food to survive. By 1981, 42% of the world lived in extreme poverty. Today, the latest World Bank estimates suggest extreme poverty has fallen to just 8.6%.

Roughly 158,000 people escape from extreme poverty every single day, and many experts predict extreme poverty could be completely eradicated within a couple of decades.

RISING LIFE EXPECTANCY
For much of human history, average life expectancy was just 30 years – even as late as 1820. However, over the last 200 years – largely thanks to better diets and improved medicines – average global life expectancy has more than doubled. Today, the average person can be expected to live to 72 years old. And in richer nations like the United Kingdom, the average life expectancy is almost 82 years – up from just 45 years in 1900.

ACHIEVING UNIVERSAL LITERACY
Two hundred years ago, more than 90% of the world’s population was illiterate. Today, almost 90% of the world is literate. This is great news as studies have frequently shown that being able to read and write is often associated with reduced poverty rates, decreased mortality rates, greater gender equality, lower fertility rates, and increased political awareness and participation.

VASTLY FEWER CHILDREN DIE YOUNG
Demographers estimate that in pre-modern societies, out of every 1,000 babies born, about 300 (30%), died before reaching their first birthday. This heart-breaking statistic was largely due to infants succumbing to infectious diseases and malnutrition in their first few months of life. Thankfully, today the global infant mortality rate is 90% lower than it was in pre-modern society and sits at about 29 deaths per 1,000 live births. This number is declining year-on-year, largely thanks to rising incomes enabling more people to access improved sanitation and nutrition, and more resources being devoted towards better educating parents.

Access to modern medicine, including childhood vaccinations, is also a major factor in falling infant mortality rates. In the UK alone, the infant mortality rate has declined by more than 97% since the year 1900.

These are just five of the 77 astonishingly optimistic trends that appear in Marian L. Tupy and Ronald Bailey’s upcoming book.

From the decline of global hunger, to rising access to safe drinking water, to the falling murder rate, and the increasing worldwide access to electricity, the 77 surprising and cheerful trends highlighted in this book make it difficult for anyone to be a pessimist.

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You can pre-order Ten Global Trends Every Smart Person Should Know now on Amazon. It’s released on May 19, 2020

You can pre-order Ten Global Trends Every Smart Person Should Know now on Amazon. It’s released on May 19, 2020
MARK LITTLEWOOD on a new book that lifts the lid on the economics of the music business
In *ROCKONOMICS, What the Music Industry Can Teach Us About Economics (and Our Future)* renowned economist Alan Krueger seeks to explain what the music industry can teach us about economics and our future.

In reality, however, this detailed and often surprising analysis of trends and developments in the music business shows how economics can help explain the industry, rather than the other way around.

The startling starting point is just how microscopic spending on music is across the globe. Listening to music is essentially a ubiquitous pursuit – Krueger estimates the average American listens to about three hours of music a day, albeit often in the background as a secondary activity. However, the entire music industry amounts to a mere 0.1% of the USA's GDP. Globally, that figure is 0.06%. Music represents just 2% of the entertainment industry's total turnover.

Krueger (who sadly died after the publication of this book) suggests that Americans spend more on unused health club memberships than they spend on music. For something of such cultural impact and importance to so many people, music is in fact a tiny part of the wider economy.

The picture painted of those who dedicate their lives and career to music-making also defies some conventional wisdom. On average, musicians in America are better educated than other workers. But their take home pay tends to be measurably less than that of the average worker – about $20,000 per annum for artists compared to the national median wage of $35,000.

For most, it is essentially a hobby or a vocation rather than a career. We obviously associate those at the top end of the music market with colossal riches, but this trend is actually increasing, with higher and higher rates of return accruing to a small handful of superstar performers.

Krueger draws parallels with the rise of the superstar in other economic fields – including superstar companies such as Amazon and Facebook. The twin driving forces behind the increased returns to superstars have been scalability and non-substitutability.

Technological developments have allowed top artists to reach an ever-growing audience of fans at very limited additional cost and, although music is often categorised into groups or genres, the performance of one artist cannot easily be replicated by another.

Over two centuries ago, opera singer Elizabeth Billington was perhaps the most celebrated singer of her times. But as the great economist Alfred Marshall later observed, there was a natural limit to her potential earnings. In the absence of microphones, recordings or digital streaming, there was a strict limit to the number of people she could reach.

Today's megastars such as Taylor Swift face no such firm constraints and are thus able to earn higher proportions of the overall music economic pie as a result and the trend shows no sign of abating.

The top 1% of artists accounted for 26% of all ticket revenues in 1982. By 2017 this had risen to 6%.

The make-up of performers' income has also markedly changed. David Bowie saw a key development coming to the industry when he remarked, “Music itself is going to become like running water or electricity…You'd better be prepared for doing a lot of touring.”

Previously, stars had treated playing live venues as a promotional or marketing activity – possibly even a loss leader to enhance their core proposition of album sales. Average ticket prices have enormously outstripped inflation since the 1980s as artists increasingly seek to sell an “experience” rather than a CD or an LP to their fans.

Krueger implicitly accepts that forecasting where the industry might go next is something of a fool's errand. When Napster emerged onto the market enabling widespread file sharing, some worried that the entire viability of the music business would be called into question.

But new approaches and technologies have come to its aid. Streaming services have become popular and have
secured buy-in from fans. In 2007, the band Radiohead decided to make their latest album available for free and ask people to donate whatever they felt appropriate.

Although 60% didn’t hand over a penny, the average donation was $6 – and they made more income from that single album than from their total back catalogue combined.

Predicting which artists are likely to emerge in years to come is also near impossible to predict. This is due to the enormous role that luck can play in any individual career. There is no doubt that skill, imagination and dedication are vital ingredients, but sheer good fortune can be the decisive factor.

Reginald Dwight recalls how he was randomly paired with a lyricist by the name of Bernie Taupin when attending an over-crowded audition at the age of twenty. Dwight went on to become Elton John and his lifelong collaboration with Taupin led to the sale of more than three hundred million records.

Famously, Mick Jagger and Keith Richards met by coincidence on a train – without that chance encounter, the Rolling Stones would never have come into being.

Rockonomics does a splendid job of explaining the dramatic recent changes in the music industry through an economic lens. As is appropriate for a book on this topic, Alan Krueger is able to neatly divide the key economic signals from the wider noise.

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THE TOP 1% OF ARTISTS ACCOUNTED FOR 26% OF ALL TICKET REVENUES IN 1982. BY 2017 THIS HAD RISEN TO 6%
Politicians are often in a rush to regulate. But their ill-considered actions can create disastrous results. **SYED KAMALL** delves into the world of unintended consequences...
There is a story that, during the colonial rule of India, a British administrator of Delhi devised a cunning plan to rid the city of dangerous snakes. His plan was simple. He would pay local residents a bounty for each Cobra skin they delivered. What could possibly go wrong?

Never slow to exploit an opportunity, enterprising locals started to farm cobras as a way of earning extra cash. However, the authorities soon grew wise to this and ceased payments. The result? Locals released the now worthless snakes into the wild - leading to an increase rather than a decrease in the population of cobras. This phenomenon of unintended consequences has since become known as the “cobra effect”.

How foolish of the British colonists, you may think. But French colonial rulers were no better when, years later, they offered a similar reward for rat tails in order to reduce Hanoi’s rat population.

Once again, payments were stopped after the authorities noticed the number of rats running around without tails and realised they were deliberately being released back into the sewers to procreate and produce more rats... thereby increasing the rat catchers’ revenue.

You would think these two examples would be enough to warn us of the dangers of unintended consequences, but it seems not.

In 1958, the Chinese dictator Mao Zedong launched the Four Pests Campaign as part of the “Great Leap Forward” to transform China from an agricultural society to a modern Communist one. He vowed to remove pesky flies, mosquitos, which spread malaria, and rats that carried the plague. The fourth pests were the sparrows which not only helped themselves to fruit, grain and seeds, but were declared by the Chinese government to be “public animals of capitalism”.

However, sparrows also enjoyed feasting on insects, which had hitherto prevented the infestation of crops. You get the idea. Reducing the number of sparrows led to a loss of crops which it is said in turn led to the Chinese great famine.

If you type the words “Cobra effect” or “unintended consequence” into a search engine you'll find many more examples – ranging from prohibition of alcohol and drugs leading to a rise in organised crime through to anti-pollution measures leading to more pollution.

However, not all unintended consequences are negative. Think of the “invisible hand” made famous by Scottish philosophers Adam Smith and Adam Ferguson.

As Smith wrote in The Wealth of Nations in 1776 “It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest”. In other words, an unintended consequence of entrepreneurs acting in their own self-interest – often wrongly described as selfishness by socialist critics – leads to benefits for the wider society.

Friedrich Hayek built on Adam Ferguson’s work on social structures being “the result of human action, but not the execution of any human design”, when he came up with the notion of the spontaneous order of markets.

Classical economics textbooks usually falsely criticise free marketeers for believing in the fairy tale consequence of a “perfect market” with “perfect information”. Hayek and other Austrian School economists argued that it is the hundreds, thousands and millions of transactions that occur between sellers and buyers for mutual benefit on a daily basis which, when aggregated, lead to the spontaneous order of the market.

Markets are not perfect and entrepreneurs exploit asymmetries and imperfect information, but overall they lead to “a more efficient allocation of societal resources than any design could achieve”.

So while there are indeed positive unintended consequences, we should also continue to be vigilant
about negative unintended consequences when dealing with some of the more pressing problems of today.

For example, as politicians look to tackle environmental problems and pollution, they should perhaps learn the lessons of previous negative unintended consequences.

In 2001, the then Chancellor of the Exchequer Gordon Brown introduced a system of car tax to incentivise motorists to switch to diesel cars in order to meet lower CO2 emissions targets set by the 1997 Kyoto climate change conference. However, the “dash to diesel” also led to an increase in the emission of harmful nitrogen dioxide and particulates.

In 2005, the UN Intergovernmental Panel on Climate Change (IPCC) decided to reward companies for destroying another greenhouse gas, Fluroform (also known as HFC-23), with carbon credits, which could be cashed in. Since HFC-23 is a by-product of a common coolant, companies responded by producing more of the coolant in order to generate more HFC-23 to be destroyed and hence earn more carbon credits. Unsurprisingly, the European Union suspended payments for the destruction of HFC-23 in 2013.

Next time a government announces a new policy to tackle this problem or that, let us hope they have thought through the consequences – intended and unintended. Or as the 18th century Scottish poet Robbie Burns wrote “The best-laid schemes o’ mice an’ men, Gang aft agley (often go astray)”.

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How do you create a true MERITOCRACY?

What single market policy would give everyone in society – whatever their background – a real opportunity to succeed on their own merit?

That’s the question we posed for our 2019 RICHARD KOCH BREAKTHROUGH PRIZE.

The competition – carrying a first prize of £50,000 – attracted entries from around the world... from students, academics, journalists and more.

The winners were announced at a glittering ceremony in central London in October.

Here we highlight two of the winning entries...
EDegg, the EDucation, Enterprise and Giving-back Grant, is an innovative policy which, without costing the government a penny in additional expenditure, provides a nest egg of opportunity at age 18.

By re-arranging the flows of money into higher education so that universities, rather than government, lend to their students, and receive income-related repayments from them, the taxpayer is saved the £10.6 billion that is currently lost on student loans.

Combined with the £2.7 billion generated through the Apprenticeship Levy and sharing equally and fairly between all 18-year-olds there is enough to provide each of them with a £20,000 credit.

This can be used towards: (i) further education or training, (ii) the launch of a new business or (iii) voluntary activities.

The money does not have to be used at age 18. It is a Lifetime Opportunity Credit, offering financial support at many different stages of life.

While disadvantaged young people often receive little support, those who attend university, typically from wealthier backgrounds, do benefit from significant state aid in the form of the subsidisation of their student loan. EDegg’s re-distribution of this subsidy addresses a root cause of inequality and provides the same help for all, regardless of social background.

Under EDegg, universities and other post-18 providers can set their own fee levels but must share the risk faced by the student, relying in part on post-graduation income-related payments in order to survive and prosper.

With this alignment of interests, institutions will ensure that what is being taught is useful. They will re-design courses to make the most effective use of time on campus and provide “after-sales-support” to un- or under-employed graduates. The institutions will benefit from less red tape and a government guarantee on loans made to them.

EDegg funds may also be used to help launch a business by providing the necessary initial capital. To give every start-up the best chance of success, EDegg funds are only released after a bank has agreed to lend it at least an equal amount. As the bank will be at risk it will have a powerful incentive only to approve propositions that have merit.

Alternatively, EDegg will help finance the creation of a Community Interest Company (CIC), to provide services – which could be a youth, elderly, music or theatre group – that benefit local people. To confirm that a CIC has popular support, and that the community is willing to share in the risk of the venture, a total of £1,000 must be raised from 100 local citizens.

At launch, EDegg will create a wave of optimism among the 18-year olds who receive the £20,000 credit. Many more people will be able to afford vocational training. There will be a jump in new business start-ups and a leap in the formation of community-enhancing projects.

In the long term it is a game changer, transforming the mojo of the country as each new generation has opportunities opened to them.
Amos Wollen took home £1,500 as winner of the School Student Prize in the 2019 Richard Koch BREAKTHROUGH PRIZE.

His successful entry suggests a radical simplification of the UK’s tax system. This, he says, would create the chance for thousands to escape poverty...

By 2014 the UK’s Tax Code had reached fourteen times the length of the King James Bible. It exceeded 17,000 pages, twice the length of the 2005 code and triple the length of the 1997 code. By comparison, the tax code employed by prosperous Hong Kong is just 276 pages long.

Other areas of government bureaucracy don’t fare much better. There are thirty genres of welfare payments, each with complex labyrinths of deductions, footnotes and arbitrary caveats. Also imposed on citizens, by courtesy of 10 Downing Street, is a progressive tax split into three overly cumbersome rates.

Almost no one, from anywhere on the political spectrum, seriously believes that this mountain of choking red tape makes economic sense.

“Yet”, the statist protests, “this complicated welfare and tax bureaucracy is vital in creating an economy where real social mobility exists”.

This argument is hesitantly accepted by most of us. It is also wide of the mark. There is an alternative that can supply poorer people with money, whilst radically simplifying the bureaucracy, giving them more control over their own lives, and treating them as social equals as opposed to special cases.

It’s a solution that has been lauded by liberals, conservatives, leftists and libertarians alike. This proposal is called the negative income tax (or NIT for short).

The NIT proposes to replace the entire welfare state with one simple cash payment which comes with no questions asked or strings attached. Everyone has a “tax free personal allowance”. At the moment, that “allowance” is £12,500 per year (in theory, with NIT, this allowance would be raised). This is the money the government can’t touch.

But what happens if you happen to earn below your allowance? Well, let’s say that last year you earned £10,000. Obviously, not one penny of this income would be taxed, and what’s more, the government would then pay you back the rest of your exemption.

In this case, the government would pay you £2,500. This payment would then be taxed at a rate of say 50%. This rate, however, wouldn’t just apply to the recipients of the income.

This single rate of income tax would be applied to every single taxpayer in the UK, regardless of their income. Not only is it fair, but the flat tax is a tried and tested way of simplifying the tax system which has been implemented in 30-plus countries across the globe.

Combining these two policies is the best way to cut back on our gigantic bureaucracy whilst also creating a country where more people will be given the chance to escape poverty.

More importantly, poorer people will no longer be treated paternalistically by the state. The state shouldn’t act as a parent who only gives out pocket-money if their children do certain chores. This proposal gives low income earners the dignity that they deserve.
"When I was in High School, I didn’t know that a subject such as Economics existed, so by definition I wasn’t interested”

Esther Duflo

In 2019 Professor Duflo became the second female recipient of the Nobel Prize for Economics. But it might never have been.

Prof. Duflo didn’t study economics at school and she started university reading for a Single Honours degree in History. It was only due to a fortunate work experience placement that she found her calling in economics:1 “Suddenly it dawned on me that economists have this really wonderful position in life where they can think deeply about issues... [and they can] share it with policy makers”.

For me, Prof. Duflo’s story begs the question: how many other potential female economists – Nobel Prize winners or not – are slipping through the net?

First of all, it’s important to note that schoolgirls are hardly “shunning” the subject. In 2009 there were 6,827 female candidates for A level Economics. Ten years on, in 2019, that figure had risen 40% to 9,599.2 The gender ratio, however, has stayed relatively constant.

There are only three other subjects that have a wider gender disparity in favour of males: Further Maths, Physics3 and Computing.

At UK universities, the picture is similar. Women make up 57% of all undergraduate students but only 33% of those studying economics (including economics with other subjects).4

So, what is causing this disparity?

In my experience, it’s almost always explained away by the idea that girls just don’t like working with numbers.

But we need to be careful here. There is a long history of academic literature that has tried to separate the “rational differences in preferences between gender from sexist

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2 Data used from Joint Council for Qualifications (UCQ).
3 In physics, this led to a substantial review of practice. In 2014 the Institute of Physics (IoP) began its deep dive into gender disparity. Economics, by contrast, has been much slower on the uptake.
mumbo-jumbo” and there is little empirical evidence to substantiate this claim. At school, girls outperform boys in every maths metric there is.

It’s true some studies have shown that girls’ perceptions of their own mathematical ability are much harsher than boys’; boys tend to overrate themselves, whilst girls underrate themselves. And other studies have also found that when both men and women receive low grades in a discipline dominated by men (as economics is) it is the women who are the most likely to drop out.

My own view, however, is less subtle: economics has a PR problem. The presentation of economics is overwhelmingly male and it leaves many women mistakenly thinking it is not for them. To test this hypothesis, I recently tried to replicate two interesting experiments I had read about.

The first was an experiment by a team of Rethinkers from the Universities of Warwick and Bristol and the IFS. I asked 117 Headington students (a combination of Year 11 and 12s) to come up with the three words they most associate with economics. In the second experiment I asked those same students to draw an economist. To my knowledge, this test was first conducted by Ali Norrish for the charity Economy.

It seems then that the average Headington student (Year 11/12) considers economics to be about money, graphs, maths and ‘demand and supply’ and considers an economist to be male, wearing a tie, top hat and glasses whilst holding a bag of money (see over).

None of this should really be a surprise. The great forefathers (note even my use of language) of economics were rich men in suits. Just look at the Nobel Prize winners pre-2019: Samuelson, Kuznets, Hayek, Friedman, Coase, Becker, Nash ad nauseum. As a direct result, economics – as a brand – does not speak effectively enough to schoolgirls.

What is the solution then? As one of my students herself said: “If you want to attract more women, you have to

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8 In 2018, Betsy Stevenson and Hana Zlotnick showed that economics textbooks over-represent men (compared to the relevant population) among examples of contemporary policy-makers and business-leaders, and even among fictional people making economic decisions. Stevenson, B., Zlotnick, H. (2018) “Representations of Men and Women in Introductory Economics Textbooks”. Available at: https://www.aeaweb.org/articles?id=10.1257/pandp.20181102.
9 Elinor Ostrom (2009) was the only female to have won the Nobel Prize prior to Esther Duflo.
speak their language. Not the language of rich men in suits\textsuperscript{10}.

One solution, therefore, is to have more female economics teachers and to use more examples of female economists in class. Role models matter. We live in a time when this should be an easy win: the Head of the International Monetary Fund, Kristalina Georgieva, the President of the European Central Bank, Christine Lagarde, the Editor of The Economist magazine, Zanny Beddoes, and, of course, the most recent Nobel Prize winner for economics, Esther Duflo, are all female. Let’s capitalise on this.

A second solution is to tell our students about the wider real-life impact of economics. Studies have shown that boys and girls have different motivations for choosing their subjects to study; girls frequently rank “creativity”, “contributing to society”, “the environment” and “the opportunity to care for others” much higher than boys.

If you have any doubt about this, consider that “until recently, Richard Lipsey and Paul Samuelson wrote the default University textbooks. [In 2020] Wendy Carlin’s Core Economics is the new default. She put Income Inequality in Chapter 1 – not supply and demand\textsuperscript{10}.”

Steering the conversation away from traditional issues of income and personal wealth, and more towards solving the social, environmental and humanitarian issues of today’s world will have a significant effect, I am sure, on the number of girls studying economics in the near future.

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iea.org.uk/blog
The last few years have witnessed ongoing controversy over proposals to abolish cash.

The War on Cash is being promoted by an alliance of big digital payments firms, control ideologues and central banks.

The payments firms promote it for commercial reasons: they wish to eliminate a competitor, so they can increase the fees they charge on digital transactions. They argue that cash is inefficient, but such arguments ignore the benefits of cash that cannot be replicated by digital money. Cash is very efficient for small transactions. Cash transactions are immediate, flexible and anonymous. Cash does not need a password and can’t be hacked. The usefulness of cash is not dependent on technology that might break down – and sometimes does, creating huge problems.

In September 2017, for example, Puerto Rico was devastated by Hurricane Maria. The storm knocked out the electricity supply, ATMs and card verification stopped working, and people were unable to buy food or other necessities with anything but cash.

The Federal Reserve had to fly a jet loaded with an undisclosed amount of cash to the island, to meet payrolls and avert disaster as cash holdings ran out. As one observer put it, “In a cashless world, you’d better pray the power never goes out”.

In any case, if cash really were inefficient, then there would be no need to abolish it, because it would disappear spontaneously. That cash continues to be widely used – a recent estimate is that cash was used in 85% of global transactions – indicates that it still serves a useful role.

The second group promoting an end to cash do so as part of an agenda of increasing state control. They argue that cash should be abolished because “bad guys” – money launderers, drug smugglers and terrorists – use it. Yes, bad guys do use cash, but so do the rest of us.

Should we all lose the benefits of cash to inconvenience the bad guys, who would doubtless switch to some other payment medium? Perhaps not.

Consider also the implications of this argument: if we should abolish cash because bad guys use it, then the same argument applies to everything else they use including digital money, which is more widely used for criminal activities than cash itself.
Anyway, cash isn’t all that convenient for illicit transactions. The ideal medium for illicit drug commerce these days is – believe it or not – Amazon gift tokens, which have the virtue of anonymity.

“If I was a lower-level criminal, I would be paying for everything through gift cards”, as Garry Clement, former national director of the Royal Canadian Mounted Police’s Proceeds of Crime Program, has put it – there is no paper trail.

Cash also has the disadvantage for criminals of being small-scale. For large amounts of illicit transactions, you need to go digital. Consider the recent Danske Bank money laundering case, the largest such scandal ever.

This case involves nearly a quarter of a trillion dollars of very suspicious money from Russia and the former Soviet Union that was funnelled into the western banking system right under the noses of major banks and regulators in the United States and Europe, who either facilitated it or turned a blind eye.

For today’s modern high-tech criminal, then, cash is passé. So what is the point of abolishing cash while leaving the more important channels of illicit transactions wide open?

The third group promoting the War on Cash are central bankers. As interest rates have fallen, central banks have seen their ability further to reduce interest rates become severely squeezed. Abolishing cash would enable them to overcome this constraint and allow them to push interest rates deep into negative territory in their efforts to stimulate the economy.

The point here is that if central banks were to attempt to implement negative rate policies without first abolishing cash, then people would switch large-scale into cash to thwart their efforts. Thus, cash would need to be abolished to force people into negative-rate assets.

There are many problems with negative interest rate policies (NIRP). Why would anyone wish to lend at a negative interest rate? Why is this a justification for the War on Cash? Do we really want to give central bankers even more scope for potentially ruinous monetary experimentation?

Suppose that NIRP could be implemented at some selected negative rate. We would then have bank deposits being taxed at that rate every year, so money supply would be falling at about the same rate.

Thus, NIRP would involve a tax on deposits and a falling money supply, and a tax is never stimulative. The danger, then, is that saving and capital accumulation would first stop and then go into reverse, and the economy would go into a death spiral.

Whatever the merits of digital money, the use of cash confers important benefits that digital money does not. That the War on Cash would deprive us of those benefits is the least of its problems, however.

**THE WAR ON CASH COULD ENABLE CENTRAL BANKS TO WRECK THE ECONOMY AND DESTROY OUR CIVIL LIBERTIES**

It also threatens to undermine our privacy by allowing all our spending to be tracked. It may have the effect of expropriating large amounts of private wealth and expose us all to the risks of fallible digital systems.

In the worst case it may enable central banks to wreck the economy and destroy our civil liberties. We should fight back and keep spending cash.

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The 2020s will see the introduction of one of the most profoundly transformative technologies for decades: the driverless car.

In the world we’ve inhabited for the past 60 years, most adults own cars they drive daily, which they then park in their garages, front yards or on the street, or in car parks when they go to the shops or the train station or the airport. They arrange repairs, put in fuel and water and oil, pay car taxes and buy insurance.

Over the next decade all of this might end, with profound implications for the way we live – but also for public policy across a wide range of areas.

Over the next decade we might switch to a world in which instead of owning vehicles we drive ourselves, we will simply order a journey on our smartphones (or their future equivalent). By the time you’ve put on your shoes the car will arrive. It will take you to your destination at speeds barely comprehensible to us today. And that will be the end of your interaction with that vehicle.

The most visible public policy questions arising in the transition to this world concern public infrastructure. Roads and cityscapes will be completely transformed. Car parks and street parking spaces will be released. What will policymakers do with this space instead? Driverless cars will not require traffic lights or roundabouts, so there will be a major rebuilding programme to remove them.

To make the most of driverless cars, they will have to be permitted to run at vastly higher speeds than cars do in urban areas today. To make that safe, public policy will need to re-imagine and redesign pavements and other areas for pedestrians and cyclists. Human drivers will in due course have to be banned from cities and motorways.

What will we do with all the parking areas? Will they be converted to housing, shops, parks, city trees, or will they become part of the new pedestrian and cyclist spaces? Different cities
will probably have different preferences. Policy will need to decide on whether it wants a common nationwide approach or whether to allow different cities devolved decision-making.

With vehicles owned only by fleets and journeys ordered through an online platform or platforms, and fuel being electricity not gasoline, we will need to reconsider the taxation of car travel. Will we impose consumer taxes? Will they have a fixed element and a tax per unit of distance, or by time, by electricity used or by the cost the car provider charges?

It is plausible that driverless car journeys are arranged through only one or two online platforms. Should these be regarded as network monopolies and subject to price regulation? Does it make a difference if there are many car providers or only one or two? Where do we think monopoly bottlenecks really lie? Is it the car owners, or the car manufacturers, or something else entirely such as the car AI designers or the managers of navigation systems?

How will insurance work? At present there are laws requiring drivers to have insurance. Will such laws lapse entirely with driverless cars or will we say that anyone travelling in a vehicle must have their own insurance? Insofar as we mandate insurance of vehicles, what aspect? If there is a crash today, we assign liability on bases such as mechanical failure or driver error.

But if an AI car that monitors its roadworthiness crashes, is that entirely the failing of the AI? In which case where does liability lie? Is it with the shielding of the AI from cyber-attack, or did the AI encounter a situation it wasn’t programmed for (in which case is that the road planners’ fault or the AI programmers’), or...what? Insurers are still debating how best to configure driverless car insurance, so what can policymakers mandate?

It’s clear there will have to be state regulation of certain ethical precepts of driverless vehicles. For example, the car should not be programmed to plough through a crowd of pedestrians just to minimise the risk of injury to the car’s passenger.

But such regulation will not cover all relevant precepts. For example, to what extent should one AI car give way to another (akin to polite driving)? Some passengers might decide they aren’t in a hurry and want their car to always give way in case someone else faces a personal emergency. They might like to be able to upload such ethical precepts into the driverless car they are using. (Perhaps their own personal AI “butler” – a kind of souped-up “Alexa” – might carry their ethical precepts and upload those for them). Should the state mandate that driverless cars must allow this?

What about the risk of social exclusion? Presumably passengers will sometimes behave badly in vehicles – e.g. making them dirty. Driverless car providers might downgrade their social credit score in the light of this. What if your social credit score becomes too low for you to get a car? Should public policy accept that? And if so, should it mandate some way for such socially excluded people to rebuild their scores?

Driverless cars herald a fascinating future of marvels for us. But there are many policy issues to resolve, of which the above are merely a taste. The future beckons!

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When it comes to environmental problems in general, and global warming in particular, I empathise with those who take the issue seriously: I like nature and I am risk averse.

Greta Thunberg has become a sensation. But what is worrying about this phenomenon is that the more detached from critical reason her arguments become the more she is acclaimed.

She began by arguing that those who put forward alternative views were liars. Then her speech at last September’s UN Climate Summit was simply a series of assertions. The economics of this issue are complex.

This is not to patronise her. I am not arguing that she does not know the answers and I do (or that economists in general do). It is important that we all appreciate what we don’t know. Sometimes the more we learn, the more uncertain we come.

Whilst knowledge about climate science is uncertain, a judgement has to be and can be made on the balance of evidence. But economic decisions involve trade-offs.

Economics is, as Lionel Robbins put it, the science of not being able to have your cake and eat it. We cannot both decrease carbon emissions hugely and enjoy standards of living increasing at the rate that would have been possible if emissions were not reduced.

It is tempting to believe the rhetoric that we will all have green jobs and a green standard of living without any hardship from reducing emissions. We cannot.

Reducing carbon emissions means that we will have less of other things. We might prefer decarbonisation to other goods and services, but it is not a cost-free choice. When considering this, we should remember that the average income in the UK is ten times the average income in the rest of the world. When other people face these trade-offs the sacrifice of decarbonisation is that much greater.

One of the advantages of being richer is that we are more resilient to natural disasters. It follows from this that there is a trade-off between decarbonisation, which might lead to fewer natural disasters, and our ability to cope with them, which might reduce if we become less rich.

The use of air conditioning illustrates this trade-off in a rather stark way. An academic paper on air conditioning in the US produced such remarkable results that the abstract is worth quoting at length:
“The mortality effect of an extremely hot day declined by about 80% between 1900-1959 and 1960-2004. As a consequence, days with temperatures exceeding 90°F were responsible for about 600 premature fatalities annually in the 1960-2004 period, compared to the approximately 3,600 premature fatalities that would have occurred if the temperature-mortality relationship from before 1960 still prevailed.

Second, the adoption of residential air conditioning (AC) explains essentially the entire decline in the temperature-mortality relationship.”

Air conditioning leads to higher carbon emissions and, most likely, higher global temperatures. But the increase in resilience arising from air conditioning is astonishing – it has led to an 80 per cent drop in deaths from heat.

In the rich West, it might be thought we can have air conditioning powered by wind farms, for example. This would be expensive, but it would be possible.

Giving up whatever we need to give up to have both air conditioning and decarbonisation in southern US states or in Australia might be extremely uncomfortable for the less well off in society, but people would not starve or go without the basics necessary for life.

But, for developing countries, the sacrifices in terms of growth that arise from decarbonisation might give rise to much starker choices.

Only 8% of people living in the tropics benefit from air conditioning. Its expansion may raise temperatures slightly as a result of higher carbon emissions, but it will also make people far more resilient to those higher temperatures. And this is the trade-off that has to be considered.

Of course, improved technology may lead to air conditioning producing much less CO2 as a result of improved energy efficiency. This is why economists propose carbon taxes or carbon trading as the best way to reduce carbon emissions.

People can then choose the most efficient way to reduce emissions whilst keeping those carbon-emitting technologies that are most valuable to them or which are most difficult to replace.

But, even if this is the most efficient way to reduce carbon emissions, let us be clear, the lesson of economics is that there is no free lunch.

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We usually think of taxation as a practical, if rather unwelcome, imposition by which the government raises revenue from the population in order to provide a range of services.

Debate rages amongst economists about the efficiency of various taxes, there is a wider debate about the fairness of who bears the burden and considerable disagreement too about the wisdom or otherwise of the range of services the government provides with the revenue taxes generates.

In Dominic Frisby’s latest book, *Daylight Robbery*, we are invited to understand tax in a more fundamental and wide-reaching way. Frisby argues that we can understand many of the major events in world history through the prism of taxation. Wars, revolutions and even architectural design have typically, Frisby argues, been shaped – or even caused – by one form of tax or another.

He begins his tale with the tax associated with the title of his book. “Daylight robbery” may now be a widely used term to describe any unfair and unreasonable financial imposition, but its probable origins can be traced back to a tax introduced in 1696.

A few years earlier, the new English monarchs, William and Mary, had sought to court popularity by abolishing a tax which had been around for centuries. Property owners had been taxed on the basis of the number of stoves, hearths or fireplaces. However, it wasn’t long before the monarchs needed to raise revenues and they did so through introducing the Duty on Houses, Light and Windows – commonly!

**DAYLIGHT ROBBERY!**

Governments have always found ways of taking the pound from your pocket – sometimes with disastrous consequences, as MARK LITTLEWOOD discovers
FRISBY DOCUMENTS THE DRAMATIC IMPACT OF TAXATION ON WORLD EVENTS

Like many taxes, the initial rate was set low and the expressed intention was for the tax to be temporary. However, it became permanent and rates increased. A tax on glass was added in 1746. To avoid the tax, owners would brick up their windows. As well as leading to sickness (due to occupants having less fresh air and sunlight), the tax changed the nature of architecture for over a century in both Britain and France, which had a similar levy, as new buildings were constructed to work around the thresholds – or notches – of the window tax.

The taxes also had a major impact on the nature of British industry. Although the British population nearly doubled in the first fifty years of the nineteenth century – along with a predictable building boom – glass production remained broadly static.

Although the window tax never made it to the USA, mere suspicion that it might be introduced led to a violent uprising in Pennsylvania in 1798 which took federal troops nearly two years to quash.

Just over 25 years earlier, of course, a dispute about tax triggered the war of independence that would lead to the creation of the United States of America.

Parliament sought to undercut Dutch tea, which was becoming increasingly popular in America, and give a boost to the ailing East India Company by giving it a monopoly over tea supply and ensuring no tax or duties needed to be paid. Full scale war broke out and the British were evicted, accepting by 1778 that Britain should no longer impose any taxes or duties on any of its colonies.

Dominic Frisby's book documents countless other examples of the dramatic impact of taxation on world events from Ancient Greece to the spectacular emergence of modern corporate giants, such as Amazon, whose business model relies heavily on tax efficiency as compared to its competitors, who incur high “bricks and mortar” taxes such as business rates.

Although Daylight Robbery is often a tale of war, destruction and devastation wrought by unwise approaches to tax, the author does give other examples of how a sensible approach to taxation can yield spectacular and welcome results.

He credits John Cowperthwaite, who became Hong Kong's financial secretary in 1961, with devising a strategy that led to very high economic growth in the colony. Total tax take was only ever as high as 14% of national income – with only the affluent paying any income tax at all and no taxes on sales, capital gains, interest or overseas earnings.

Dominic Frisby suggests this sort of approach – perhaps cutting taxation and government spending by more than half in Britain – would be the best means of generating enhanced freedom and prosperity. He posits that taxes on land usage tend to be fairer and more efficient than many other taxes we impose.

Whether you agree with him or not, he shows not just that death and taxes are the only certainties in life, but that the latter have a much wider and deeper impact on the world we live in than we might initially realise.

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Can economies be planned in the same way as successful corporations? A new book suggests governments should follow the lead of companies like US giant Walmart. But, says Christopher Snowdon, there are crucial differences between supermarkets and economies...

It is now a century since Ludwig von Mises identified the fatal flaw in centrally planned economies.

His 1920 essay, ‘Economic Calculation in the Socialist Commonwealth’, argued that resources cannot be allocated efficiently unless you know what they are worth.

If price signals are abolished, as they were in the Soviet Union, it is impossible to know where labour and materials should be directed to best effect.

Mises’ argument was logically robust and tragically borne out by history. Attempts by socialist governments to find substitutes for the price mechanism failed, and so did their economies.

The authors of People’s Republic of Walmart, Leigh Phillips and Michal Rozworski, accept that planned economies have never worked in the past, but believe they could in the future if the methods of modern global corporations were applied to Mises’ socialist calculation problem.

Phillips and Rozworski find it ironic that capitalists scoff at central planning when they do so much planning themselves. They argue that ‘great swaths of the global economy exist outside the market and are planned’.

Large corporations use increasingly sophisticated computers to ensure regular replenishment of stock and rapid delivery to customers. By sharing information with warehouses, truckers and other parts of the supply chain, Walmart is able to meet consumer demand without carrying too many or too few products.

“Thus,” they write, “planning, and above all trust, openness and cooperation along the supply chain – rather than competition – are fundamental to continuous replacement”.

PUTTING THE CART BEFORE THE HORSE...
But Walmart is not an economy. It is an individual player in the economy, competing against like-minded rivals and responding to public demand. The ‘trust, openness and cooperation’ in the supply chain is driven by the pursuit of profit. If Walmart’s plan fails, a company with a better plan will take its place. No one will starve.

As impressive as Facebook’s algorithms and Walmart’s stock-taking may be, they are wholly inadequate substitutes for the price mechanism. Even Phillips and Rozworski can do no more than cross their fingers and hope that such technology can somehow rescue central planning.

Strictly speaking, they are challenging Hayek’s “knowledge problem”, not Mises’ calculation problem, and they treat it as a mathematical conundrum that can be solved with sufficient data and computer power.

But Mises started from the assumption that the planner has as much knowledge as he could possibly have and yet is still unable to plan efficiently.

The tendency of monopolies to be inefficient and exploitative is the reason we want them broken up whenever possible. By contrast, Phillips and Rozworski want to create a vast, global monopoly and expect a new breed of human to emerge to administer it in a selfless, honest and competent way. This is a naive and high-risk strategy.

The calculation problem is important, and nothing in this book persuades me that it can be overcome, but it is far from the only flaw in socialist planning.

Inadequate incentives to work and innovate, bloated state monopolies and chronic inefficiency caused by a lack of competition are just some of them.

These faults, which are either ignored by the authors or glibly dismissed with promises of “democratisation”, have caused untold misery in every country that has attempted to create a workers’ paradise. They are not going to be fixed by incorporating Amazon’s shipping system.

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ATTEMPTS BY SOCIALIST GOVERNMENTS TO FIND SUBSTITUTES FOR THE PRICE MECHANISM FAILED – AND SO DID THEIR ECONOMIES

Why? Because he cannot know what value millions of people place on labour, goods, raw materials and services.

No technology can measure the constantly changing subjective value of goods and services to individuals. The problem is intractable without price signals. And so, whilst the knowledge problem can be solved, at least in theory, the calculation problem cannot.

Phillips and Rozworski have a binary, all-or-nothing view of the market: either it allocates resources more efficiently, in which case every sector should be privatised, or it allocates resources less efficiently, in which case every sector should be nationalised.

Since almost nobody believes in full marketisation, they conclude that planning must be superior and that ‘centrists’ who believe in a mixed economy are hypocrites.

But one can support private enterprise when competition is possible while supporting nationalisation when there is a natural monopoly or a public service that cannot be profitable (such as the armed forces or judiciary).

There is plenty of debate about where the line should be drawn, but the division is not arbitrary, as Phillips and Rozworski imply. Competition prevents excess profit-making, incentivises productivity and stimulates innovation, but if competition is impossible or inappropriate, state intervention is the next best thing.

The People’s Republic of Walmart

How the world’s biggest corporations are laying the foundation for socialism

Jacobin Series, 2019

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Jacobin Series, 2019
Hundreds of students take part in our intern programmes throughout the year. Here we catch up with former IEA interns who’ve gone on to great things (and find out how you could intern with us on page 34...).
Can you summarise your career since leaving the IEA?
I’ve moved from the world of think tanks to journalism, joining The Spectator as their Economics Correspondent. The building may be around the corner from the IEA, but it’s a new challenge that’s keeping me on my toes.

What’s your favourite and/or funniest memory of the IEA?
A particular favourite moment that stands out to me was the day we launched the IEA’s podcast Live from Lord North Street. Our digital team had worked round the clock to get the channels established and good podcasts in the can. We told the staff we were hoping to make the iTunes Top 100 podcast list – but not to get their hopes up. By the end of the day, we had made the top 20 and were top 5 for the news and politics category – right next to Ed Miliband!

What advice would you give to people considering or about to start IEA programmes?
If you’re considering an IEA internship – do it! It’s all too rare that you get the opportunity to learn so much and surround yourself with such great free-market thinkers and teachers. You won’t regret it.

If you’re about to start – throw yourself into the experience and ask how you can get more involved. There is always work to be done at the IEA (the fight for freedom is not yet won!) but sometimes staff need a reminder that you’re on site and ready to help.

What’s the best piece of advice you’ve ever received?
Make the right choice for right now. It’s easy to think far into the future, about the dream job or the big wins. While it’s very important to have ambition, your thirty-year plan shouldn’t be the top (or even tenth!) factor when making decisions about what university to attend or your first job out of school. Choose the next step that makes sense and feels right for the time and place you’re in, and inevitably you’ll be one step closer to achieving your goals.

What book should everyone read?
Progress: Ten Reasons to Look Forward to the Future, by Johan Norberg

What do you think is the most underrated skill?
Paying attention to detail. Game-changing ideas often get attention, but it’s the people who can deliver them flawlessly who I notice, and consider most valuable to the team. Put time and care into the quality of the product you deliver; triple-check for spelling errors; get things checked and re-checked before you ask your boss to sign-off. If you show attention to detail, you’ll quickly become trusted by those around you. No surprise, this leads to more opportunity to put forward your own big ideas. Everyone knows you can deliver on them.

What’s your favourite TV show/movie?
Near impossible for a movie-buff like me to pick a favourite, but I’ll go with one of the best classics: Rear Window

Which three people would you invite to your dream dinner party?
If it’s dead or alive, it would be author F. Scott Fitzgerald, President Ronald Reagan, and country singer Dolly Parton.
Can you summarise your career since leaving the IEA?

I went on to my second year of studying Political Economy at King’s College London. I worked part-time for an MP in Westminster throughout my degree. I spent part of my second year studying in Asia – a month in Tokyo, four months in Seoul, two months in Hong Kong. I completed my final year at King’s, writing my dissertation on the policy failure of social care in the UK. Then I started a series of summer internships – including working in the communications team at Porton Down after the Novichok attack. I moved to Edinburgh in 2018 and started as a trainee investment manager at Baillie Gifford. So far I’ve been on the emerging markets equity team (researching companies from LatAm airports to Chinese biotech and South African retailers) and a global growth equity team. I contribute to the funds with idea generation, investment discussions and in-depth company research.

What’s your favourite and/or funniest memory of the IEA?

I enjoyed the internship so much and have kept up with a lot of the people I met there. I learned something from every speaker and session. It wasn’t just the formal sessions but also the coffee chats – working with people who could readily shift conversation from regression analyses to microfinance to reality TV was a pretty special time.

What advice would you give to people considering or about to start IEA programmes?

You never know where an opportunity may lead. No matter what stage of study or work you’re at, you’ll get something out of your time with the IEA. If you want to challenge your perspectives and learn in-depth about areas you’d rarely see on a curriculum, an IEA programme is the best starting place.

What’s the best piece of advice you’ve ever received?

Be kind to yourself. If you’re young and ambitious, you can often develop that internal narrative of competitiveness, of being disappointed at each setback. You can achieve a lot that way, but you’ll find it hard to actively learn and enjoy what you’ve achieved. So be resilient – but be kind to yourself in the process.

What book should everyone read?

Messy by Tim Harford. The challenge of how disorder can reshape your life. Reading his book made me realise how I should look outside paths I’d set for myself. I studied abroad just after reading it.

What do you think is the most underrated skill?

Active listening. I volunteered at The Listening Place in my final year, a charity that gives suicidal individuals face to face support. Active listening means being present in a conversation, not pre-verbalising your next comment, allowing the time and sometimes silence to allow each other to think through their viewpoints. Ironically, this can get to the crux of issues much quicker.

What’s your favourite TV show/movie?

I have six siblings so fighting over the remote basically meant having to like everything! But there are a couple of things we can all watch – Back to the Future and Quantum Leap spring to mind.

Which three people would you invite to your dream dinner party?

Economist and philosopher Friedrich Hayek. Then Vera Brittain – her autobiography really stayed with me... her experience of the First World War, her struggle to rebuild her life and achieve her potential. I’ll leave the third chair empty for now, as I’m sure I’d like to save it.
Thought-provoking economists, the best and brightest young people, and talks looking at what the future holds and how creativity and innovation fostered under free markets has helped halve world poverty in recent decades... all in one place on Saturday 27th June 2020 at the Royal Geographical Society, London.

Our THINK conference is back for its fifth year – with great speakers including best-selling author Dr Pippa Malmgren.

600 16-25-year-olds are set to attend to learn about new ideas in economics and challenge one another’s views!

We’ll be announcing full programme details and more speakers in the coming weeks. To find out more and buy tickets please visit thinkiea.com.

- You can watch videos of all the talks from previous THINK events, with speakers including Nobel Prize Winner Vernon Smith, Tim Harford, Johan Norberg and Linda Yueh on our YouTube channel: www.youtube.com/user/iealondon/playlists.

SPEAKERS’ CORNER

The IEA works with a network of student societies at campuses all over the country.

We want to ensure free market ideas in economics are heard loud and clear on UK campuses, so we provide our student societies with speakers, free materials and publications for their events and conferences.

To find out more about how to organise a University Day on campus, get materials for your society, or view the IEA Speakers’ Bureau, visit: https://iea.org.uk/student-resources/.

REVISION RESOURCE...

With exams coming up, we’ve put together a comprehensive guide linking relevant IEA resources to A-Level Economics specifications for AQA, Edexcel and OCR.

You can download a pdf of the guide you need by visiting: https://iea.org.uk/student-resources/.
TASTE OF FREEDOM

Freedom Week is an annual, one-week seminar which teaches students about classical liberal, free market, neoliberal and liberal perspectives on economics, politics, history and society. It’s open to over-18s who are currently attending or about to start university. The week is entirely free to attend: there’s no charge for accommodation, food, tuition or materials. Freedom Week 2020 will be held from Monday 17th August to Saturday 22nd August 2020. To apply and find out more, visit https://www.freedom-week.org/.

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SOUND BITE
Robust and razor sharp views
It seems rarely a week goes by without news of a lower league football team lurching into financial crisis.

At the time of writing, League Two team Macclesfield Town are facing a winding-up order from HMRC (temporarily suspended as the club seeks new investors) over unpaid taxes. In December 2019, their players went on strike over unpaid wages and former manager Sol Campbell is said to be owed £180,000.

Earlier this season, League One Bury FC were expelled from the English Football League (EFL) because of their inability to meet their financial and other obligations.

Another League One club, Bolton Wanderers – not so long ago a Premier League outfit – has teetered on the edge of footballing oblivion, incurring points deductions and fielding uncompetitive teams made up of youth team players.

Bury’s demise led to calls for the government to intervene, with a petition demanding a Parliamentary debate, and Sports Minister Nigel Adams and MP Damian Collins (who was then heading the Digital, Culture, Media and Sport Select Committee) calling for a reprieve.

But should clubs like Bury be reprieved?

Bury’s expulsion was understandably upsetting for fans, players and other employees of the club - but that would be the case for employees of any business that goes bust.

Businesses go bust all the time, and quite rightly too: creative destruction allows new businesses and new goods and services to break through and widen consumer choice. In football, for every Bury there is a Forest Green
or Salford City.

Government intervention is often called for when old-established businesses go under. A plausible case can sometimes be made for temporary support, particularly where economists can discern negative externalities such as the collapse of employment in isolated areas, and its knock-on effects on shops and suppliers. Even here, however, the sensible response is to make resources available to aid readjustment rather than keeping the failing business on life support.

But football has a special problem. Unlike most other consumer services, there are no real substitutes for a lifetime’s devotion to a club and its location. It’s not like the disappearance of a favourite type of car or clothing brand or chocolate biscuit, where time tends to heal rather more quickly than you expect.

However, far too much is made of the terminal nature of a club’s liquidation. Although it is rare for a club to collapse while a member of the English Football League, those clubs relegated to the National League (linked to the EFL by promotion and relegation) collapse quite frequently. Recent examples of ex-EFL clubs fallen on hard times include Halifax, Chester, Hereford and Darlington. Yet in each case the fans remained loyal, the club was reformed at a lower level and fought its way back up the football pyramid. Crowds at these clubs’ grounds are often as high as they were when in the EFL – testimony to Life After EFL Death. And they can always hope to rise higher.

Bury had been extremely badly run by at least the last two owners, but they, the owners of Bolton Wanderers and dodgy football club bosses elsewhere have been indulged for far too long by the EFL authorities.

If Bury had been given a reprieve, allowing the club time to get its house in order, it would have created a moral hazard problem – rather like that associated with financial regulation before the banking crisis. Banks were regarded by governments as “too big to fail” and thus took unwise risks with other people’s money.

The temptation is for politicians to say venerable clubs like Bury (who joined the League in 1894) and Bolton (founder members in 1888) are “too old to fail”. But this temptation should be resisted; allowing insolvent clubs to continue damages the competition’s integrity and reputation – and harms other clubs.

For example, Bury “won” promotion last season from League Two with a relatively expensive squad of players and coaches – which it’s now clear they couldn’t afford. Those clubs that lost out to Bury in the promotion race were beaten unfairly.

The EFL needs to apply much tougher rules to its members, requiring far greater financial disclosure and setting a much higher bar with its “fit and proper” criteria for club owners and directors.

FOOTNOTE:
There are already signs of new footballing life in Bury.
A new club, Bury AFC, has applied to join a league lower down the footballing pyramid from next season. Eventually, they hope to play their fixtures at Bury’s old ground.
I remember a faint air of excitement when the first energy drinks made it to my neck of the woods in the mid-1990s.

Rumour had it that they contained a mystical ingredient that would put a spring in your step (or give you wings, if you will). The exhilaration did not survive contact with the product, however.

The supposedly magic ingredient – taurine – was neither therapeutic nor psychoactive and the only stimulant in it was a dose of caffeine equivalent to a standard cup of instant coffee.

Like that other staple of 1990s student life, Pro Plus, energy drinks were a handy source of caffeine for people who didn’t like hot drinks. They have been a significant part of the UK soft drinks market ever since, but it is only recently that they have become the subject of a moral panic. The government now intends to ban their sale to anyone under the age of 16.

Age restrictions are generally placed on the sale of products that can cause demonstrable harm to the user (e.g. alcohol, tobacco, solvents) or to others (e.g. knives, fireworks). Energy drinks do not cause harm to others, so the government must think they harm the user, but it is unclear what harm is being done.

The government proposed the ban in its Childhood Obesity Plan, but there is no evidence that energy drinks play much of a role in making kids fat.

A can of Red Bull contains less sugar than a can of Pepsi, and many energy drinks contain no sugar at all. Unless the government is also planning to ban the sale of cake, sweets and lemonade to children, a ban on energy drinks seems unscientific and arbitrary.

Perhaps it’s not sugar and calories that are the issue, but caffeine? If so, it’s not clear why the government isn’t proposing a ban on the sale of other caffeinated drinks. There is more caffeine in many of the drinks sold in Starbucks and Costa than there is in a large can of Monster – and no one is proposing a ban on those.

Perhaps surprisingly, 10 to 17-year-olds get only just 11% of their caffeine from energy drinks. They get the rest from tea (39%), cola (33%), coffee (10%) and chocolate (7%). Even the heaviest adolescent consumers of energy drinks only get 17% of their daily caffeine intake from them.

There is no campaign to ban the sale of tea, coffee and cola to anyone under the age of 18, so what is special about energy drinks? They are not particularly high in sugar and caffeine and the government has not identified any other ingredients in them that could pose a risk to health.

In 2018, several supermarkets responded to a campaign by Jamie Oliver by voluntarily banning the sale of...
energy drinks to people under 16. In doing so, they lost sales to independent retailers and now hope to use the law to constrain the competition.

The government says there have been “strong calls” for legislation from “some industry bodies and retailers” and argues that a ban “would create a level playing field for businesses”. It seems big retailers are trying to nobble their smaller competitors with a state-sanctioned “level playing field”.

Banning the sale of energy drinks to minors on the basis of their sugar and/or caffeine content would set a troubling precedent. It would be no surprise if, having secured legislation, campaigners complain about the “loophole” that allows adolescents to buy drinks that contain more sugar or caffeine than those which had just been banned.

A ban would affect adults as well as children. If it goes ahead, anyone who does not look well over the age of 18 will have to provide ID when buying an energy drink.

If the government also proceeds with its proposal to ban the sale of energy drinks in vending machines and from certain buildings, it will reduce consumer choice for adults and children alike.

Most people would regard a ban on the sale of tea, coffee and sugary products to teenagers as disproportionate and ridiculous. There is no scientific reason to view a ban on the sale of energy drinks to teenagers any differently.

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I admire Dominic Cummings’s iconoclasm – if not his dress sense. The “Kevin-the-sulky-teenager” schtick amuses. But is he going about his attempts at reforming Whitehall in the right way? Over the years, there have been many attempts to reshape and reform the civil service and the machinery of government. In 1964 Prime Minister Harold Wilson brought in two powerful but eccentric Hungarians as independent advisors. By the standards of the day, they were the kind of ‘weirdos’ Cummings now hopes to find.

Wilson then created a new Department of Economic Affairs. It came up with the UK’s first – and so far only – National Plan, setting out targets for whole sectors of the economy and for wage increases for everybody. But within 18 months it was dead in the water as a result of a sterling crisis.

Many subsequent attempts have been made to reform our system of governance, with endless chopping of departments, mergers and demergers. But even if Cummings’s reforms were to succeed, their purpose seems to be to make the state more powerful. No-one ever seems to take seriously the idea of reducing the scope of government. Instead it grows and grows.

Take, for example, a recent government proposal which would require all cat-owners to microchip their pets at a cost of roughly £25 a time – and non-chippers could be fined up to £500. It was argued this would be useful in reuniting lost cats with their owners – and that dogs were already required to be chipped. But this seems a poor argument (particularly the comparison with dogs, which are often dangerous) on which to create more ‘criminals’.

It would entail new bureaucracy and new enforcement – and a high proportion of the ‘criminals’ would likely be older, poorer and possibly confused people.

It could also create unintended consequences. If a poor family’s moggy gives birth to six kittens, they’re not going to afford £150. The poor creatures will be let loose or, worse-still, tied up in a sack and dumped in a canal.

A more serious issue was highlighted by think tank EDSK, in a report on the government’s apprentice levy scheme (into which large firms must pay 0.5% of their wage bill). Not only had the scheme failed to meet its target of 3 million high level apprenticeships, but employers and educational institutions had used the scheme to rebadge existing courses and training programmes which weren’t really apprenticeships at all. The Director of EDSK said the scheme was ‘descending into farce’.

Or consider a recent employment tribunal decision to recognise veganism as a protected belief under discrimination law. Although not directly the consequence of a government decision, poorly-drafted laws have allowed tribunals and courts to expand the scope of protected belief beyond what Parliament (and the European Commission) envisaged.

This protection – originally intended to protect Muslims against discrimination – has now been held to cover belief in climate change, opposition to fox hunting, public service broadcasting, public service for the common good, spiritualism and the ability of mediums to contact the dead, and Scottish independence.

Examples like these might suggest the government should be rolling back state interference, rather than spending time and political capital trying to make the government apparatus more efficient at expanding its role still further. •

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