



FREE THOUGHTS

Collected columns
Jamie Whyte

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Jamie Whyte



ADAM SMITH
INSTITUTE

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For Khadija

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Preface

In May 2004 Daniel Finkelstein, then editor of the comment section of *The Times*, emailed me. He invited me to submit articles for publication on his pages. This might have set a religious man to thinking about providence. For I received his email not an hour after quitting my job as a management consultant, with nothing more reassuring for my soon-to-be destitute wife and child than the hope of making a living writing.

Which goes to show how tolerant providence can be. What had stirred up this hope in me, and encouraged Daniel Finkelstein to make his invitation, was the unexpected modest success of my 2003 *Bad Thoughts*, a book devoted to debunking wonky logic and nonsensical notions, such as providence.

This was the line of work I continued in the columns I wrote for Daniel up to 2006, some of which can be found in Part 8 of this collection. But correcting just any old logical error is no job for a grown man. The point of good reasoning is to arrive at true opinions. And the effort is worthwhile only when the opinions concern serious issues. Since 2006 my columns have increasingly concerned the relationship between the state and individuals: invariably arguing that politicians should back off and leave us to make decisions for ourselves.

That will soon get boring, you might think. But there are so many ways in which politicians seek to restrict our liberty, and such a variety of wonky justifications they offer, that you can write hundreds of pages in response to them without covering the same ground twice. The columns included in this collection range over subjects as diverse as taxation, religion, advertising, prison sentences, sex education, bankers' pay, marriage, insurance and beauty contests.

Newspaper columns must be self-contained. Apart from the common knowledge of the paper's readers, you cannot assume familiarity with anything your argument depends on. The columns collected here are no exception, I hope. But I also hope that, taken together, they form a coherent whole – that, bit by bit, they articulate a political philosophy.

The term now commonly used for what you will find in these pages is “libertarianism”. It is a dreadful word: ugly and obviously artificial. The views expressed in these pages are simply liberal. Alas, Americans’ perverse use of “liberal” to mean left-wing – now catching on in Britain – has stolen the word from us real liberals. Say you are a liberal and people will think you favour state-supplied healthcare and education, anti-discrimination laws, industrial policy and the other illiberal policies popular on the left.

Say you are libertarian, however, and they may think you are a member of an ideological cult. With some justification. Too many libertarians appeal to strange metaphysical entities, such as natural rights, or revere reason in a way that appears religious.

You will find nothing like that in these pages. Defending liberty requires no dodgy ideas. On the contrary, attacking it does. I hope the columns in this collection will help to convince you.

Part 1

Welfare and Liberty

Trading off

Wall Street Journal

28 June 2010

I used to defer gratification when I was a teenager. Now that I am middle-aged I take it when it presents itself. Not only have the opportunities become rarer and more precious, but the benefits of deferral are always in the future. And my future is getting shorter every day.

“A moment on the lips is a lifetime on the hips.” This equation advises us to forgo the pleasure of tasty but fattening food. It may be good advice when you are 20. But as you age and your hips’ lifetime shortens, the scales begin to tip in the direction of instant labial gratification. No one counts the calories of his last supper.

It is not only age that makes the best trade-off between health and other good things vary from person to person. Rugby players take bigger risks with their health than most of us, not because they would soon die or get injured even if they did not, but because they enjoy the game more than most. Believe it or not, some people like being tackled by enormous men in boots. We humans are a diverse bunch.

I mention this obvious fact only because it seems to have evaded the authorities who devote themselves to our welfare. Instead of allowing us to make our own trade-offs between health and the other things we value, they go around imposing a single trade-off on everyone – usually one that would suit only a tiny, hysterically risk-averse minority.

The recent reaction to Iceland's volcanic ash provides a typical example. The authorities did not tell us their best estimate of the chance an airliner would crash into the sea and then allow us to trade-off our desire to travel against the risk of dying. They made the choice for us. By banning all flights, the authorities forced us all to act as if the benefit of travelling were insufficient to warrant the increased risk of dying.

They were sure to be wrong in many cases: the man dying of cancer who wants to visit his brother one last time; the entrepreneur desperate to close a precarious deal; the romantic whose heart aches to be reunited with his lover. Left to their own devices, many passengers would have deemed the risk worth taking. And no one who did not would have been forced to travel.

Workplace health and safety standards make the same mistake. Employers whose workplace is unsafe will have to pay a wage premium to find willing employees. Some safety improvements will be worth more in reduced wages than they cost. But not all. Making the windows of an accountancy office bulletproof, for example, would be a safety improvement too far. The optimal safety level is reached when any further improvements would cost more than they save in wages. This optimum varies from firm to firm. Employers have the information and the incentive to find it. Regulators do not.

On the contrary, health and safety regulators have perverse incentives. Consider those who decided to shut down British airports. They cannot know how important your travel is to you. But, even if they could, they would not care. They get no benefit from your seeing your brother, closing that deal, or being reunited with your lover. They just get punished if they let you fly and your plane crashes. They are not responsible for family unity, business profits or romantic joy. They are responsible for safety alone.

The excessive quantity of safety we are forced to buy (through higher prices, lower wages, inconvenience and fat children, among other things) is the predictable result of the government deciding that it is responsible for our safety. Had it taken responsibility for some other good – conviviality, let's suppose – then we would be forced to buy too much of that. Companies would be obliged to arrange parties for staff who would have preferred the money; officials would understate the risk presented by contagious diseases for fear that people might stop socialising; private hospital rooms would be banned; and alcohol would be subsidised. It would matter not a jot to the conviviality officers if everyone preferred less partying and more other good stuff, such as money, privacy and safety. Other good stuff is none of their business.

Everyone will find the idea of enforced conviviality absurd. Yet some will resist drawing the conclusion that enforced safety is equally absurd. Why? What is the relevant difference between safety and conviviality? Both are goods that can be enjoyed only at the cost of foregoing other goods. Why do politicians think we should be free to choose our preferred quantity of one but not of the other?

I suspect the answer is that, perhaps unconsciously, many believe in impersonal, absolute or “objective” values. Whereas conviviality is a merely personal value, safety is objectively valuable. People who care little for their safety and lead dangerous lives are making a mistake. They have failed to recognise the true value of safety. By forcing them to lead safer lives than they would choose to, the government helps them.

The idea that things have a true value, independent of how much anyone values them, is difficult to believe. In fact, it is difficult even to know what it means. But there is a more obvious problem with the idea that politicians should force us to live in conformity with

the objective values; it requires us to believe that they are unusually perceptive about such matters, that they know better than the rest of us the true value of things.

I can see why politicians may want to believe this. Indeed, believing it may explain why many of them entered politics. But I cannot see why anyone else should agree with them.

The Good Life with David Cameron

Wall Street Journal

29 November 2010

Jigme Dorji Wangchuck, the former King of Bhutan, declared in 1972 that “gross national happiness (GNH) is more important than gross national product”. The Centre for Bhutan Studies dutifully constructed a survey-based measure of GNH, whose increase is now the goal of Bhutan’s five-year plans.

Wangchuckism has slowly caught on outside of the happy Kingdom. President Sarkozy recently commissioned the economists Joseph Stiglitz and Amartya Sen to construct a measure of French happiness. The United Nations, World Bank, European Commission and Organisation for Economic Co-operation and Development also now measure not only wealth but well-being.

Last week, Mr Cameron announced that he is unhappy “following meekly behind”. Britain must lead the world in measuring happiness. He has asked the Office of National Statistics (ONS) to construct a survey-based measure of the country’s general well-being. They will publish their first findings in the summer of 2012.

Mr Cameron might not be such an enthusiastic Wangchucker had he spent his pre-politics years working as a management consultant rather than as a public relations officer. For it is an unusual young consultant who does not devote a few of his endless hours in front of an Excel spreadsheet to constructing a girlfriend rating model.

Here’s how it is done. Start by asking what contributes to a woman’s appeal: Bone structure, skin condition, body shape,

intelligence, humour ... and so on. Give each of these factors a weight reflecting their relative importance. Now assign the women in your sample a score (from 0 to 100, say) for each factor. To arrive at a woman's overall score, simply sum up her factor scores multiplied by their weights.

It is an amusing exercise but it always ends in failure. No one I know has built a model that gives the right answers. The ranking of women as scored by the model does not match their actual ranking in the affections of the modeller. Diana scores better in most categories but for some ineffable reason you prefer Camilla.

And this failure occurs when all you are trying to do is construct a measure of women's attractiveness to a single person, namely, yourself. Imagine the impossibility of modelling female appeal for the whole male population. Some like women curvy, others skinny; some like them clever, others simple; some funny, others serious. Any model's ranking of women would inevitably be way off the mark for millions of men.

The same failure is inevitable when trying to measure happiness or well-being. As with attractiveness, it is easier to tell when you are happy than why you are. And the causes of happiness vary widely, not just between different people but for the same person over time. When I was a child, Brussels sprouts made me unhappy but made my mother happy. Now that I am middle aged and she is old, the matter has reversed.

Of course, Brussels sprout consumption is unlikely to be part of the ONS's measure of happiness. They will no doubt turn to the findings of "the new science" of happiness, as Professor Lord Layard of Highgate calls it in the subtitle of his 2005 book on the topic. But the Brussels sprout problem will persist.

Consider divorce, which according to Professor Layard makes people unhappy. I am a living counter-example. My experience of

being unmarried then married then divorced goes like this: happy then unhappy then happy. Yet when the ONS conducts its survey armed with Professor Layard's science, they will count my happy divorce as a contribution to the nation's misery. And when Mr Cameron, armed with this science, changes the law to make divorce more difficult, he will be extending the misery of people in marriages like my first one.

Yet the folly of imposing a "one size fits all" view of the causes of happiness on a diverse population is only secondary. The more fundamental error is selecting happiness as the measure of a successful society. Happiness is but one of the things people value. They also value justice, truth, glory, cars, rugby, Brussels sprouts, Rolex watches and an endless list of other things. So, even if happiness had the same causes for everyone, it would still be a silly measure of society's success.

Many will protest that people value these other things only as sources of happiness. If someone wants a Rolex watch that is because he thinks it will make him happy. But, depending on what you mean by "happy", this is either a mere tautology or obviously false.

If "happy" means only that you have satisfied your desires, then it is trivially true that people seek only happiness. It is nothing more than the claim that people want what they want. On the other hand, if "happy" refers to some particular state of mind – as it does for happiness scientists, who seem to model it on the apparent contentment of the Dali Lama – then it is clear that we do not seek only happiness. No one believes that a Rolex will put him in the mental state of the Dali Lama, but many still want one.

In a free society people will pursue "the good life" as they conceive it. Mr Cameron claims to reject governmental interference in favour of individual liberty. His taste for industrial policy,

nationalised healthcare, compulsory charity and population control make some doubt him. His Wangchuckery should put the matter beyond doubt. No one with a shred of liberal principle could think it the state's proper job to specify the nature of "the good life" and then design policies that get people to live it.

Spread the word about the benefits of advertising

Financial Times

27 June 2007

Advertising is unpopular with those concerned for our welfare. They see it as a kind of coercion, making us “want things we do not really need” and, sometimes, things that are positively bad for us. Ban the ad, they demand.

Modern regulators are happy to oblige them. On Sunday, two moves to tighten up on advertising junk food to children come into force. Ofcom, the media regulator, introduces new content rules (including banning the use of celebrities), prior to banning advertising of foods high in fat, sugar or salt during television programmes popular with under-16-year-olds next January. The Committee of Advertising Practice, an industry group, is bringing in similar content rules for press, posters and paid-for internet space.

These prohibitions are unlikely to achieve their goal of reducing demand for junk food. For advertising is not the only way to promote a product. The money that manufacturers are forced to save on advertising may, for example, be diverted into research and development: ad-banners might inadvertently be helping to create even more irresistible junk food. Or the unspent advertising budget may simply be used to cut prices – and cheaper, unadvertised junk food may sell in greater volume.

Regulation that is vulnerable to such obvious “substitution effects” is foolish. But, in this case, the foolishness is not a consequence of economic ignorance (Ofcom surely employs economists). It is due to a widespread, misguided prejudice against advertising.

Consider a car manufacturer suffering from declining sales of its sports utility model, the Lumberjack. After strenuous research, the company arrives at what it believes to be three equally cost-effective options for boosting demand: a £2,000 price cut; adding leather upholstery; or a campaign of adverts filled with trees, axes and red check shirts. For the manufacturer, these options are equally cost-effective and, hence, equally attractive. But surely not for the consumer. The third option looks like a trick. Cutting the price or adding leather seats makes the Lumberjack a better deal. But an advertising campaign does not. It increases demand by messing with our heads.

The idea that advertising works not by improving products but by psychological manipulation lies behind its bad reputation. It explains why advertising is always at the top of do-gooders' hit-lists. But it is wrong, because psychological manipulation is a perfectly good way of improving things.

If I messed with your head so that you found standing on one leg immensely enjoyable, then I would have improved standing on one leg. If an advertising campaign messes with your head so that you find owning and driving a Lumberjack more gratifying, then it has improved Lumberjacks. After all, what makes leather upholstery so good if not the fact that we enjoy sitting on it?

There are two ways to improve a product: change its material properties or change the way consumers respond to it. Advertising works in the second way. In many cases it is fantastically successful. The pleasure of consuming some products, such as Chanel perfume and Nike trainers, is largely due to their brands. Why bemoan this fact? Why regret that advertising works? When it does, it makes things better.

Usually. Sometimes advertising increases desire for something without changing the experience of consuming it and hence

without improving it. But even then advertising benefits us. Because the Buddhist idea that we are better off with less desire is wrong.

You can, of course, want something more than you should. This happens when you overestimate the benefits or underestimate the costs. If you do not know about hangovers, for example, you will probably want to drink more than you should. But such mistakes are self-correcting. An inflated desire makes you do things you should not. Then you regret it and your desire is deflated. Excessive desires have remedial consequences. So advertising that wrongly increases your desire will cost you little in the long run.

But what if you desire something too little? What if you underestimate its benefits or overestimate its costs? If you do not know how much fun it is to be drunk, you might want to drink not nearly enough. Since this mistake leads to no action and, hence, to no feedback, it can persist indefinitely. You can spend your entire life failing to consume or do things that you should. More desire is what you need. That is why advertising is a source of untold good for mankind. It should be the last thing regulators consider banning.

Sympathy is a failure of imagination

The Times

11 August 2007

Being able to imagine yourself in someone else's shoes is considered a virtue. But it can lead you into error. An animal rights enthusiast once tried to win me over to her view of battery chicken farming by asking how I would like being confined to a cage only fractionally larger than my body. I asked her how she would like to spend her life strutting around, bent forward trying to suck grain off the ground. A chicken with a human mind would be miserable whether it lived in a box or ranged free.

Philosophers call the projection of your own sensibilities on to things that do not share them the "sympathetic fallacy". It is popular with pet owners, many of whom believe themselves to be the recipients of animal love. But the fallacy is not restricted to thinking about animals. It also pollutes our reasoning about other people, often causing mutually beneficial, voluntary transactions to be mistaken for exploitation or coercion.

Let's start with homosexual sex. Until 1985 it was illegal in New Zealand. In that year a Private Member's Bill to legalise it sparked off a national debate on the topic. Many of those who wanted to keep sodomy illegal claimed that it was disgusting. They came to this conclusion, I think, by imagining themselves engaged in homosexual sex. From the realisation that it would disgust them they concluded that it is generally disgusting.

The problem with this reasoning, of course, is that those who volunteer for homosexual sex are homosexual and so are unlikely

to experience the heterosexuals' disgust. For the voluntary participant, homosexual sex is no less delightful than its heterosexual variant.

But how, you may wonder, does this mistake concern the question of legality? Even if sodomy were disgusting, why should the law prevent people from volunteering for it? The answer is that once you think something disgusting, it is difficult to believe that people genuinely consent to it. A filthy old man may want to engage in sodomy but surely not a lovely clean-limbed youth. And, indeed, New Zealand's prohibitionists often claimed that they sought to protect vulnerable young men.

Few politicians now try to protect lovely young men from sodomy. But they do seek to protect other vulnerable people from things that they consider disgusting – such as working for low pay.

To ensure “fairness in the workplace”, it is illegal to work for less than £5.35 an hour in Britain. When I ask defenders of the minimum wage why someone who worked for, say, £3 an hour would thereby be treated unfairly, they usually respond by asking me how I would like working for this amount.

I would hate it because I can earn considerably more than this. If I found myself, with my current earning power, working for £3 an hour, then I would certainly be the victim of unfair treatment. But that is irrelevant, because no one who can earn more than £3 an hour would voluntarily work for that amount. You may as well argue that my current earnings are unfair because they are less than \$10,000 a day, the amount the model Linda Evangelista once claimed was the minimum required to entice her out of bed.

It is the laws that “protect” low-skilled labourers, not the employers who offer them low wages, that injure them. A minimum wage cannot increase the value of your labour. Those whose labour is

worth only £3 cannot choose between working for £3 or for £5. Their choice is between working for £3 or not at all. The minimum wage simply forces them into unemployment. It protects not unskilled workers but an effete political class who feel queasy at the thought of low-paid work.

Imagining yourself in other people's shoes – or bedrooms or sweat shops – is an absurd way of deciding whether or not they are being exploited, coerced or otherwise abused. You need to imagine being *them* in their shoes. If you had no skills but wanted to work, then you might be glad to be offered employment at £3 an hour. Just as you might be glad of sodomy if you were gay. The sympathetic fallacy should really be called the unsympathetic fallacy. It involves a failure to think beyond your own sensibilities and apply those of the animal or person concerned.

You cannot help people by preventing them from engaging in voluntary transactions. If a Bangladeshi wants to work in a clothes factory for 20p an hour, then chances are that this represents a good deal for him. Those who lobby to prevent the import of the clothes that he is “exploited” to make are not helping him. Giving him enough money to think it no longer worthwhile to work for 20p an hour would be an act of generosity. Running his employer out of business because cheap labour offends you is an act of selfishness.

Nor does banning the commercial trade in organs protect the vulnerable. That most Westerners would not sell a kidney for £5,000 does not mean that an Indian pauper who would do so is being exploited. His life would probably be transformed for the better. Nor does banning the commercial trade in sex protect women from this “disgusting” profession. It merely prevents those who would choose it from pursuing what they must consider to be their best job opportunity.

The same goes for every other voluntary transaction that, for their own good, we prevent people from engaging in. It is not their good; it is our good.

Adults of the world, unite!

Wall Street Journal

31 March 2011

Last month a group of doctors led by Sir Ian Gilmore published an article in the medical journal *Lancet* calling for government action to reduce alcohol consumption in Britain. They recommend a minimum price of 50 pence per unit of alcohol (a 175 millilitre glass of wine contains two units). In a BBC interview, Dr. Gilmore pleaded with the government to adopt his “evidence-based” approach to the issue.

The government has not obeyed. Or, at least, it has not imposed the suggested minimum price as part of the “responsibility deal” it has made with the alcohol industry aimed at reducing the amount people drink. Six of the health organisations that were supposed to be party to the deal – including the British Medical Association and the Royal College of Physicians – refused to sign up. They insist that the government adopt Dr Gilmore’s evidence-based approach.

Like Dr Gilmore, they are confused. His evidence concerns the relationship between the price of alcohol and how much is drunk. As you might expect, it shows that drinking declines as the price increases. But how can this tell the government what the minimum price of alcohol should be?

Perhaps the doctors’ evidence can tell us by how much alcohol consumption would decline if the government established the doctors’ suggested minimum price. But what is so good about the resulting consumption level? Why not have a higher minimum price and even less drinking? Or a lower price and more drinking?

What, in other words, is the right amount of drinking? Because Dr. Gilmore and his colleagues do not know the answer, their advised minimum unit price, far from being evidence-based, is arbitrary.

Like everything else we do voluntarily, drinking has costs and benefits. We drink when we judge the benefits, such as the taste and intoxication, to exceed the costs, such as the monetary price and the increased chance of ill health. The right amount of drinking, or of anything else, is the amount we get when it is done voluntarily. By imposing artificial costs on drinkers in an attempt to make them drink less than they otherwise would, Dr Gilmore can only be harming them.

Those who would interfere with our voluntary consumption typically employ one or both of two arguments. The first is consumer ignorance: Our drinking must be constrained by taxes, they argue, because people underestimate the health costs of alcohol use. Perhaps some people do. But it is a silly argument for taxing consumption, because ignorance cuts both ways. Some people surely overestimate the health costs, and those who have never drunk may underestimate the pleasure. Yet no one ever suggests subsidising alcohol to counteract such errors.

The second and most popular argument for reducing voluntary consumption is based on external costs, ones created by consumption but not borne by the consumer. Pollution caused by energy consumption is the famous example of an external cost – the cost of each individual’s energy consumption does not fall fully on that individual because other people also breathe the air he soils. This means that we sometimes consume energy even when the total cost exceeds the total benefit. A tax on energy consumption is meant to “internalise” this external cost and so ensure that energy is consumed only when the total benefit exceeds the total cost.

But even that rationale cannot justify Dr Gilmore's desire to reduce our alcohol consumption, because the costs of alcohol consumption are borne entirely by the drinker. The cost of the lawlessness that sometimes results from drunkenness is internalised by criminal penalties for breaking the law. And the health problems caused by drinking, which concern Dr Gilmore and his colleagues, afflict only the drinker.

Or they would, but for arrangements like Britain's National Health Service, which force taxpayers to fund the medical care of those who become ill from drinking. Yet this is an outrageous pretext for governmental interference in our voluntary consumption. First the do-gooders conjure up the external costs by insisting that no one should have to pay for his own medical care, then they tell us that they must interfere with behaviour that damages our health because it imposes costs on others.

It's not only in health care that the authorities make this perverse argument for bossing us around. Those who seek to dictate the capital structures of banks, and the terms of contracts that people can enter into with banks, justify this intrusion by claiming that bank failures have external costs. So they do. But that is only because these same authorities insist on using taxpayers' funds to bail out people who have lent to failed banks – only because they socialise the cost of bank failure.

“Paternalism” is an unfortunate name for the policies that lead to this governmental micro-management of what ought to be private affairs. It suggests that, as in real families, the costs are borne by the parents. But they are not. Our political parents simply arrange for the costs to be paid by some of the children for the benefit others. More importantly, the term directs attention away from the demeaning consequences of these policies. They would be better called infantilism.

By presuming to know better than each one of us how much drinking strikes the best trade-off between alcohol's costs and benefits, Dr Gilmore shows that he thinks of us as children. He may be right about a handful of mentally retarded adults. But the rest of us should tell Dr. Gilmore and the thousands of other self-appointed guardians of our welfare where to shove their "help."

A nudge in the wrong direction

The Times

2 August 2008

A few hippies aside, everyone agrees that paternalism is a good thing when practised by parents. Children do not know what is good for them. Left to their own devices they would make many bad decisions. Caring parents will threaten, bribe, cajole, trick or otherwise manipulate their foolish offspring into doing the right things.

When practised by governments, however, paternalism is more controversial. The idea that adults do not know what is best for them, and that the government should manipulate them into doing the right thing, strikes libertarians as outrageous.

Yet most politicians find the idea irresistible. The present Government aims to make us change our behaviour in all sorts of ways that libertarians would think none of its business. Among other things, they want to make us smoke less, drink less, eat less, take fewer drugs, exercise more, save more and spend more time with our families. So do David Cameron's new Conservatives.

Treating adults like children is an idea that needs some justification, especially when it is espoused by a political party that until recently claimed to champion the individual against the State.

So you can imagine the delight with which these nannies have received *Nudge*, a book by the Chicago University professors Richard Thaler and Cass Sunstein that claims to provide a new justification for paternalism and new ways of manipulating people that are compatible with libertarianism.

The justification for paternalism is that, like children, adults are too foolish to know what is best for them. This may not strike you as a new idea. Most of us think that other people are fools. What's new, however, is scientific support for this common presumption.

Over the past few decades, "behavioural economists" have been studying how actual human decision making deviates from the perfectly rational ideal supposedly assumed in classical economics. Their sad, if unsurprising, conclusion is that we are systematically irrational.

We are apathetic, favouring options that require no action or that preserve the status quo. We are herd followers, doing things that are bad for us simply because others do them. We are hopeless at statistics, buying insurance and lottery tickets even when the odds make them a bad deal. And these are only a few of many irrational biases. It is no wonder that we do all those things that the Government and Mr Cameron wish we would not.

But behavioural economics does not only show that we need external guidance. It also shows how we can be guided. Our irrationality can be exploited to nudge us in the right directions. For example, we can be made to save more if joining a pension plan is the default option when we get a new job – that is, if our employers structure our choices so that we must actively opt out of the plan rather than actively opt in. The right "decision architecture", as Thaler and Sunstein call it, can use our apathy to benefit us.

Or we can be made to file our tax returns on time if the Government publishes statistics about how many of our fellow citizens have already filed theirs. Our herd mentality can be turned to serve our own good.

But here is a simple question. If the Government knows what's best for us, why only nudge us in that direction? Why not give us a mighty shove, as, for example, the Australian Government has by

making saving compulsory? Sunstein and Thaler reply that nudging is consistent with libertarianism, but shoving is not. And they are libertarians. They advocate what they call “libertarian paternalism”.

Alas, this is as incoherent as its name suggests. Libertarianism is motivated by the idea that a government cannot know what is best for individuals. That is why it is likely to harm us when it attempts to influence our behaviour. Those who favour governmental nudging must think the “central nudger” knows what is good for us. But then they have no reason to be libertarians.

Nor does behavioural economics justify paternalism, because it does not show that the Government knows better than we do what is good for us. The advantage that individuals have over central nudgers in deciding what we should do was never our perfect rationality. It is our superior knowledge of our own preferences and circumstances.

Take a simple example. Should you save more, as our would-be nudgers suggest? The answer depends on your present and likely future incomes, on how much you can expect to inherit, on how long you are likely to live and on your preferences regarding consumption now versus consumption in the future. The Government may know that you are foolish. But it cannot possibly have better information than you on all these matters.

Knowing that someone is irrational does not tell you what they should do, nor that they are at present doing the wrong things. Our would-be nudgers are like doctors who think that they can prescribe the right medicine simply because they know you are a hypochondriac.

A perfect day to blow up the nanny state

The Times

5 November 2008

No one knows who the stupidest parent in Australia is. But, whoever he is, the Australian Advertising Standards Bureau (AASB) has saved his child from a fatal car accident. It did this last year by banning a television advertisement that shows a toddler in nappies driving a four-wheel-drive Hyundai. The AASB deemed the image too dangerous to broadcast. Upon seeing it, Australia's dumbest parent may be inclined to toss his two-year-old the car keys and ask her to pop down the shops for some ciggies.

The commercial was made in New Zealand, where it had already run for many months. Surveys revealed it to be the most popular in the country and, as yet, no toddler has been found out and about in charge of the family car. The AASB, however, was unimpressed by this evidence. After all, the stupidest Australian is surely stupider than the stupidest New Zealander, if only because there are five times as many Australians to choose from. In a population of 20 million, there just might be a child saved by this ruling.

Nevertheless, the ruling was wrong. The AASB should have let the child die. It is worth it for the fun of watching an amusing advert. Some will find the idea of sacrificing a child for the sake of a little entertainment objectionable. But it is not a little entertainment. When millions of people are entertained a little, that is a lot of entertainment – easily worth the life of a child.

“No amount of entertainment is worth the life of a child!” This is perfect political rhetoric, guaranteed to get the *Question Time*

studio audience clapping their support. But it also explains why that same audience is beset by so much “nanny state gone mad” regulation. What’s more, it is wrong. Anyone who thinks that no amount of entertainment is worth the life of a child either over-values children or undervalues entertainment.

Start with children. How much is it worth spending to save one? The precise amount is not as important as taking the question seriously. Children are not priceless. In a world of limited resources, nothing is. Any money spent on saving a child is money not spent on something else, including saving other children. Above a certain price, saving a child does more harm than good; the money would be better spent on something else.

The Government agrees, not just about children but about people generally. For example, when deciding whether or not to spend money on improving the safety of Britain’s roads, it uses a “value of a statistical life” of about £1.5 million. If a road improvement that would save only one person costs more than this, the Department for Transport prefers to let him die. The National Institute for Health and Clinical Excellence (NICE) uses similar reasoning to decide which medical treatments should be offered through the NHS. If a treatment costs more than it is worth in “quality adjusted life years”, we do not get it. If the price is right, nanny is rightly willing to sacrifice her children. She is overprotective not because she cares too much for our lives, but because she cares too little for our fun.

Take fireworks. In 1997 our representatives banned the mini sky rockets and erratic flight fireworks that I used to spend my pocket money on. And in 2004 they made it illegal for anyone under the age of 18 either to buy fireworks or to possess them in a public place. What is the cost of this regulation in lost fun? If my well spent youth is any indication, the cost is enormous. I adored early

November: buying the fireworks, hoarding them in my bedroom armoury and then letting them off on Guy Fawkes Night, often in public places. More fun than Christmas, and far better than the pansyish nonsense that passes for entertainment these days, such as watching “reality” on TV.

I would gladly pay £100 more for this forbidden fun than for the watered-down version that the Government now allows children. If only a million British children (10 per cent of them) would enjoy it equally, our fireworks legislation costs £100 million a year in lost fun. Is it worth more than this in reduced death and injury? In the five years before the 1997 legislation, fireworks killed one person a year and injured 1,500. Most fireworks injuries are minor, but let us be generous and say that the average injury was the kind that you would be willing to spend £10,000 to avoid. If the legislation halved the number of injuries and avoided every death, that is a benefit of only £9 million a year.

Let us not dwell on the numbers. The problem is not one of precision. Our regulators do not even try to calculate the value of the fun they forbid. When they banned adults from taking more than two children to a public swimming pool, did they calculate the cost in enjoyable outings that children will miss? When they outlawed Ecstasy, did they take account of the ecstasy that law-abiding citizens would be denied?

We have only nanny’s inconsistency to thank that skiing, rugby, oral sex and all the other risks we take for the sake of pleasure are not illegal. But we cannot rely on inconsistency, especially when the regulatory trend is so clear. We need legislators who recognise that joyless immortality is neither possible nor desirable, and who can hold their nerve even when confronted with dead children.

Part 2

Social Justice

Fairness is child's play in British campaign

Wall Street Journal

28 April 2010

The televised leaders' debates have propelled Nick Clegg and his Liberal Democratic Party up the popularity polls. They are now a close second to the Conservatives and may well be part of the next government. Yet most voters know little about the Liberal Democrats. What do they stand for? What kind of country do they want Britain to be?

The answer is written in big colourful letters on the cover of their manifesto: "Fair Taxes, a Fair Chance, a Fair Future, a Fair Deal." The LibDems, like Labour, seek "a future fair for all."

My six-year-old daughter will be delighted. Whenever she cannot stay up late or have another ice cream or otherwise get her way, she declares the situation "unfair." If the LibDems form a government, she will never again be disappointed.

No, that's not right. She is too young to understand what "fair" means. It does not mean having your way. It means ... Well, what does it mean? When Mr. Clegg or Gordon Brown promise to make Britain fair, what should we expect from them?

The answer is uncertain because the concept of "fair" is ambiguous. It is sometimes used to mean treating people equally. Call this the Aristotelian conception (for reasons you can guess). Yet it is sometimes used to mean treating people unequally so as to bring about an equal outcome. Call this the Marxist conception.

Income taxes illustrate the difference. A flat tax, whereby everyone pays the same rate regardless of his income, is fair on

the Aristotelian conception. On the Marxist conception, progressive taxation – whereby higher earners pay higher tax rates – is fair. People are treated unequally so as to equalise their post-tax incomes.

When it comes to income tax, Messrs. Brown and Clegg are Marxists. The fair tax system they recommend is progressive.

But they are not always Marxists. A married man with five children whose wife stays at home will find it harder to make ends meet than a childless woman with the same job on the same pay. She will be better off than her male colleague. Eliminating such unequal outcomes is how employers used to justify paying men more than women: “to each according to his need, from each according to his ability,” as Marx said.

But Messrs. Clegg and Brown would deem such practices unfair. They believe in equal pay for equal work. They are Aristotelian about fairness in the workplace.

Or are they? Imagine two people doing the same job and both earning £50,000 a year. While Jack has no other income, Jill also earns £50,000 from rental properties she inherited. Given the progressive taxes favoured by Messrs. Clegg and Brown, all the income Jill earns from her job will be taxed at 40%, whereas Jack will pay only about 25%. Equal work, different pay.

Is it fair that referees apply the same rules to each team when the New Zealand All Blacks play Wales at rugby? Wales has not beaten the All Blacks since 1953. The Aristotelian is unmoved by this fact: Apply the rules blindly! Marxist fairness, by contrast, would require the referee to fiddle the rules so as to bring about a draw.

Messrs. Brown and Clegg are surely Aristotelian about fairness in sport. Everybody seems to be. But in other competitions they promote Marxism. They think it fair that the government imposes quotas on universities for the admission of applicants from state

schools. This unequal treatment is aimed at giving state and independently educated pupils the same chance of winning admission.

Lost? Messrs. Brown and Clegg seem to be. They apparently apply the two inconsistent conceptions of fairness willy-nilly – Marxist one minute, Aristotelian the next. In fact, their incoherence is only intellectual. It makes perfect practical sense; they are Aristotelian unless there are more votes to be gained from Marxism.

Again, income tax illustrates the point. The fairness of flat taxes went without saying when the vote was restricted to men of financial means. With the advent of universal suffrage, however, politicians could win votes by promising to tax the wealthy few at a higher rate and transfer the money to the majority, who are taxed at a lower rate. It's only fair.

When it comes to rates of pay for men and women, however, the general historical trend of the Marxist conception supplanting the Aristotelian one has been reversed. It is easy to see why. Women did not get the vote until 1918. When only men vote, politicians will be inclined to call the unequal treatment of women fair, as indeed it is on the Marxist conception.

The electoral calculation does not lead all parties to the same view of fairness on every issue. University admissions are a good example. Few Labour supporters have children at private schools. So applying lower standards to state school pupils will seem fair to Labour politicians. For Conservatives, with their traditional support-base, the fairness of this unequal treatment is less obvious.

On most issues, however, Conservatives face the same electoral calculations as Labour and the LibDems. So they have adopted not only the popular policies of unequal treatment, but also the Marxist conception of fairness that justifies them. They are now explicitly committed to "social justice," which is just another name for the Marxist conception of fairness.

So, as it turns out, my six-year-old daughter is right about fairness, at least as our politicians employ the concept. Something is fair if it suits you, and a majority of voters. Admittedly, she has not yet mastered this democratic qualification. But if she can, she may one day have a great political career passing off incoherent self-serving baloney as high-minded principle.

Why human rights lead to human wrongs

The Times

19 December 2006

Jeremy Bentham described the Declaration of the Rights of Man by French revolutionaries as “nonsense on stilts”. Nice rhetoric, but ultimately unsuccessful. Since 1789 the idea of human rights has thrived. It now even has its own day. This year’s Human Rights Day was dedicated to the war on poverty.

Bentham was right. The idea that we all enjoy certain rights, not because any legal system gives them to us, but simply because we are humans, is silly. But, in the 18th century at least, it was beneficial silliness.

“We hold these truths to be self-evident, that all men are born equal, that they are endowed by their Creator with certain inalienable Rights, that amongst these are Life, Liberty and the pursuit of Happiness.” These statements are not self-evident. They are not even true. They are gobbledygook. Yet they inspired the Constitution of the United States, one of mankind’s great achievements.

Alas, once nonsense is up and running, it is hard to rein in. Initially, our self-evident human rights were simply protections against the abuse of power. Today, entitlements to all manner of goods are making themselves evident to human rights oracles. Louise Arbour, the UN High Commissioner for Human Rights, claims that we have human rights “to food, to work, to healthcare and housing”.

This inflation has changed the politics of human rights. Whereas human rights once supported limited government, they are now

invoked in favour of the welfare state and the maximal government it requires. Which is why the human rights movement, although well intentioned, has become a malign force.

In an article to mark Human Rights Day this month, Ms Arbour claimed that poverty is caused by human rights violations. It is true, of course, that if people had food, healthcare and housing, they would not live in poverty. But it is absurd to say that lacking these things causes poverty. Lacking these things *is* poverty. Why do millions of people lack decent food, healthcare and housing? That is the question.

The human rights lobby sees poverty as an essentially legal problem. All humans are entitled to food, healthcare, housing and so on. But countries where poverty is common have failed to enshrine these entitlements in law. If they embraced human rights, poverty would be legislated out of existence.

If you are tempted to agree, perhaps you will also like this idea. The government should enrich us by passing a law that entitles all Brits to an annual income of at least one million pounds. The difficulty, of course, is that Britain's GDP is considerably less than one million pounds per person. It is impossible to provide everyone with this income.

The same goes for the more modest entitlements that human rights enthusiasts claim to be universal. Providing every citizen with decent food, healthcare and housing exceeds the productive capacity of many poor countries. Mauritania's annual GDP, for example, is only \$400 per person. It would be nice if Mauritians were richer, but declaring that they should be will not help. Entitlements to wealth do not create wealth. On the contrary, they hinder wealth creation.

To see why, consider a less absurd entitlement. Suppose Gordon Brown introduced a minimum household income guarantee of

£40,000. This may appear possible, since British GDP is now £52,000 per household. In fact, the policy would soon defeat itself. Only dedicated Protestants would continue to work. Those whose efforts would earn them less than £40,000 would not bother, and nor would those who earn more, given the tax rates that would be required to fund this entitlement. With mass indolence, the average household income would soon fall well below £40,000, whatever the law said we were entitled to.

Poor countries are not exempt from the perverse incentives created by entitlements. In fact, they are more vulnerable to them. Where labour is less productive, even modest entitlements will undermine the incentive to work. In Britain we can guarantee all citizens food, healthcare and housing without destroying economic incentives. But this is because we are already rich. Such entitlements would devastate less developed economies.

The causes of poverty are debated by economists. Yet most agree that property rights are essential for wealth creation. Without them, wealth cannot be accrued. And if people cannot accrue wealth, they have little incentive to create it. Why invest capital and effort in a business if you cannot feel secure in your ownership of it, and of the profits that flow from it? Communism and anarchy create poverty in the same way: by undermining property rights.

Property rights are not universal entitlements. If I own some land then you do not own it. You lack entitlements that I enjoy, such as the profits made by farming that land. Such inequalities are inherent to property rights. Which may explain why human rights activists do not care for them. In an 800-word article on fighting poverty, Ms Arbour did not once mention property rights. Instead, she lamented “unequal access to resources” – something entailed by private ownership of them.

Tens of millions of Chinese have worked their way out of poverty in recent years. It was not achieved by extending human rights law in China. Nor is it an “economic miracle”. It is a predictable consequence of establishing property rights.

The only poverty is in the head

The Times

5 April 2005

There is no poverty in Britain. Misery, futility, depravity, yes; but no poverty.

The poorest in Britain are the unemployed. They receive free housing, free medical care, free education for their children and small cash sums to pay for food, clothing and transport. Most own televisions, refrigerators, ovens, and stereos. Many even own cars. That isn't poverty.

Why then does the Government have a target for reducing child poverty in Britain by 25 per cent between 1997 and 2005? Why did it claim last week that despite steady progress, 2.2 million British children continue to live in poverty?

The answer is that they do not mean by "poverty" what most people do. Labour does not think of poverty as being too poor to afford the basic material requirements of a decent life. Instead, they have a statistical definition: you live in poverty if your household's income is less than 60 per cent of the national median.

This is a peculiar definition. It means, for example, that doubling everyone's income would have no effect on the amount of poverty in Britain. Our incomes would all remain the same percentage of the median. Yet lowering incomes might significantly reduce poverty. If the median income fell, then those on the minimum wage or unemployment benefit would find their unchanged incomes closer to the median. To use Gordon Brown's expression, they would be

“lifted from poverty”. Using this definition, a recent Unicef report claimed that there is more child poverty in Luxembourg than in the Czech Republic.

Why would anyone use such a preposterous definition of poverty? Unicef gives a simple answer: if it did not, then there would be no poverty in rich countries such as Britain. This is my conclusion exactly. But it is not a conclusion acceptable to organisations such as Unicef and the Labour Party. The fight against poverty must go on, even after it is won.

Providing jobs for the earnest is not the measure’s only benefit. More importantly, it gives the Left an easy argument for more redistribution of wealth. What Labour and Unicef call poverty is really just income inequality. Labour does not really have a target for reducing poverty; it has a target for reducing income inequality.

Why is this a target worth having? That is a tricky question, especially for politicians such as Tony Blair and Mr Brown who claim to favour flexible labour markets. Flexible labour markets have two obvious benefits. They minimise unemployment and allocate labour resources efficiently across the economy. They do this, in part, by allowing incomes to vary with the supply of and demand for labour. A consequence is wide income variation. Eliminate this income variation and you remove the “price signals” required to make the labour market efficient.

Unicef’s “child poverty ranking” of OECD countries is roughly an inversion of a “flexible labour market” ranking, with countries such as the US, Britain and New Zealand at one end and Denmark and France at the other.

Perhaps the unemployment and inefficiency caused by inflexible labour markets is a price worth paying to reduce income inequality. But this is a difficult argument to make. And who wants to engage in difficult arguments? Better simply to call income inequality

“poverty” and win the argument by default. Surely any price is worth paying to reduce poverty.

In some rare moments of intellectual honesty, Labour politicians admit that they are not talking about absolute poverty but only “relative poverty”. But this does not help. Calling income inequality “relative poverty” still doesn’t show why we should try to reduce it, especially when relative paupers are not absolute paupers. And the Government’s “60 per cent of median income” definition is still absurd, even if we are measuring relative poverty.

To see this, consider two ten-year-old boys. They live in the same quality of house, attend the same school, visit the same doctor when ill, wear the same brand of tracksuit and so on. Their material wellbeing differs in only one respect. Whereas Jimmy’s parents give him £10 a week in pocket money, Timmy’s give him only £5. Should we conclude that, since his disposable income is only half of Jimmy’s, Timmy is a relative pauper?

Obviously not. Jimmy’s and Timmy’s consumption are almost identical. Suppose the housing, schooling and so on that they both receive are worth £100 per week, and that both spend all their pocket money. Then Jimmy consumes £110 per week and Timmy consumes £105. Though Jimmy’s disposable income is double Timmy’s, he is only 5 per cent better off.

The same goes for British households generally. A large portion of their consumption is not paid for from their disposable incomes. Education, healthcare and housing (the cost of which is deducted from the Government’s measure of income) are all in this sense free. Differences in disposable income therefore exaggerate differences in consumption. Yet it is consumption that determines poverty, including relative poverty.

The Government aims to reduce income inequality. That ought to be controversial. But it isn’t because everyone seems willing to

go along with them and call income inequality “poverty”. Even the Conservatives castigate the Government for failing to meet its poverty targets rather than for having them in the first place.

It is a cheap linguistic trick, but it has worked.

There is too much social mobility in Britain

Financial Times

9 November 2007

The main political parties agree that we need more social mobility in Britain and that education policy should deliver it. Hence the Conservatives' rejection of selective education and Labour's admissions targets for universities. It is a peculiar consensus, because social mobility is worthless and we already have an extraordinary amount of it.

The common belief that Britain is socially immobile comes from a study published in 2005 by the Centre for Economic Performance at University College, London. The study measures social mobility by comparing the income quartiles of 30-year-old men with their fathers' when they (the sons) were 10 years old. An adult son who occupies a different quartile from his father is counted as a case of social movement.

If fathers' incomes had no influence on their sons' – if we had perfect social mobility – we should expect only 25 per cent of those who started in any quartile to remain there at the age of 30. The other 75 per cent would be evenly distributed across the other three quartiles. So what did the study find?

Take those who started in the second-highest quartile. By the age of 30 they were distributed thus: 24 per cent in quartile 1 (the highest), 29 per cent in 2, 24 per cent in 3 and 23 per cent in 4. Results are the same for those who started in the third quartile. Only the top and bottom quartiles show some stickiness, with about 40 per cent of each staying put. Thirteen per cent of those

who started at the bottom made it to the top. How could anyone conclude that Britain has a low level of social mobility?

The answer is that the study applied the same measure to Finland, Norway, Sweden, Denmark, Germany and the US. Only the US displayed less quartile shifting than Britain. Professor Anthony Giddens, Labour peer and director of the London School of Economics, has concluded on the basis of this finding that income equality (such as Scandinavians have) causes social mobility and that we must have more of the former so that we can have more of the latter.

He is confused. That countries with narrow income distributions display higher levels of quartile shifting tells us nothing about the opportunities for self-improvement created by equality, or anything else interesting. It is merely an artifact of the way social mobility is measured. When everyone's income falls within a narrow band, even small changes in income will shift people across quartiles. If you measured geographic mobility in the same way, you would conclude that Belgians enjoy more of it than Americans. Unlike Americans, they are always moving between the eastern and western quartiles of their little country.

In short, there is no reason to believe that Britain has a low level of social mobility. And even less reason to want more – because social mobility is a bad thing. Of course, some people benefit from it: all those who move into higher income quartiles. But for every winner there must be a loser. If someone moves up a quartile, someone else must move down one. Social mobility is mathematically guaranteed to be a zero-sum game.

In fact, it must be a negative-sum game. Suppose everyone swapped fridges with their neighbour. The net effect would be negative. The quantity and quality of fridges in Britain would be unchanged, but we would have incurred the cost of relocating them

all. Similarly, social movement leaves society where it started, with a quarter of the population in each income quartile, but it is a costly process. As anyone familiar with English literature or reality TV could tell you, those adapting to a newly acquired social standing incur costs that those born to it do not.

Though undesirable in itself, social movement is inevitable in a society where people get ahead through talent, effort and risk-taking rather than unfair privilege. That is why it is rightly tolerated. It is a price we pay for the benefits of liberty. Alas, our politicians have confounded the benefits and the costs. They favour policies that increase social mobility at the expense of liberty, compelling the allocation of goods to people who would not acquire them by voluntary transactions.

Social engineers' old goal of equality, of eliminating all but one rung on the social ladder, was ruinous. But it had an understandable appeal. Their new goal, that we all keep swapping rungs on the social ladder, is simply absurd.

Cameron should follow Jesus on executive pay

City AM

11 January 2012

David Cameron and Ed Miliband agree that corporate chief executives earn too much. If they earned less, the world would be a better place – or, more precisely, it would be a fairer place. The alleged victims of this injustice are those who earn far less. In an interview with the BBC on Sunday, Mr Cameron sympathised with low paid people whose “blood boils” at the perception of undeserved rewards for others.

Cameron, Miliband and the rest of the “fair pay” brigade here part company with Jesus. His parable of the grape pickers goes like this.

It is harvest time and, in the morning, a vineyard owner goes to the local town square to hire casual labourers to pick grapes for the day. He offers them one denarius for a day’s work. At the eleventh hour, he sees that they will not complete the harvest by sunset, so he goes again to the square and recruits more workers for the final hour. When the day is done, he pays all the labourers a denarius, including those who worked only an hour. When one of those who worked all day complains of unfair treatment, the owner replies: “Friend, I am doing you no wrong. Did you not agree with me for a denarius? Take what is yours, and be gone”. (Matthew 20: 12–14)

Jesus may not be an infallible authority on justice. But the message of this parable is surely right. That others receive undeserved rewards does not mean that you have suffered an injustice.

For example, the tellers at Barclays bank receive their contractually agreed pay. And they would not earn more if Bob Diamond, the chief executive, earned less. Their pay is determined by supply and demand for the kind of labour they sell, not by the pay of senior executives at their firm. Even if Cameron is right in his speculation that their blood boils at the knowledge that Diamond earns millions more than they do, that does not mean they have been treated unfairly. Suffering feelings of envy is not the same as suffering an injustice.

But it is still suffering. Perhaps Cameron is right that high incomes should be reduced, not because this would deliver justice for those who earn less, but simply because it would reduce their anguish. In a nation of envious people, aggregate welfare could be increased by policies that make some people poorer and no one richer.

Suppose that reducing Diamond's annual pay by £2 million would stop the blood of Barclays tellers from boiling. This would produce a net benefit only if the average Barclays teller, of which there are roughly 10,000, values her anguish at something more than £200 a year.

But now you will see the problem. I doubt any low paid worker is so pathologically envious that she would be willing to spend £200 simply to deprive someone else of a high income. Envy is cheap.

Alas, so is voting. These tellers can vote to deprive Diamond of £2 million at almost no cost to themselves. And Diamond has only one vote with which to resist. For politicians, peddling envy is a no brainer; it is a 10,000 to 1 vote winner. Which makes it no surprise that they so readily part company with Jesus.

Business is not responsible for social justice

The Times

10 March 2009

Here in Australia, my firm is doing the rounds at the universities, advertising ourselves to prospective graduate recruits. About 100 students turned up to our presentation last week.

After the PowerPoint slideshow describing the firm and what we do, we fielded questions. Most concerned the application process, the qualifications we are looking for, that kind of thing. But one did not. One concerned corporate social responsibility. “Are you committed to social justice and the community?”, she asked, giving us a defiant stare.

My colleagues buckled instantly. One described his personal commitment to good causes, some of which he listed. Another explained that just two days earlier many of us had gone to Manly Beach to pick up rubbish as part of Clean Up Australia Day. It was pathetic. They were squirming and fudging when they should have been putting her straight.

So I did. I explained that the firm’s shareholders and employees are free to spend their personal incomes and their spare time on whatever they like, including whatever she deems to constitute social justice and the community. But the idea that the firm’s resources should be devoted to some cause other than making a profit is outrageous.

I can think of no supposedly good cause to which some of my colleagues – and, I presume, many of our shareholders – are not actively hostile. Should we contribute to the distribution of

condoms to prevent the spread of AIDS? Some of my colleagues think that God abhors contraception. Should we spend money to offset the carbon emissions caused by our travel? Some doubt the theory that carbon emissions cause global warming.

Many of my colleagues are Christians. None suggests that the firm donate to their church. For, if it did, then all of its employees, including its atheists, Jews and Muslims, would be working for that church. My Christian colleagues are not so myopic or bullying as to think that everyone is Christian or that, even if they are not, their efforts should be diverted toward serving the church.

But my “socially conscious” (would-be) colleagues are that bullying. Like all missionaries, they see doubt as either ignorance or wickedness, neither of which should be allowed to obstruct our progress down the true path.

The hilarious thing about people such as our earnest inquisitor is that they also insist on “diversity in the workplace”. Yet they have an utterly superficial view of diversity. They seek only a good spread of genders, skin colours and sexual preferences. When it comes to beliefs and values, there is no room for variety. Those who are unwilling to contribute their efforts to the progressive agenda must seek employment elsewhere.

Omniscient Ed Miliband

Wall Street Journal

29 September 2011

Ed Miliband, the leader of the Labour Party, told its annual conference on Tuesday that Britain is in the grip of a “quiet crisis” because it is “too often rewarding not the right people with the right values, but the wrong people with the wrong values.”

He proposes to end this crisis by rewarding the right people and punishing the wrong ones. According to Mr Miliband, previous governments failed to recognise that companies fall into two classes, producers and predators, which “have been taxed the same. Regulated the same. Treated the same. Celebrated the same. They won’t be by me.”

It is not only good and bad companies that Mr Miliband will reward and punish: “Take social housing. When we have a housing shortage, choices have to be made. Do we treat the person who contributes to their community the same as the person who doesn’t? My answer is no.”

Mr Miliband’s rhetoric appeals to the common idea that people are not getting what they deserve. Let us grant that there really is such a thing as what people deserve, and that not everyone is getting it. Trying to base public policy on desert is still a catastrophically bad idea.

The most obvious reason is that we are incapable of knowing what people deserve. Imagine a 25-year-old woman from a poor background who works at a strip club to support her illegitimate child. How much does she deserve to earn? Does she deserve

more or less than a 25-year-old childless woman from a wealthy background who works at a child-care centre in Chelsea? Who is contributing more to her community? Who is more deserving of social housing?

I haven't a clue, and I expect that Mr Miliband hasn't either. But if our sense of desert is inadequate to settle even such simplified cases, how can anyone presume to know what is deserved by real people in the real world, with its almost infinite complexity?

After Mr Miliband's speech, journalists quizzed senior Labour politicians. What, they asked, is the difference between a productive company and a predatory company? Mr Miliband's colleagues could not answer the question, falling back instead on celebrated examples of corporate wickedness, such as Fred Goodwin's leadership of RBS and the failure of the Southern Cross care homes owned by the private-equity firm Blackstone.

Yet a Labour government proposes to apply one tax rate to "productive" companies and a higher rate to "predatory" companies. If they cannot define the difference, they would have to proceed on a case-by-case basis, relying on their ineffable moral sensibilities. Every company in the U.K. would be arbitrarily deemed naughty or nice, and the appropriate tax rate would be applied. Local council officials would give people a moral once-over and decide if they deserve to receive free housing or to pay for others'.

Such a system would soon descend into an orgy of rent-seeking and corruption. Only someone who believes Mr Miliband and his agents to be bestowed with godlike moral insight could think otherwise.

Perhaps that is why he devoted so much of his speech to bigging himself up: "So I'm going to tell it straight. That's the lesson I have learnt about this job and myself over the last 12 months. To be true

to myself. My instincts. My values. To take risks in the pursuit of that. And to stand up for what is right.”

Even if Mr. Miliband, unique among moral boasters, actually possesses these virtues, he would remain incapable of performing the task he seeks for himself. He can be as straight-up and true to his values as he likes; he still knows too little about our circumstances, histories and characters to give us what we deserve.

More importantly, even if Mr Miliband were miraculously bestowed with the required moral and factual omniscience, he should still refrain from giving us our deserts. No one deserves the accidents of his birth. Yet if such accidents are not rewarded and punished, people will have less reason to apply their talents where they have the greatest value.

Beyoncé has been blessed with a good singing voice. I have not. The rewards she gains from singing are no more deserved than my punishments (such as people yelling at me to stop). Would Mr. Miliband have us paid the same for singing, on account of our equal desert? That would be unwise. The market system that pays Beyoncé millions to sing and me nothing rewards her for what is effectively an undeserved windfall, but it delivers the right outcome: It gets her to sing in public and me to be quiet.

The same goes for brain surgeons, judges, footballers and all other activities. Replacing the returns that come from market supply and demand with rewards that politicians judge people to deserve would misallocate human resources horribly. As would the same system if applied to businesses. A company that hits upon a product beloved of consumers may have been no more than lucky. Yet to prevent profits from accruing to such undeserved good fortune would be disastrous for consumers.

Desert be damned! And its political peddlers too.

The price of fairness

Wall Street Journal

14 July 2011

On Monday Britain's government published "Open Public Services," a policy paper outlining the coalition's proposals for reforming public services such as health care and education.

They have the same idea that Tony Blair had when he became prime minister in 1997: To improve the quality and efficiency of public services by introducing the consumer choice and supplier competition characteristic of the private sector. Alas, their proposals cannot work because they also follow Mr Blair's moves by omitting the most important element of a market system – namely, consumer prices.

When consumers pay the same price regardless of what they receive, what they choose is unaffected by the cost of providing it. If the price of Porsches and Ladas were the same, everyone would choose a Porsche. Equally, without consumer prices, suppliers cannot know by how much consumers value one option more than another. Nor will they much care, since they cannot increase prices and hence profits by better satisfying consumers.

In other words, willingly paid prices are the signals by which consumers communicate their preferred trade-offs to suppliers and which motivate suppliers to satisfy them. Eliminate prices, and "choice" becomes meaningless; it no longer conveys the information required to make markets efficient.

Someone in the government must understand the role of prices in allocating resources efficiently. Some of them even have degrees

in economics. Why did no one speak up? The reason, I suspect, is the cult of “fairness” that dominates contemporary British politics. It would be unfair, so the thinking goes, to ask people to pay for education and health care. Which goes to show that our leaders are as ignorant about fairness as they are about economics. Prices are precisely what are required to eliminate the manifest injustice of Britain’s current free-at-the-point-of-use system.

To see why, consider a town with two secondary schools: Fiddleton High and Fiddleton College. One is sure to be at least slightly better than the other – Fiddleton High, let’s say. Under the current and proposed unpriced system this creates injustice. All pupils pay the same, yet those at Fiddleton College receive an inferior education.

How can this injustice be remedied? Not by a policy of providing choice within tax-funded public services. While schools remain free to pupils’ parents, all Fiddletonians will choose the superior Fiddleton High, and half are guaranteed to be disappointed.

If these schools charged fees, however, the inequality would soon disappear. Demand for places at Fiddleton High would bid up its fees, while the lack of interest in Fiddleton College would force it to offer a discount. This process would continue until the price difference between the schools equalled the value parents place on Fiddleton High’s superiority.

Those whose children end up going to the lesser school would then be perfectly compensated by a discount in fees exactly equal to the value of the education quality forgone. Parents who make the average trade-off between price and quality would no longer prefer one school to the other.

Of course, few parents will be exactly average in this respect. And that is what makes having a choice between priced schools worthwhile. Those who are willing to spend more than average on

education will prefer Fiddleton High; the rest will prefer Fiddleton College. A good expensive school versus a bad cheap school: that is a real choice. A good free school versus a bad free school: that is not.

Some car lovers with modest incomes own Mercedes. And some poor, education-loving Fiddletonians would pay Fiddleton High's higher fees. But, in general, it would be the children of wealthy Fiddletonians who would attend this school. This is the outcome of prices that most offends the left-wing sense of justice, now common among British Conservative politicians. No one should suffer an educational disadvantage on account of their wealth.

This is an absurd principle and an absurd objection to prices. Under the current system the wealthy can send their children to private schools, hire tutors and pay inflated house prices in the zones of good state schools. Short of totalitarianism, it is impossible to remove the educational and health-care advantages enjoyed by the wealthy.

Nor would removing them be fair. If Jack had more money than Jill but could not buy superior goods and services – be they food, cars or health care – then Jack's extra money would be worthless. Removing the advantages of wealth simply removes the wealth, which is fair only if the wealth is ill-gotten. But why should we assume it is? Have the Conservatives moved so far to the left that they endorse this nutty idea too?

No one should be denied decent health care and education. That might be a reasonable principle. But it favours full-fledged privatisation, with prices as well as "choice," because this is the best way of improving the health care and education received by the poor. Ford and Asda, as much as Mercedes and Harrods, are creatures of the private sector. Soviet-era Ladas and illiterate 18-year-olds are creatures of the unpriced system being advanced by Britain's government.

When corporate theft is good

Wall Street Journal

21 July 2011

Milton Friedman famously said that the only responsibility of a business was to make a profit. But, according to Stephen Green, chairman of HSBC, “there is a very real place for corporate philanthropy.” In a speech he gave earlier this month, titled “Tomorrow’s Value,” he claimed that Friedman’s ethics “will no longer do. Plain common sense will tell you that that cannot do.”

It is extraordinary what absurdities can be conjured from “plain common sense.” Mr. Green has made no moral leap forward from Mr. Friedman’s point. On the contrary, his speech should have sparked moral outrage among HSBC shareholders because corporate philanthropy is tantamount to theft.

Suppose you own a company that you do not want to manage. You hire a manager, pay him a salary, and one day you discover that he has transferred \$100,000 to the bank account of an external party that has provided your firm with no goods or services. If the account belongs to the manager, or one of his relatives, he is clearly a thief. But what if it belongs to the manager’s favourite charity? Then he is still a thief because the money is not his to give; it is yours as the owner. He cannot defend his action on the ground that you would have willingly given \$100,000 to the charity. If that were true, then why not simply disperse the \$100,000 to you as profits and allow you to make the donation yourself?

In this simple imaginary case, it is obvious that corporate philanthropy is theft. What makes it less obvious in the real world?

What confusion allows a man like Mr. Green, the chairman of a large, publicly-listed company, to recommend this kind of theft as ethically enlightened?

One possibility is that he thinks corporations are people of a special kind. He may think that corporations can take actions and bear costs independently of the human people who work for them and own them. He might believe that when the executives of Acme Shovels PLC give \$100,000 of company funds to Save the World, the owners of Acme Shovels are no worse off; it is only Acme Shovels itself that is down \$100,000.

I hope this is not where Mr. Green has gone wrong. The idea that purely legal entities, such as corporations or “the government,” can bear costs is nonsense. Costs always fall on individual people, such as shareholders and taxpayers. If the executives of Acme Shovels had not made that donation, the shareholders would have been \$100,000 better off. And the cost of funding the government’s “generous” spending ultimately falls on taxpayers. This is what Margaret Thatcher meant when she said that there is no such thing as society.

Shareholders tolerate a certain amount of what looks like corporate philanthropy because some customers like to see it, and so become more inclined to buy the company’s products. Used in this way, philanthropy is simply part of a firm’s marketing. And it must be justified in the same way as any other marketing effort: Does it increase revenues by more than it costs?

You may say that simply because a charitable donation is aimed at increasing a firm’s profits, this does not stop it from being philanthropy; the charity is glad to receive the money, whatever motivated the gift. I am happy to concede the semantic point. All that matters is that this kind of philanthropy, “markanthropy” as we might call it, is perfectly consistent with Friedman’s dictum that profit is the only proper goal of a business executive.

Mr Green, however, promotes corporate philanthropy while disputing Friedman's profit dictum, believing they conflict. So he is not promoting benign markanthropy. He is promoting the kind of philanthropy that is tantamount to stealing shareholders' money.

It is unlikely he meant to recommend such theft. The appearance is created by the hypocrisy required for effective markanthropy. There is an executive of Acme Shovels, handing over the check to Lady Goodman, the patron of Save the World, press photographers are capturing the glorious moment in front of a grateful gathering, and what should he say? "We at Acme Shovels are very glad to give Save the World \$100,000 because we believe it will boost our sales."

Such honesty would undermine the gift's intended effect. Acme Shovels' reputation and revenues will benefit from the gift only if it appears that they did not intend to benefit from it. The corporate benefactor must claim to be giving the money because he cares about the cause in question. He must pretend to be intentionally reducing profits and stealing money from his firm's shareholders so that, in fact, he can increase profits and benefit shareholders.

No one likes to think of himself as a hypocrite. But corporate philanthropists should embrace the accusation. Hypocrisy is better than larceny.

In defence of Jimmy Carr

Wall Street Journal

21 June 2012

Jimmy Carr is a popular British comedian, who appeared on the front page of Tuesday's *Times* of London below a headline that read: "The Tax Avoiders." The newspaper has discovered that Mr Carr uses a legal tax-avoidance scheme run through a firm based in Jersey. By doing so he allegedly reduced his tax liability last year to about 1% of his £3.3 million income.

The Times said that, though legal, Mr Carr's tax avoidance was unfair. The newspaper quoted British Chancellor George Osborne, who recently declared tax avoidance to be "morally repugnant." Later in the day, Prime Minister David Cameron declared Mr. Carr's £33,000 income-tax payment to be "morally unacceptable."

On this common view of the matter, there is the amount of tax you are required to pay by law and then there is the amount required by morality, an amount usually referred to as your "fair share." Mr Carr is not a criminal – the avoidance scheme he uses is legal – but he is immoral; he is failing to pay his fair share.

Alas, these moral arbiters never explain their reasoning. They never tell us the moral principles from which they derive their conclusion that Mr Carr and his ilk are paying less than their fair share. This is unsurprising because there is no plausible moral principle from which it follows that Mr Carr should pay more in taxes. Let's go through the principles that might be applied to the morality of tax contributions.

One plausible principle is that everyone should be treated equally. What follows from this about each person's "fair share" of the total tax bill – that is, of the total cost of government spending? The answer must be split in two.

The state provides some public goods, such as national defence, the rule of law and street lighting. By definition, public goods are "non-excludible": if anyone benefits from them, everyone can. Equal treatment demands that we all pay the same amount towards public goods. Of course, the state also provides many private goods, such as pensions, health care and education. When it comes to private goods, the principle of equal treatment demands "user pays." If you get two oranges and I get one, then we are not treated equally unless you pay twice what I do.

In short, if equal treatment is your moral principle, then the government should supply no private goods and the tax burden should be shared equally; everyone should pay the same amount of taxes. By this reasoning, Mr Carr now pays more than his fair share, since the average income-tax payment in the U.K. is well under £33,000, and the average is already too high because it funds private goods.

Here is a different moral principle, apparently more collectivist in its implications. Everyone should make an equal contribution to society. What does this imply for the morality of Mr Carr's tax payment? It implies that his tax bill should be reduced to zero. Because, in the process of getting rich, Mr Carr has already contributed far more to society than the average person.

When someone pays to see Mr Carr perform, they must value his performance higher than the price of the ticket. If they did not, they would not buy the ticket. The difference between what they are willing to pay and what they actually pay is their "consumer surplus." Someone who sells something that delivers £1 of consumer

surplus has contributed £1 to society. This means that a comedian who is popular, sells many tickets and gets rich has contributed much to society.

For simplicity, imagine that the average consumer of Mr Carr's comedy would be willing to pay £11 for a £10 ticket to see Mr Carr, and that Mr Carr gets half of the price of the ticket. Then every pound he earns delivers £0.20 in consumer surplus. By making £3.3 million for himself, Mr Carr has contributed £660,000 of consumer surplus to society.

Most people contribute far less than this, even combining the surplus that consumers (usually their employers) extract from what they supply, and the taxes they pay. So, if everyone should make an equal contribution to society, Mr Carr should pay no taxes at all. On the contrary, he should receive a payment from Her Majesty's Revenue.

The last principle I will consider is this: From each according to his ability, to each according to his need. That is Marx's way of putting the idea. The influential political philosopher John Rawls's "maximin" principle is a variation on it: Taxes and other economic matters ought to be arranged so as to maximise the welfare of the least well off. Surely this idea supports the claim that Mr Carr has a moral duty to pay more taxes.

It does not. The least well off are not the recipients of the British government's spending. There are about two billion people on Earth with incomes of less than £1,000 a year. The Marxist principle demands that Mr. Carr donate his money to causes that will help these people. Giving money to the British government may help British people who are less well off than he is. But even these relatively poor British people are incredibly well off by global standards. On the Marxist principle, they themselves ought to be rejecting anything paid for by the British

state and donating most of their incomes to foreigners who are truly poor.

Yet they do not do this. And Mr Cameron does not berate them for their wickedness. For those Brits who complain that Mr Carr is not paying enough towards their state-provided services are not really motivated by moral principles. They simply want Mr Carr's money. And Mr Cameron wants their votes. Their outcries are not the sound of moral indignation. They are the howls of frustrated predators.

A heretic's view of the National Health Service

City AM

22 February 2012

Yesterday, the Prime Minister met healthcare professionals concerned about the proposed reforms of the National Health Service (NHS). He reassured them that “this is about improving and enhancing our NHS, not in any way endangering it”.

He is right that these reforms will preserve the NHS. Those who use it will still pay nothing. This is the defining feature of the NHS, and its politically sacred feature. Even politicians who understand that “user pays” generally promotes efficiency think it would be dreadfully uncaring in healthcare.

They are wrong. A government that really cared about us would make us pay for healthcare. Services provided free to users are not gifts but burdens. They are compulsory purchases.

Take a simple example. How much are you willing to set aside to cover the cost of medical care in your old age? Personally, not much. I would rather spend the money now to enjoy life while still deluded that I am young and healthy. I will save only enough to cover my basic medical needs when old and clapped out: enough for false teeth and a year's supply of morphine.

But wait. Like everyone else, I am entitled to comprehensive medical care when old, whether I can pay for it or not. So here is what I will do. I won't save anything and then I will take all I can get free from the NHS, as will everyone else.

How will the government pay for all this “free” medical care? By taxing me, of course, along with my fellow entitlement holders.

In the end, my “entitlement” simply obliges me to buy medical treatment that I do not think worth the cost. Which is a strange way for the government to show it cares about me.

Those politicians who provide us with entitlements are not billionaire benefactors. The burden of funding our entitlements falls back on us. Our entitlements thereby decrease our ability to consume anything else.

Of course, many people consume healthcare, education and other state supplied services worth more than they pay in taxes. They effectively receive a transfer from those who pay more tax than they receive in state services. But even these net beneficiaries would be better off if they received not free services but their cash equivalent. This would allow them to consume according to their own preferences rather than politicians’.

Perhaps you believe that no one in Britain should be so poor that they cannot afford decent healthcare. Well then, provide them with a guaranteed minimum income sufficient to buy health insurance. That is enough to satisfy your caring urge. If instead you provide them with free healthcare you achieve something quite different. You force them to consume what you think they should. But if you really care about people, you should care about what they want.

The real beneficiaries of unpriced, tax-funded services – the NHS, the BBC, state schools, and the rest – are not their users; they merely lose control of their consumption. The beneficiaries are those whose services the rest of us are compelled to buy.

Next time Cameron hosts some “healthcare professionals” at Downing Street, he should not offer them reassurance. He should tell them he is no longer willing to enforce their extortion racket.

Part 3

The Rule of Law

Am I a criminal? I haven't a clue

The Times

21 December 2007

Being the oldest and the toughest, my sister Fiona was queen of the kids in our neighbourhood. Among her regal prerogatives was deciding the rules of the games we played.

She was not very good at it. For, besides being tough, she was fair – at least, in the “social justice” sense of the word. She wanted victory to be shared out equally among us children. If Robbie Stone had won several games in a row – which, being a fast runner, he often did – Fiona would change the rules so that speed conferred less advantage.

Of course, under the new rules, some of us would still win more than others. So Fiona not only changed the rules frequently but also designed them to give the referee (herself) great discretion in deciding which actions were allowed. The athletic Robbie often fell afoul of her vague injunction against competing “too aggressively”.

Long before I read Friedrich Hayek, my sister taught me that you cannot administer social justice while preserving the rule of law. She also taught me the price of undermining it.

When the players (citizens) cannot know in advance what they are permitted to do, they divert their efforts from playing the game to lobbying the referee for favourable decisions. And some stop playing altogether. Robbie's frustrations first led him to slack off and eventually caused him to migrate from our gang. Fiona's just distribution of victory came at the cost of tyranny, corruption and a poor standard of play. It is fortunate our games did not produce our livelihoods.

Fifty years after Hayek wrote *The Road to Serfdom*, the Labour Party gave up on running the economy according to my sister's model. They agreed that resources should be allocated not at the discretion of the authorities but by voluntary transactions between individuals acting in accordance with a set of clear and stable laws. In other words, they rejected the command economy in favour of the market economy.

Apart from commerce, however, Labour politicians have not learnt Hayek's lesson. On the issues that interest them most – no longer the ownership of the means of production or the distribution of wealth, but what we might call the ethos of the population – they are busily undermining the rule of law.

They are doing this in two ways. One is to pass laws so vague that you cannot know, prior to the decision of the relevant authority, whether your actions are lawful. Suppose a Baptist preacher tells his congregation that God sends atheists to Hell. Does this violate the new law against inciting religious hatred? The preacher cannot know before his sermon. He must wait to see how the authorities feel about it afterwards.

The same goes for the other hatreds we must not incite and for much anti-discrimination law. When the boss stands up at the Christmas party and tells the one about the bishop and the actress, is he breaking the law? Is he creating a "hostile environment" for his female employees? He will know only when the employment court makes its ruling.

This erosion of the rule of law is not the avoidable consequence of poorly drafted legislation. It is impossible to state clearly what constitutes a hateful remark, a hostile environment or neglectful parenting. If the Government wishes to rule out such things, it can only pass vague laws and delegate the power to interpret them to its agents.

It must replace the rule of law with “the rule of men”. Knowing whether your actions make you liable for punishment is not a matter of reading the legislation but of predicting the sensibilities of the authorities.

And not just towards your actions but towards you. Despite their risky assertions, polemical atheists and evangelical preachers have little to fear from the religious hatred law because the authorities who wield it at their discretion have different targets in mind, such as BNP politicians and Islamic radicals. Justice may be blind but the Home Secretary is not.

The second erosion of the rule of law comes from the Government’s open contempt for the idea that the law defines the scope of the Government’s interest in you, that you can be on the wrong side of the Government only by being on the wrong side of the law. For example, it is not illegal to have fat children. Yet we know that the Government disapproves of parents who do, since it sends them letters pointing out their children’s obesity. “We’ve got our eye on you,” they insinuate. To which a free man should respond: “If I have committed a crime, arrest me; otherwise, leave me alone.”

But this generation of Labour politicians cannot leave us alone. They are convinced that they have attained a new level of moral insight and feel duty-bound to improve us. There is no topic on which the Government does not have some recommendation for how we should behave: from what we say about homosexuals, to what we eat, to how we raise our children. They admonish and cajole and “educate” and hint at impending penalties for those who do not fall into line.

The trend is unlikely to reverse. The idea that all of the Government’s demands on us should be stated in law has lost support, even from its most likely sources. In a recent editorial

defending Gordon Brown's Britishness campaign, *The Spectator* claimed that "immigrants must do more than simply pay taxes and obey the law". We must also do what Gordon Brown tells us is British! Britain may no longer be a command economy but it is becoming a command society.

Crime and punishment

Wall Street Journal

11 November 2010

New figures published by the U.K. Ministry of Justice last week show that three quarters of prisoners are convicted of another crime within nine years of their release. Since most crimes result in no conviction, it seems reasonable to assume every ex-prisoner remains a criminal.

Many take this unsurprising fact to be both surprising and an indictment of the prison system. Even the new Justice Secretary, Ken Clarke, has concluded that his former colleague, Michael Howard, was wrong when he claimed that “prison works.”

This is a peculiar objection to imprisonment – rather like complaining that your TV is not working because it does not defrost chickens. Reducing repeat offending is not the purpose of prison. Its purpose is to reduce offending. It does this in two ways: by deterring people from committing crimes and by positively preventing them from doing so while they are inside.

But doesn't the high recidivism rate show that prison is not an effective deterrent after all? It does not. Testing the deterrence effect of prison by observing the proportion of ex-prisoners who commit crimes is a bad case of the statistical error of “sample bias.” Prisoners are, by hypothesis, people for whom the threat of prison is an insufficient deterrent to crime. That prison does not deter ex-prisoners tells us nothing about how much it deters the rest of the population, nor therefore by how much it reduces crime.

Once you think of criminal punishments as deterrents, 100%

recidivism is unsurprising, because the first conviction is the most expensive for a criminal. This is when he incurs the one-off, irrecoverable costs of becoming a known criminal, such as diminished career and social prospects. If the chance of incurring these costs (in addition to the penal costs) did not deter him from committing a crime, then the inevitably lesser costs of subsequent convictions are unlikely to deter him. This is true whatever the legal penalty for crime – be it torture, prison or “community service” – and however effectively it deters first crimes. Recidivism is a red-herring.

Alas, those who complain about recidivism do not think of imprisonment as a deterrent. They think of it as being more like a medical treatment, aimed at “rehabilitating” people who have succumbed to a behavioural disease that they caught from our unhealthy society or, perhaps, from their genetic inheritance. Crimes are not the actions of people weighing costs and benefits; they are the symptoms of a condition, like the suppurating blisters of an impetigo sufferer. Criminals need to be cured, not punished.

To understand the mistake here, consider my misspent youth. I often achieved mediocre grades for my schoolwork. This would prompt my teachers to speak rudely to me, usually accusing me of being unacceptably lazy. Yet I noticed that when one of my notoriously stupid classmates achieved the same mediocre grades, praise was heaped upon him. This struck me as unfair because, as I pointed out to my teachers, I could no more help being lazy than he could help being stupid. And then they spoke rudely to me again.

Whatever the justice of it, my teachers’ unequal treatment was justified. For, although we may all have dispositions that we did not choose, some of these dispositions still respond to incentives. Because I was lazy, I required more badgering than most pupils did. Nevertheless, enough badgering would make me work. We lazy people are not immune to incentives. No amount of badgering

or other punishment, however, would have improved the mental powers of my stupid classmate. Because stupidity does not respond to incentives, scolding him for it would have been pointlessly cruel.

Many criminals may well have unchosen dispositions that incline them toward violence or disobedience, or that make it harder for them to find paid employment and hence incline them toward illegal sources of income. Discovering such causes of crime makes many people move into the anti-punishment camp. But it should not. Punishment would be misguided only if, like stupidity, such criminal dispositions did not respond to incentives.

Yet they obviously do. Imagine that some technological advance meant that every theft resulted in a correct arrest, and that the convicted thieves were brutally tortured. Can anyone doubt that thievery would go into sharp decline? Or, if you prefer real world examples, compare the amount of drug-related crime in the U.K., where convicted drug dealers are imprisoned, with the amount in Singapore, where they are executed.

The new British government plans to replace punishment with attempted rehabilitation. Since this will reduce the cost of committing crimes, it will increase the number of people who become criminals. In other words, the policy will encourage criminality for the sake of then curing it. This would be absurd even if a cure for criminality existed, even if attempts at rehabilitation were generally successful. Given that rehabilitation remains no more than a fantasy of penal reformers, however, the policy is not merely absurd but positively wicked.

If judges were aliens

Wall Street Journal

14 February 2012

In science-fiction movies, intergalactic justice is usually dispensed by a panel of strange but wise beings. They are very old, with pale skin, and resemble each other so closely that they must be drawn from a single race. They often appear before the assembled litigants in holographic form, beamed in from the far-off world they inhabit.

These judges are nothing like the beings whose cases they hear. This bothers no one in the science-fiction world. Nor does it bother Earthly audiences. On the contrary, the judges' otherworldliness is taken as part of what qualifies them for their job. With no entanglement in the affairs of those whose actions they judge, they can be entirely impartial.

In the nonfictional world, we must make do with judges who are human, just like the rest of us. Or, as it has turned out in Western countries, we must mainly make do with judges who are humans like just some of us – specifically, those of us who are old white men.

This bothers some people, including British Justice Secretary Kenneth Clarke. Appearing before a House of Lords committee on judicial appointments last month, he agreed with his questioners that the percentage of judges who are not men or white is increasing too slowly. He said he favours using ethnicity and gender as “tie breakers” when appointing judges, under section 159 of the Equality Act of 2010. The idea is that, being equal on all other merits, appointments should favour women and non-white minorities.

The disproportionate number of white men in the judiciary also bothers many Americans, including President Obama. In 2009 the U.S. celebrated his appointment of Sonia Sotomayor as a Supreme Court justice, on the grounds that she is neither male nor of European descent.

But why are these people bothered? What do they think is wrong with a predominantly white and male judiciary?

The answer is that they suspect human judges resemble their fictional intergalactic counterparts only insofar as they are old and white – not in the more important quality of impartiality. They doubt judges' ability to transcend their demography, or so-called "identity," when making decisions about what is lawful. A white male judge, they believe, can only see things from a white male's point of view and his decisions will reflect his bias. A judiciary dominated by white men cannot administer justice in a diverse society.

For the sake of argument, let us accept this pessimism about humans' ability to be impartial. It does not follow that a diverse judiciary will deliver more justice. Even the advocates of judicial diversity do not suggest that partiality is a failing of white men alone. They believe it to be a common human failing. A Latin woman judge will make decisions that reflect her Latin woman's biases, a Somali judge will make decisions of a Somali sort, a gay Teutonic judge will make gay Teutonic decisions, and so on for any "identity" you choose.

Now imagine a civil case involving a white female plaintiff and a black male defendant. How can justice be done? If the judge is a white woman, the defendant cannot receive a fair trial. If the judge is a black man, the plaintiff cannot have justice. If the judge is a white male who identifies more with his manhood than with his skin, the plaintiff cannot receive justice. If the judge is ...

You see the problem. The judge in any given case always has some particular “identity.” Justice can be done only in those vanishingly rare cases where all involved parties – plaintiffs, defendants, witnesses and lawyers – are of the same gender and ethnicity as the judge, and perhaps of the same social class, religion and sexual orientation too.

Once you believe that humans cannot achieve the degree of impartiality required to administer the law, it makes no difference if the judiciary is composed entirely of white men or perfectly reflects the mix of the population. Either way, the law will not be administered justly.

And if you think that humans can in fact achieve the required impartiality then the demographics of the judiciary does not matter. If retired U.S. Supreme Court Justice Sandra Day O’Connor was right when she said that a wise woman and a wise man would make the same judicial decisions, then it does not matter if all judges are men, provided that they are wise.

Those who demand judicial diversity have implicitly given up on the rule of law. They see the law as a mere pretext for rule by judges, who they not only expect but hope will use their power partially. Justice Sotomayor, for example, has said that judges who set aside their ethnic identity “do a disservice to society and the law.” The diversifiers do not seek a remedy for judicial partiality; they seek only a proportionate distribution of it.

This displays an alarmingly tribal view of the proper function of judges and a peculiar ignorance of legal history. From the late 19th century to the mid-20th century, the legal rights of women and of blacks were dramatically extended in Britain, America and the rest of the West. During this period the vast majority of judges and legislators were white men. How could this have happened if humans cannot transcend their identity prejudices?

Why our leaders insist on breaking the rules

Financial Times

8 June 2011

Rules are made to be broken. This is a confusing adage. If you do not want a rule followed, why make it?

Yet it is clearly a popular idea among the European politicians who are managing the sovereign debt crisis. When they bailed out Greece, Ireland and Portugal they did not merely do something that exceeded their powers, they violated an explicit prohibition on such bail-outs.

Now there is talk of the European Central Bank accepting Greek government bonds as collateral even if it is “restructured” (not repaid in full) or “rescheduled” (paid late). This would violate rules about what the ECB can accept as collateral. But it will be an easy step to take because by currently accepting Greek government bonds as security the ECB is already violating rules about the required credit quality of collateral. And, as another saying goes, you might as well be hanged for a sheep as for a lamb – especially when you will be hanged for neither. European politicians and bureaucrats suffer no punishment when they break the rules that they claimed would make the euro safe in their hands.

Of course, they claim that by breaking the rules they are acting in the interests of the European people. But such judgments ought to be irrelevant. We do not allow an ordinary citizen to decide when the laws against theft should apply to him and when, all things considered, it would be for the best if he stole someone’s property. A thief cannot evade conviction by

arguing that he had a good reason to steal. Yet the dear leaders of Europe can and do pardon themselves by declaring the wisdom of their rule-breaking.

It is tempting for those who have attained eminence and power to believe they are a superior kind of person, unhindered by the intellectual and moral limits that make ordinary men get along better when they live under the rule of law. Rules are made to be broken by the anointed; that seems to be the view of our anointed European leaders.

This gets things the wrong way round. A nasty man with a knife can injure people. But the harm he can cause is trivial compared with the misery that can be inflicted by those who wield the power of the state. They, more than anyone, must submit to rules. The use they can make of the force at their disposal must be limited and we must know what the limits are.

For even if politicians and senior bureaucrats – people such as Silvio Berlusconi, John Prescott and Dominique Strauss-Kahn – really are the best of mankind, they are still subject to human frailties. Like the rest of us, they are ignorant, partial, venal and vain. Indeed, politicians may be unusually prone to some of these vices. Ask the people of Greece about the virtue of their recent political leaders. Ask them if these men and women are of such exalted intellect and character that their behaviour ought to be unconstrained by rules.

I recently discovered a fraudulent transaction on my credit card. Someone has imposed a £5,000 debt on me without my agreeing to it. That is against the law and I expect I will not ultimately be forced to repay the debt. During the financial crisis, the British government borrowed tens of billions of pounds, of which they require me to repay my “fair share” through taxation. This broke no law and to avoid paying I will have to emigrate.

Unlike the kings of yore, modern politicians cannot toss you in prison on a whim. But they can still impose debts on you. And, as with the kings of yore, their arbitrary powers are rarely used to benefit the little guy. In recent years, American, British and other European politicians have transferred the cost of poor financial decisions, amounting to trillions of dollars, from the influential people who made those mistakes to taxpayers who did not. If you refuse to cover the losses of those who lent to RBS, the Irish government and all the other failed but favoured enterprises, you will be imprisoned.

You might wish for some constitutional or other legal constraints on this power. But we already have some and the bail-outs of Greek, Irish and Portuguese bondholders broke them. Legal constraints are useless when the authorities believe that rules are made to be broken.

Despotic taxation

Wall Street Journal

23 December 2010

Last week, George Osborne asked corporate lawyer Graham Aaronson to draft a “general anti-avoidance rule” (GAAR) for the U.K. Treasury. As a principle of tax collection, a GAAR is most similar to the system of corporate taxation described to me by a friend from Malawi. His father owned a business there while Hastings Banda was president for life. Malawi had a corporate tax rate, but it mattered little to my friend’s father what the law said he owed. He would discover his true tax liability only when one of Banda’s cronies telephoned to let him know how large a “donation” the president thought would be appropriate.

Britain’s GAAR will likewise empower government officials to decide whether you should pay the amount of tax required by law or whether you must pay more.

To understand how Mr Osborne, the UK’s chancellor of the exchequer, came to emulate “the headmaster” of Malawi, as Banda liked to call himself, some terminological clarification is useful. Tax evasion means paying less tax than the law requires. It is, by definition, illegal. Tax avoidance means taking legal actions aimed at reducing your tax bill. It is, by definition, legal. But tax collectors still dislike it. It means they end up getting less of your money than they had banked on.

Sometimes they can simply change the tax laws to make your means of avoidance illegal, turning it into tax evasion. But this is a tiresome business, and not only because tax lawyers are endlessly

creative and difficult to keep up with. It also requires closing the “loopholes” that your avoidance exploited, many of which the government will wish to keep open for their intended beneficiaries. Enter the GAAR, a rule that allows government officials to decide to whom the tax laws should apply and to whom not.

Some may hope that the intended GAAR will be sufficiently clear to maintain the rule of law. Alas, by definition, it cannot be. For then it would be simply another law extending the range of actions that count as tax evasion. The authorities want a general anti-avoidance rule precisely because they find themselves incapable of formulating any such specific rule. The whole point of a GAAR is to abolish the rule of law in taxation. And, indeed, where such rules have been formulated, they contain the language of legally sanctioned arbitrary rule, allowing officials to judge what is “abusive” or against the “spirit,” if not the letter, of the law.

But what is wrong with a little despotism in taxation, especially if it slims down some fat cats and helps to reduce the deficit? The answer is that tax despotism is bad because it increases the uncertainty and hence the deadweight cost of the tax system. Suppose your company faces a 10% cost of equity and a corporate tax rate of 20% (perhaps after some good avoidance work by your lawyers). You will not undertake ventures that you expect to return less than 12.5% on equity before tax, since that would yield less than the 10% demanded by your shareholders. The 20% corporate tax rate thus deters your company from engaging in many valuable activities: namely, all those that return between 10% and 12.5% before tax.

This deadweight cost is bad enough. But now suppose that a GAAR were enacted and that you must guess the decisions of those empowered arbitrarily to decide that you face a higher tax rate than the law says you do. This would shift your pre-tax “hurdle” for doing business from 12.5% to some higher return, depending on the

degree of uncertainty engendered. Suppose that, for all you know, Mr Osborne may tax you at 25% and that you are unwilling to take “political risk.” Then your pre-tax hurdle will shift from 12.5% to 13.3% and the deadweight cost will increase to also include those worthwhile ventures not embarked upon because they would yield less than this.

And remember, this deadweight cost is a result of the uncertainty alone. The headmaster of Britain will have gathered almost no extra revenue because most companies will continue to pay the taxes required by law. But the fear that some arbitrarily higher rate may be applied to them will deter them from producing goods or services that they otherwise would have. Indeed, if this effect is big enough, the headmaster will be caning himself. The reduction in business activities will result in a reduction in his tax revenues.

High tax rates create the incentive to avoid tax. And a complicated tax code, full of exemptions for this or that special purpose, creates the opportunity to do so. Mr Osborne could reduce tax avoidance and deadweight costs by lowering taxes and simplifying the tax code. Five years ago, when he was still far from power, he endorsed such ideas. Now that he is Chancellor he dreams of avoiding the costs of an ill-designed tax system by abolishing the rule of law. As F. A. Hayek put it, this is the road to serfdom – not for Mr Osborne and his cronies, of course, but for the rest of us.

Prison rate reflects society

The New Zealand Herald

24 May 2006

There are 7500 New Zealanders in prison. Dr Warren Young, vice-president of the Law Commission, told a conference this month that this is a national shame. Corrections Minister Damien O'Connor agrees. He told the same conference that our imprisonment rate is "shamefully high".

It is alarming to hear such people say such things. For they are profoundly wrong. They are wrong about the statistics, wrong about the right direction for prison policy and wrong about the location of shame.

Statistics first. New Zealand imprisons a relatively high percentage of its population: we have 180 prisoners for every 100,000 citizens. Among developed nations, this puts us second only to the United States, which imprisons 700 out of every 100,000. This, I suspect, is what makes Young and O'Connor feel so ashamed.

It shouldn't. This is an absurd measure of the imprisonment rate, because it does not take into account the percentage of the population who are criminals.

New Zealand is a very criminal country. We have 100 crimes each year for every 1000 citizens. This compares to 90 in England, 24 in Spain and 20 in Ireland (to take a few examples).

As a percentage of crimes committed, we imprison very few people. We have 18 prisoners per 1000 crimes, compared to 13 in England, 33 in Ireland and 48 in Spain.

High rates of imprisonment correlate with low crime rates. Spain and Ireland have high imprisonment rates and low crime rates. New Zealand and Britain have low imprisonment rates and high crime rates.

But both countries are learning the lesson. Since 1993 the English prison population has grown from 49,000 to 73,000 and the number of crimes has fallen from 19 million to 11 million. New Zealand's prison population has increased by 30 per cent since 2000 and the crime rate has dropped by 10 per cent.

The same story can be told for the United States, where crime rates have fallen steadily as the imprisonment rate has climbed over recent decades.

Young thinks that increasing the prison population “will fundamentally change the structure and nature of New Zealand society in a way that I think none of us would want”.

He is half-right. It will indeed change New Zealand. It will reduce the amount of crime we suffer. But why would none of us want that? Especially when prison is such a cheap way of cutting crime.

It costs about \$65,000 to keep someone in prison for a year. That sounds like a lot. But it is money well spent.

Imagine a town of 500 adults that has caught its local criminal. They hold a town meeting to decide whether to spend the \$130 per person required to send him to prison for a year. What do you think they would decide?

It would depend, of course, on the kinds of crimes he commits. But if he were a typical New Zealand criminal – if he would gladly smash your face in, break into your house at night or steal your car – then most people would consider \$130 a bargain.

Add in the deterrence value of the conviction on other would-be criminals, and it is an even better buy. It is no surprise that the

public consistently supports harsher prison sentences even though they must pay for them from their taxes.

Last year there were 23,000 violent crimes in New Zealand classified as serious assaults or worse. A civilised society cannot tolerate this kind of violence.

Most of these crimes should have resulted in a prison sentence. But most did not. How could they have when there are now only 7500 people in prison from all categories of crime?

Every year, there are thousands of miscarriages of justice in New Zealand. Not the innocent being convicted. That almost never happens. It is the other kind of injustice – the guilty going unpunished – that prevails.

As a consequence, New Zealanders suffer one of the worst crime rates among developed nations. Our criminal justice system is not doing its job.

But it is improving. The police are catching a greater proportion of offenders (the crime resolution rate is up to 41 per cent from 30 per cent in 1991), more are going to prison, and the crime rate is falling.

This is wonderful news. It is something to celebrate. That the vice-president of the Law Commission and the Corrections Minister should lament it is not simply bizarre; it is alarming. What, in their opinion, is the purpose of the criminal justice system?

Here is a simple multi-choice question that anyone seeking a position of responsibility in our criminal justice system should be required to answer correctly. A man commits a serious assault. He is arrested, convicted and imprisoned. Who should feel ashamed? Is it:

- a) the victim of the assault
- b) the police

- c) the trial judge
- d) the prison guards
- e) the politicians who decided that assault deserves a prison sentence
- f) the criminal?

Young and O'Connor believe the answer is e) the politicians. They fail.

Part 4

Incentives

Precise policing for the people of Snodbury

Financial Times

13 May 2007

Before resigning as home secretary, John Reid commissioned Sir Ronnie Flanagan to review policing in England and Wales. He is to recommend reforms that will cut bureaucracy, improve efficiency, encourage neighbourhood policing and increase local accountability.

Sir Ronnie has not asked me to contribute to his review. Nevertheless, I feel compelled to tell him about my scheme for reforming the police. It would achieve all of his goals and another Mr Reid forgot to put on his list – it would help to reduce crime. Police forces should become independent commercial enterprises that must compete for local policing contracts. What they earn should be directly related to how effectively they reduce crime. Here is how it could work.

Before accepting bids, Snodbury city council would publish a schedule of “crime tariffs”. These represent what the people of Snodbury would be willing to pay to eliminate crimes of various types. Let us suppose Snodbury’s crime tariffs were as follows: £1m for a murder, £100,000 for an assault and £10,000 for a theft (for simplicity, pretend these are the only crimes).

Companies would compete for the contract to police Snodbury by bidding a total annual policing fee. At the end of the year, whoever won the contract would be paid this fee less the value of all the crimes committed “on their watch”. This would make the company’s revenue depend on its success in eliminating crime.

Suppose Precise Policing Plc won the contract by bidding the lowest annual fee of £50m and that there were 10 murders, 100 assaults and 1,000 thefts in Snodbury during the first year of its contract. Then the crime tariff deductions for the year would total £30m and Snodbury city council would end up paying Precise Policing £20m. Assuming its operating costs to be £15m, Precise Policing would make a £5m profit.

As a commercial enterprise, Precise Policing would strive to achieve the maximum amount of crime prevention – that is, revenue – for each pound of operating expense. So would other policing companies operating in other regions. Those that found the most efficient ways of reducing crime would be able to undercut their rivals when bidding for policing contracts. Competition for policing contracts would drive down the price of crime prevention.

Provided police companies were free to employ any legal means to reduce crime, the profit motive would achieve what no end of central government directives, targets and badgering has been unable to. It would ensure that police forces used the most effective known means to reduce crime and innovated to improve their performance. I suspect the practices of such commercial police forces would differ markedly from those of our current publicly run forces. For example, I doubt they would spend as much time on paperwork. But who knows? If paperwork really does reduce crime, we would see the police working on paper as never before.

There are the efficiency and bureaucracy-cutting Sir Ronnie seeks. The localism should be obvious. To get the policing they want, Snodburians would need to do no more than set their crime tariffs: that is, decide what they are willing to spend to eliminate crimes of various types. These tariffs would determine how much is spent on fighting crime. The higher Snodbury council sets the weighted-average tariff, the greater the annual fee required for

Precise Policing to make a profit and the greater the resources it would be willing to devote to eliminating crimes.

The relative level of the tariffs for different crimes would determine how the police allocated resources. If the tariff for a murder were 100 times the tariff for a robbery, they would put 100 times as much effort into reducing the murder rate. Fine-tuning police priorities would require none of the incompetent bureaucratic meddling we witness today, but merely a change in crime tariffs. It would even allow Snodburians in effect to decriminalise something, by setting its tariff to zero.

The scheme gives Snodburians control over what is rightly their business – the police’s priorities – while leaving to the police what is rightly theirs: how best to achieve the goals set them by the people of Snodbury.

Base bankers' pay on the bump and grind of the open market

The Times

27 September 2009

It cannot be an unusual evening at Stringfellows, the West End lap-dancing club, that finds an investment banker, drunk, sitting on his hands, beholding a half-naked woman gyrating before him with a wad of what were until recently his £20 notes festooning her garter belt and asking himself the pressing question of the day: “Do we bankers earn too much?”

It is difficult to pursue a line of rational thought under such circumstances. That is their purpose. Which is a shame, because the answer to the question of bankers' pay can be found by a close examination of lap dancers – or, at least, of the way they are paid.

Lap dancers receive performance-related pay. Miserly and over-enthusiastic customers aside, they get £20 a lap dance and £200 a half-hour of what I will call “dedicated time”. The more beautiful, charming and determined the dancer, the more lap dances and “time” she will sell, and the more she will earn. By allowing a woman with these qualities to work in his club, Peter Stringfellow puts her in the way of potentially large cashflows.

The same goes for investment bankers. Their roles vary, of course, but they can all earn bonuses for their performance. A foreign currency trader, for example, typically is paid a bonus equal to about 15 per cent of the revenue he generates for the bank. The leader of a mergers and acquisition team will make some percentage of

the bank's fee for a successful deal, which can be astronomical. By giving someone a job at an investment bank, its owners are putting him in the way of potentially large cashflows.

But here is one of the many differences between lap dancers and bankers: whereas Mr Stringfellow makes his lap dancers pay for the privilege of being put in the way of their bonuses, with a "house fee" of about £100 a night, investment bankers are actually paid to have the chance of earning bonuses in the millions, with base salaries ranging from roughly £50,000 to £200,000.

This is silly. Investment bankers, like lap dancers, should have to pay to go to work. This would settle the issue with which Messrs Brown, Sarkozy and Obama have been struggling, by ensuring that bankers are paid just the right amount and not a penny more (or less).

To see why, consider the lap dancers at Stringfellows and the question – not yet a political issue – of how much they should earn. Like all employers of skilled labour, Mr Stringfellow faces a trade-off. The more he pays, the higher-quality staff he attracts and the greater his revenues. But, of course, the greater his costs and, potentially, the less his profits. The optimal level of pay is reached when any increase would cost more than it adds to revenue (and any decrease would save less than it removes from revenue).

The "house fee" gives Mr Stringfellow a simple device for determining this optimum. He can simply push it up (and so reduce dancers' pay) to the point where any further increase would do more damage to revenue than it saves him in staff costs. Although it can be difficult to know exactly when that point has been reached, attending auditions and tracking the club's door receipts should provide some clues.

Changes in a base salary could be used in the same way, you may think. But increasing a house fee is better than reducing a

base salary, because it causes the worst performers to quit first; their earnings from the dances they sell no longer cover the cost of coming to work. Lowering base salaries, by contrast, causes the worst employees to leave last, since they are least able to find better employment elsewhere.

In short, a house fee allows the employer to discover how little can be paid to those who are best able to generate revenues. Which is precisely what investment banks need to know to avoid paying their staff too much. If investment banks held an auction in which prospective employees bid for jobs by offering an annual house fee, the bank could be confident that they were not overpaying. Any excess pay would be competed away in the auction.

And, as with lap dancers at Stringfellows, it would be the best bankers who got the jobs, because the best bankers, being able to generate the biggest bonuses, would be willing to pay the most for the job. No one could any longer complain about what bankers earn. If someone thinks it is too much, he is welcome to bid for the job.

A call option gives its owner the right, but not the obligation, to buy something at a specified price (the "strike price"). If the going price (the "spot price") is higher than the strike price, the option can be exercised at a profit (the difference between the strike and spot prices). If the spot price is lower, then the option-holder need not exercise it and his loss is only what the option cost to buy.

An investment banker effectively holds a call option on his own performance. If a foreign currency trader does well, be it from skill or luck, and earns his bank £10 million, he will receive a £1.5 million bonus. If he does badly and loses the bank £10 million, he does not have to cough up £1.5 million. This is the notorious "trader's option".

As investment bankers know, options are valuable. There is no reason why someone should obtain one without paying for it, and

certainly no reason why he should be paid to have one. The trader's option should not be regulated out of existence. It should be priced in an open market.

A banker's solution to grade inflation

The Times

16 August 2007

When a university lecturer, I was once asked to evaluate an application for graduate study from an Italian student. I was amazed to discover that her average grade for undergraduate courses was 99.7 per cent. She must be a genius.

Then I read the essay she had submitted in support of her application. It suggested that she was not a genius. A colleague explained the discrepancy to me. Grade inflation at Italian universities was so extreme that every student scored above 99 per cent. I should look at the decimal place and consider it a grade out of ten.

This example shows why one popular suggestion for solving A-level grade inflation is a short-term fix at best. Subdividing top grades – for example, by creating A-plus and A-plus-plus grades – may allow us to discriminate between good pupils this year. But if the causes of grade inflation persist, soon too many pupils will be scoring A-plus-plus and we will need to subdivide again. Changing a grading metric can no more eliminate grade inflation than crossing zeros off Zimbabwe's dollar notes can eliminate its monetary inflation.

The cause of grade inflation at many universities around the world is the crazy but common practice of lecturers grading their own students. This gives them two reasons to award high grades. It makes their courses popular and it helps people they have come to know and, often, to like into good jobs. But this cannot explain the inflation of A-level grades because these are awarded

by examination boards. With independent examiners, why should A-level grades inflate?

The answer can be seen by analogy with the consumer credit business. A-levels are to universities and students what credit scores are to banks and borrowers. Universities admit students on the basis of A-levels and banks make loans on the basis of credit scores. Universities (banks) want A-levels (credit scores) to provide accurate information about academic ability (credit worthiness) because admitting weak students (lending to risky customers) and rejecting clever students (declining safe borrowers) are bad for business. But only the best students (safest borrowers) want grades to be accurate. Most benefit by grades being skewed upwards.

Businesses tend to do what benefits their customers, since otherwise they will lose out to competitors. The credit ratings provided by companies such as Experian are purchased by banks, not borrowers. So we should expect them to be accurate rather than favourable. A-grades are provided by examination boards who charge students for their service and compete for business from schools. So we should expect A-levels to be favourable rather than accurate.

The incentives for grade inflation are worse yet. Imagine that the Government involved itself in consumer credit as it does in education. Imagine that there were a department dedicated to improving the creditworthiness of the population, and that it had a stated target for increasing the number of people granted loans. And imagine, finally, that the Government also regulated credit agencies and the way they assessed credit quality. It would be amazing if credit scores did not inflate like A-levels.

Here, then, is a simple suggestion for reform. Examination boards should be legally obliged to sell their products to universities, not students or schools. In all other respects, the provision of

grades should be deregulated. Grade inflation would stop immediately. No company trying to sell its grades to Cambridge University would lump half its students into its top grade, as occurs with the further maths A-level.

But this is only the reform's most obvious advantage. Liberated from the guidance of Whitehall, examination boards would be free to develop new methods of assessing pupils' academic ability – or, more precisely, of predicting students' likely success at university. Competition would give rise to methods that are not only more accurate than the current A-level but also more cost-effective, since universities would prefer the cheaper of two equally accurate grades.

As exam boards developed the predictive sophistication of credit rating agencies, we could expect to eliminate another serious defect. Well-designed credit scoring methods are difficult to “game”. Gaming occurs when a borrower does something that improves his score without improving his credit quality. An example could be borrowing from a lender whom the scoring method cannot observe, such as your mother, and depositing the money in a bank account that it can observe. This makes the scoring method overestimate your wealth and hence your credit quality.

Academic evaluation can also be gamed. Cramming is the obvious example. A period of intense, coached study just before exams improves results but it makes the student neither more intelligent nor more knowledgeable, as this rapidly digested knowledge is equally rapidly egested after the exam. A well-designed academic evaluation would be made immune to cramming, perhaps by randomising exam dates.

Truth would not be the only winner. Cramming for exams is a classic “arms race”. Once someone starts doing it, everyone has to join in to keep up. Relative positions and prospects of acceptance by universities end up unchanged, but you have all squandered

hours of effort on the enterprise. Students, like universities, would benefit if grades could not be gamed by cramming.

The Government should pounce on this proposed reform. Not only do I offer it free, it is also cheap to do. It requires no public spending or expensive new agencies. Examiners just need to sell their products to people with an interest in the truth.

Fewer voters are better voters

Thebigquestions.com

25 February 2010

Last year, the British government decided to lift the top rate of income tax from 41 to 52 percent. Last month, Lord Myners, the UK Secretary of State for Financial Services, said that the policy would raise not nearly as much revenue as had been expected. People are apparently making efforts to avoid paying it. A host of politicians and commentators responded that it was always a foolish idea, a purely “political” policy.

But how can a bad policy be good politics? What defect in the electoral system can explain this?

The most popular explanation these days is the malign influence of “special interests”. Perhaps there is something in this. But a more fundamental defect is always overlooked, presumably because it is mistaken for a virtue of modern democracies. The reason so many bad policies are good politics is that so many people vote: about 62 percent of adults at the last general election, both in Great Britain and in the United States. The best way to get more sensible policies would be to reduce the number of voters to less than 0.01 percent of the population.

To see why, consider a question that arises in banking. How many bankers should be involved in deciding whether to approve a loan application? The ideal number may vary with the complexity of the application. But the right answer is always, “very few.”

If a loan officer’s initial decision required sign-off by a majority of 100 other bankers, his own judgment would have little effect

on the final outcome. So he would have little incentive to think hard about the application and the likelihood that the loan will be repaid. Since this would be equally true for each of the other 100 bankers, none would bother to think hard. Why struggle to make the right decision when your decision will have no effect?

This is the position of voters in a general election. Each individual's vote makes no difference to the outcome. Even marginal districts are won with majorities of hundreds. If you had stayed home instead of voting, the same candidate would have been elected.

If each person's vote makes no difference to the candidate elected, why do so many people vote? One answer, as the economist Geoffrey Brennan has argued, is that people enjoy it. The simple act of going to a polling booth and ticking a box is imagined to display democratic virtue. And, by ticking one box rather than others, people can feel themselves to be generous or pragmatic or progressive or something else they like to be.

Enjoying such feelings is easily worth the cost of taking two hours off work on a Tuesday every couple of years. But it is not worth the effort of learning anything about economics, jurisprudence, international relations or even the policies of the candidate you vote for. Research into voters' knowledge shows a stunning degree of ignorance. Most voters would be as likely to vote for the best candidate if they entered the polling booth blindfolded.

In fact, blindfolds would increase most voters' chance of making the best choice. Because, as Bryan Caplan shows in *The Myth of the Rational Voter*, ignorant voters do not make their mistakes randomly. They are biased towards particular errors; they tend to underestimate the benefits of trade and they believe that the prices of goods and labour are determined by corporate greed rather than by supply and demand, to take but two of many examples.

Hence the many foolish policies followed by democratic governments. And hence politicians' sentimental and grandiose rhetoric. Modern politics is just as you should expect it to be when votes are cast by ignorant people taking advantage of a low-cost source of emotional gratification.

So what is the best way to improve modern politics? The answer is not to increase voter turnout. On the contrary, the number of voters should be drastically reduced so that each voter realises that his vote will matter. Something like 12 voters per district should be about right. If you were one of these 12 voters then, like one of 12 jurors deciding if someone should be imprisoned, you would take a serious interest in the issues.

These 12 voters should be selected at random from the electorate. With 535 districts in Congress – 435 in the House and 100 in the Senate – there would be 6,420 voters nationally. A random selection would deliver a proportional representation of sexes, ages, races and income groups. This would improve on the current system, in which the voting population is skewed relative to the general population: the old vote more than the young, the rich vote more than the poor, and so on.

To safeguard against the possibility of abuse, these 6,420 voters would not know that they had been selected at random until the moment when the polling officers arrived at their house. They would then be spirited away to a place where they will spend a week locked away with the candidates, attending a series of speeches, debates and question-and-answer sessions before voting on the final day. All of these events should be filmed and broadcast, so that everyone could make sure that nothing dodgy was going on.

Some will complain that this system would disenfranchise most of the population. It would not, because every adult would be eligible for random selection. Of course, each of us would have

a tiny chance of being selected. But, on the current system, it is equally improbable that any individual's vote will make a difference to the election's outcome. The difference with this "jury" system is that those whose votes make a difference would know who they are. And that would give them a reason to take the job seriously.

Donating organs could prove a costly decision

City AM

15 February 2012

Never make yourself worth more dead than alive. This was the sage advice my father gave me as a boy and I have stuck to it ever since. That is why my life insurance pays out less if I die than the net present value of my likely future earnings. I trust my wife, but why put temptation in her way?

It also explains why I object to a new proposal from the British Medical Association (BMA). They want to shift organ donation from the current opt-in system, on which you must apply for an organ donor's card, to an opt-out system. If they have their way, everyone will be deemed to have consented to the harvesting of their organs upon death unless they explicitly say otherwise.

Many will think this a good idea because there is no cost in donating your organs. The dead have no use for their liver, heart, kidneys or for anything else. It is only the time and hassle of applying for a donor's card that deters people from becoming donors. So why not simply remove this cost by introducing an opt-out system?

Alas, the cost is not only in the application but in the achievement too. Because being an organ donor increases your value when dead, it increases the chance that you will die. Imagine yourself on the operating table following a car accident that has done some nasty damage to your guts but left your other organs pristine. If you die, and you are an organ donor, your heart, kidneys, liver and lungs will be available to save four lives. The doctors working on you

therefore have less incentive to save you. If you are a donor, your death produces a net gain of three lives. If you are not, it delivers a net loss of one.

The suggestion that doctors would make such a calculation may seem outrageous. But it need not be official policy or said aloud by the doctors and nurses tending to your broken body for the thought to be there, in the back of their minds, affecting the fervour with which they try to save you. Even if you trust doctors, why put temptation in their way by being an organ donor?

This is not to deny that there is too little organ donation going on. If there were more, the net effect on lives saved would be positive. The question is how to remedy the currently unsatisfactory situation. And the BMA has got this wrong. The problem with the current system is not that opting-in is too bothersome but that it fails to recognise that being a donor is costly, and therefore in need of compensation.

People should be paid to become donors. The payment could be upfront. For example, I am sure many students, even students of statistical finance, would see signing up as a good deal in return for £100. Or the payment could be conditional on harvesting. You might sign a contract by which, in the event of your death and donation, £5,000 will be paid to your estate. That would encourage you to look after your organs while you are alive: for example, by not drinking too much alcohol.

Some will find the idea of commercialising organ donation distasteful. But, since the transaction would be entirely voluntary, it is really none of their business.

Make them bet

Thebigquestions.com

11 May 2011

Last week, Britain had a referendum to decide whether or not to replace its current “first past the post” electoral system with the alternative vote system (AV). During the campaign, the No to AV campaign claimed that changing to AV could cost £250 million, in part because voting machines would be introduced with it. Yes campaigner and member of parliament, Simon Hughes, claimed that this was false and that the No campaigners knew it was. He asked the electoral commission to stop the No campaigners from lying.

Similar appeals are often made by other frustrated political disputants. But the idea that electioneering politicians should be allowed to say, and voters to hear, only what the electoral commission deems to be true and honestly believed is outrageous. It would make election outcomes depend on the judgement, not of the voters, but of the electoral commissioners.

The proposal is also unnecessary. As anyone who has argued with blowhards will know, there is an easy way of showing that someone does not really believe what he says. Challenge him to a wager. Demand that he put his money where his mouth is.

If the No campaigners really believe that changing to AV would cost £250 million, they will be willing to bet on it. By offering the wager, and having it declined, Mr Hughes would expose their insincerity. Equally, Mr Hughes’ failure to suggest the wager may tell us something about his own alleged certainty on the matter.

Politicians should generally be obliged to bet on the outcomes their various claims. This would discourage their lying which, incredible as it may sound, is even more widespread than people working with the standard definition of lying realise.

Lying is not a matter of saying something you do not really believe. This is because, on matters subject to doubt, we believe “both sides of the debate”. For example, I believe that Osama Bin Laden is dead. But I am not certain of it. Or, in other words, I believe, to a small degree, that Bin Laden is alive. So, if I said “Bin Laden Lives!”, though I would be lying, this would not be because I do not believe it; I do believe it a little. I would be lying because I believe it with less confidence than my assertion suggests.

Once you see lying as misrepresenting your degree of belief, it is clear that politicians lie incessantly. They pretend to a level of confidence that they cannot really feel. Forcing them to bet material sums of money on their claims would encourage them to reveal their true confidence.

For example, Tony Blair said that Saddam Hussein almost certainly possessed weapons of mass destruction (WMD) despite the available evidence making the proposition far from certain. If someone had bet him £100,000 at odds of 5:1 – surely attractive to someone of Mr Blair’s professed certainty – he would have lost £500,000 when the WMD failed to appear. Or, had he refused to wager at these odds, we would have known what to think of his certainty.

Or consider the politicians who bailed out Greek sovereign bond holders on the ground that this would prevent “contagion” and further European sovereign debt crises. This was an implausible idea. What odds do you think those who so enthusiastically peddled it would have taken on a €100,000 bet that there would be no more euro bailouts within two years? What odds would Mervin

King, Governor of the Bank of England, take on a bet that inflation will be below 3% in a year? What odds would Donald Trump have taken a month ago on President Obama's place of birth?

Of course, compulsory betting is an imperfect path to honesty. Much of the nonsense that politicians talk is not amenable to verification and so cannot be bet on. How will we know, for example, if Britain really has become "fair" under the influence of our government's social mobility policies? And politicians may sometimes be willing to take the betting losses caused by their misrepresentations. Indeed, they could do deals that mean they do not have to. The holders of Greek government debt would surely be glad to cover the gambling losses of the European politicians who gave them taxpayers' money.

Imperfect but not worthless. If a politician were a long-run loser in his compulsory betting, we would know that he was either a well funded liar or a fool. Knowing which may be required to make a moral judgement about him. But not to know whether we should take him seriously.

Part 5

Discrimination

What would Harriet Harman do?

Wall Street Journal

13 April 2010

What would Jesus do? This is what many Americans ask themselves when faced with a difficult decision. Jesus is not as influential in Britain. Here wise people defer to another paragon: What would Harriet Harman do?

For it is illegal in Britain to treat people “less favourably” because of their “protected characteristics”. And Ms. Harman, the minister for Women and Equality, has written the list of protected characteristics. Sex, age, race and sexuality are protected, of course. But, as a Statutory Code of Practice published last month told us, so are beliefs.

Not any old belief is protected. For example, though you may not treat someone less favourably because he is a vegan, you are free to discriminate against racists. Both beliefs pass one test for being protected: they can have a profound effect on how you live. But racism, unlike veganism, fails another test. It is not the kind of opinion that people like Ms Harman approve of.

This is not exactly how the criterion is stated in the Code. The precise wording is that, to be protected, a belief must be “worthy of respect in a democratic society” and “compatible with human dignity.” These expressions are so vague as to be meaningless. Except, of course, that we all know what they mean. You may discriminate against people whose beliefs are unpopular with the authorities, such as Islamophobes, but not otherwise. When considering how you will treat someone, ask not what you think of his beliefs, ask what Harriet Harman would think of them.

Some newspapers ran stories laughing at legislation that gets involved in such hair-splitting nonsense as distinguishing the “protected status” of veganism from Jediism (the religion in Star Wars). But, like its subject, this objection is mere quibbling. The real question is why people may not dispose of what is in their gift – be it their love, their rental property, or a job in their firm – however they choose.

The free use of our property is rightly limited by a prohibition on harming others. But the discrimination laws cover actions that do no harm. When 10 people apply for a job, nine are sure to be disappointed. But, since the applicants had no claim on the job in the first place, they have not been injured by their rejection. So the reason they were rejected is irrelevant. Who cares why we do not injure people?

Where injury really is concerned, discrimination is irrelevant. No characteristics are protected or unprotected. If someone has a proper claim on something, you cannot withhold it even if he is a Jedi, a misogynist, or a paedophile. You may not harm anyone, however objectionable you or Ms Harman may find him.

This is why the anti-discrimination laws concern not injuries but favours – or, as the legislation puts it, our reasons for treating people more or less favourably. Which simply returns us to our question: Why may we not be as discriminating as we like when allocating our favours?

Of course, in many parts of life, we may be. For example, I know several men who are attracted only to East Asian women. Their race-based favouritism in the allocation of affection is perfectly legal. If it were applied to allocating rental properties or jobs, however, it would be illegal.

What is the difference? Why does Ms Harman tell people how to allocate their flats and jobs but not their dinner dates and

betrotals? I can think of only one idea that could make sense of this otherwise arbitrary distinction: Namely, that whereas your body and mind are truly your own and hence in your gift, your jobs and property are not.

Ms Harman is deputy leader of a political party that claims the government “creates jobs” even in the apparently private sector. Although Tony Blair officially expunged the Labour Party’s Marxist legacy, many still subscribe to the idea that all economic output and hence all property is collectively produced and owned, held by individuals only as a dispensation from the state.

In other words, they believe the private sector is an illusion. We all really work for the government and we all really live in public housing. People who start businesses or rent out their properties may believe that they are acting on their own initiative. In truth, they are unwitting middle managers in the great governmental enterprise. They have no right to allocate jobs or property according to their own preferences. They must adhere to the preferences of the true owner of these goods, the government.

It is futile to complain that Ms Harman and her colleagues are wrong about this. If they compel us to dispose of our property not according to our own preferences but to theirs, they have effectively commandeered it. They have it in their power to make the private sector an illusion. Which is what they are busy doing.

Some of my best friends are hopeless at sums

The Times

24 July 2004

If you have the wrong beliefs in North Korea, the Government will send you to a re-education camp. There you will be presented with the right beliefs and encouraged to embrace them. If you have the wrong friends in Britain, the Government will send you to a re-friending camp. There you will be presented with the right friends and encouraged to embrace them.

That, at least, is the proposal of Trevor Phillips, chairman of the Commission for Racial Equality. Mr Phillips thinks Brits do not have enough friends of other races. To correct this, he wants children sent to mixed-race summer camps where they will learn to love all the peoples of the world.

Mr Phillips got his idea about the inadequate racial diversity of our friends from a YouGov poll. It reveals that more than half of whites have no non-white friends and that only 20 per cent of whites have a Muslim friend. These statistics alarm Mr Phillips, but they should not. The problem is not racism; it is just that there are not enough non-whites to go around.

Consider Pakistanis. They make up just 1 per cent of the UK population, 92 per cent of which is white. For every white to have a Pakistani friend, the average Pakistani would need at least 92 white friends. That is surely too much to ask even of the friendliest Pakistani. Suppose every Pakistani had five white friends. Any anti-racism campaigner should be content. Yet the shocking statistics would persist: 95 per cent of whites would still have no Pakistani friend.

To avoid being foolishly shocked by statistics, it helps to understand them. Better sums would also help Mr Phillips to see the futility of his summer camps.

The average camp of 100 children will have ninety-two whites, two Indians, two blacks, one Pakistani and three "others". A child who made two genuine friends in a few weeks at camp would be doing well. Given the camp's ethnic composition, however, these two friends would most probably be white.

Perhaps Mr Phillips intends his camps to include a disproportionate number of non-whites: 50 per cent, say. Alas, that could be achieved only by leaving out most whites, or by making non-whites attend 12 times as many camps as whites. If camps were two weeks long, that would be 24 weeks a year at re-friending camps for non-whites.

Leaping from a faulty interpretation of statistics to radical proposals for social engineering is characteristic of the Left. Charles Clarke, the Education Secretary, recently declared that admissions to Oxford and Cambridge were unfair on the basis of a simple statistic. Although only 10 per cent of students attend private secondary schools, they make up 50 per cent of admissions to Oxbridge. Obviously unfair, no?

No. An admission process is fair if it considers nothing but the applicant's academic ability. Even Labour ministers never publicly deny this principle. Oxbridge aims to admit the most able 2 per cent of students. The fair percentage of admissions from private schools depends on what portion of the most able students are educated in them. If it is 50 per cent, then Oxbridge admissions are just right.

Mr Clarke is committed to the view that less than half the most able students attend private schools. But how does he know? He has never provided any evidence. In circumstances of such ignorance, he should not go around threatening universities that do

not increase their intake of students from “non-traditional” (i.e., non-wealthy) backgrounds with £500,000 fines.

Nor should Mr Phillips have us all sent to re-friending camps. For, even if the proposal were not based on wonky reasoning, it is really none of Mr Phillip’s business who our friends are.

The real threat to marriage

Wall Street Journal

19 March 2012

Should a man be allowed to marry another man, or a woman another woman? This question is causing a political kerfuffle in America, Britain and Australia. Why?

Mere disagreement about the merits of same-sex marriages cannot explain the fuss. After all, I disagree with my friend Brian about the merits of pink trousers, but this causes no trouble. He sometimes wears them and I never do, and that is that. If I felt really strongly about it, I might refuse to associate with Brian (at least when he was pink) and, again, that would be that. Our sartorial disagreement raises no political issues.

To understand why same-sex marriage differs from pink trousers, consider yet another question. What kinds of shows should appear on television? For example, should BBC 3's *Snog Marry Avoid?* and similar reality shows be broadcast? You may think this is not a question for politicians. If people want to watch such programs, they can. If they do not want to, they do not have to.

Alas, it is not that simple. In America, Britain and Australia, the government taxes citizens to fund "public service broadcasters": America's PBS, Britain's BBC and Australia's ABC. This makes the programs these organisations broadcast a political issue.

When the BBC was founded in 1922, it was openly highbrow, aiming to elevate the minds and morals of the British people. Such patrician attitudes have gone out of political fashion, and taxpayers' money now contributes to funding programs aimed at entertaining

rather than improving fools. Some snobbish Brits are unhappy about being forced to fund such stuff and complain to politicians about it.

Marriage is a political issue because it has been nationalised. All over the Western world, marriage is not simply a contract between the parties involved, nor simply a religious ceremony. It is a matter of national legislation, affecting the way the state treats you. Most state pensions and tax regimes take account of whether a person is married. And various legal claims and obligations, beyond those of the marriage contract itself, change when you marry.

People care about who may marry because marriage is an institution recognised and usually rewarded by the state. If Brian got a tax break for his pink trousers and I got none for my blue ones, then I might start campaigning against his dreadful sartorial habits. Culture wars are inevitable when the state becomes a cultural arbiter, be it of living arrangements, TV programs or dress (as it has in France, where some Muslim outfits are illegal).

Many Christians in Britain fear their faith is being steadily criminalised. They are right. It is illegal in Britain to treat someone less favourably on account of his sexuality. For example, a Christian hotelier who shares Leviticus's dim view of homosexuality may not refuse to rent a room to homosexuals. If same-sex marriages are legalised, then a church that refuses to marry two men would be violating Britain's anti-discrimination laws. The government plans to create a special exemption for churches when it comes to discriminating against homosexuals who wish to marry, but I doubt that the European Union's human-rights laws will allow it.

Those Christians who want homosexual marriage banned are making a mistake of principle. The state should no more privilege their preferred living arrangements than anyone else's. They are also

making a tactical mistake. The ideology of political and judicial elites in the West is increasingly secular. A Christian who wants to be free to practice his religion should not waste his time lobbying for the state's endorsement of Christian values. He should lobby for the separation of state and culture.

On the point of political principle, the secularists of the "liberal" left agree with the Christians who want homosexual marriage banned. Both think the law should promote their own cultural preferences. They differ only in their preferences. Their dispute is like an argument between rival factions of a fascist party, or between highbrow and lowbrow programmers at a broadcaster that receives public funding.

The idea that the left is liberal confuses the political and personal senses of "liberal." Left-wingers are typically more personally permissive than political conservatives. For example, most have no moral or other objection to homosexual marriage. But a political liberal is not someone who personally objects to very little. He is someone who thinks the state's role in our affairs should be strictly limited, regardless of his own or anyone else's personal preferences.

A political liberal objects to state-funded broadcasting, whatever his taste in television programs, and he objects to marriage legislation, whatever his personal view of homosexual or other unions. Yet left-wingers love state-funded broadcasting and never seek to repeal the bans on consenting adult incest or polygamy. And they love anti-discrimination laws, which force people to act as if they shared the preferences of their political masters. Left-wingers are not liberals. They are broad-minded fascists.

Even a strict separation of state and culture would probably fail to completely eliminate cultural conflict. "Live and let live" is a fine sentiment but not one that comes easily to us humans, whose

social dispositions still seem to reflect our tribal ancestry. That is a pity. But the proper response of government officials is not to take sides in these tribal conflicts. It is to stop anyone from winning by force rather than by argument or good example.

Incredibly sexist appointments

City AM

17 January 2012

Over the last year, the number of executive directors of FTSE 350 firms who are women has decreased from 45 to 43, about 5% of the total. The revelation of this fact on Monday prompted complaints about “under-representation”, “glass ceilings” and “boys’ clubs”. The Liberal Democrat peer, Lord Oakshott, even claimed that “British business picks its bosses from an incredibly incestuous male gene pool” – which is difficult to understand but sounds unpleasant.

Despite its familiarity, the idea that unjustified discrimination explains the small percentage of female directors is implausible. In fact, it is pretty obvious that no one really believes it. To see why, consider another apparent statistical anomaly.

Polynesians make up about 0.01% percent of the world’s population. But they make up about 10% of the world’s professional rugby players. In other words, if you knew nothing about rugby, Polynesians or history, the number of Polynesian rugby players is about 1,000 times greater than you might expect it to be.

Those who make a business of fretting about unfair discrimination do not fret about the remarkable under-representation of non-Polynesians in professional rugby. This could be because they are uninterested in rugby and non-Polynesians (one of the more nebulous and uncomplaining racial groups). But there is also a good, non-discriminatory reason for not fretting: namely, the fact that professional rugby is a competitive business.

If the disproportionate number of Polynesians rugby players

resulted from discrimination against others, this would present a rugby entrepreneur with an opportunity. He could recruit a team of superior but unfairly overlooked non-Polynesian players and then “kick arse” in the professional competitions. This would soon end any unjustified preference for Polynesian players in other teams. It is because nothing now stops this happening, and yet it does not happen, that we know Polynesians are not the beneficiaries of racial prejudice in rugby.

For the same reason, we need not fret about sexual discrimination in private sector businesses. Nothing stops firms from appointing women to executive director or other senior positions. If the firms that recruit mainly men did so from sexual prejudice against women, this would create an opportunity for other firms or entrepreneurs. They could appoint superior but unfairly overlooked women to senior positions and then “kick arse”. This would soon end the unjustified preference for men among their competitors.

People who claim to have spotted inefficient business practices are hard to believe when, instead of pouncing on this opportunity to make a profit, they attempt to pressure other firms into stopping it. If you discovered that apple farmers use needlessly expensive techniques for picking their fruit, would you complain about it in the media and call for the government to put a stop to it? Or would you keep your mouth shut and quickly get into the apple picking business?

Those who try to bully businesses into appointing more women to senior positions would have you believe that they are forgoing this profit opportunity for themselves and, instead, forcing it on people who are irrationally reluctant to take it. Both the lobbyists and the sexists, we must believe, care little for profits. This may provide a pleasant vacation from the usual accusations of unfettered capitalist greed. But it is still hard to take seriously.

How to make my child feel like a black sheep

The Times

26 January 2007

I am white, my wife is black and our daughter, unsurprisingly, is brown. I think she is lucky. Her skin is almost golden and her hair falls in beautiful black ringlets that, thanks to my Celtic ancestors, reveal copper undertones when caught by the sun.

But according to Trevor Phillips, the chairman of the Commission for Racial Equality, my daughter may be in grave peril. In a recent speech he claimed that, as a person of mixed race, she is at risk of “identity stripping”. She may “grow up marooned between two communities”.

Like many others in the race industry, Mr Phillips is a racist. He thinks that your race is the most important fact about you. It is so important that it determines your identity and your community. If you are mixed race, you will have neither.

Mr Phillips is mistaken. Despite her brown skin, my daughter is no harder to identify than her white father or her black mother. She is no more vague, nebulous or otherwise indefinite creature than any other human being.

Nor is she marooned between two communities. For I do not live in the white community and my wife does not live in the black community. As far as I know, there are no such communities. Despite our different colours, all three members of the Whyte family live in the same community, a nice bourgeois suburb.

My daughter knows she is brown but, at the age of 3, she does not believe it to be the most important thing about her. If anything, she

is currently obsessed with her sex. She points to the characters of her illustrated books and declares: "I'm that one." She often identifies herself with a blonde princess, but never with a dark-haired prince.

Alas, this state of blissful racial naivety will not be allowed to persist. She will hear people like Mr Phillips talking about "racial identity", as if this absurd notion signified something real and important. One day someone will assure her that there is nothing wrong with being mixed-race, thereby suggesting to her for the first time that perhaps there might be.

I do not worry about my brown daughter suffering racist discrimination. That is rare in our community. I am more worried that she will fall for the idea that her skin is her identity, and believe herself the victim of fantastical injuries such as identity-stripping. Then her "racial identity", or lack of one, really will become a problem for her.

The interests of do-gooding organisations are always at odds with their goals. Succeed and you put yourself out of business. With racism in rapid retreat and mixed-race children on the rise, there is one great contribution the Commission for Racial Equality could make to its official cause. Stop existing.

Competing to be impartial

Wall Street Journal

10 January 2012

Two of the men who murdered Stephen Lawrence, a black teenager, in London in 1993 were convicted in a second trial this month, having been acquitted in their first trial in 1996.

Following that acquittal, the government of the day commissioned Sir William McPherson, a retired high court judge, to investigate alleged racism in the Metropolitan Police Force. Though he identified no racist policemen, he found the police force to be “institutionally racist.” He recommended new rules about police conduct aimed at eliminating this racism, which the government adopted.

More rules is the answer you might expect from a judge. If the government had instead commissioned an economist to investigate racism in the police, we might have got a better recommendation. An economist would have realised that irrational discrimination can persist only when profit and competition are absent.

Imagine a racist police force, such as Mr McPherson found the Metropolitan Police to be. Among other errors, it would systematically overestimate the probability that black suspects are guilty and devote more resources to solving crimes when the victim is white than when he is black. It would also fail to recruit and promote able blacks, instead favouring less able whites. Such errors would make a racist police force inefficient, failing to solve as many crimes as it could with the resources available to it.

In the private sector, inefficiency is punished. More efficient competitors can sell their products at lower prices, the inefficient supplier loses customers and must either reform or go out of business. If racial biases are unjustified, then a business that acts on them will be inefficient. It will forgo profits and, ultimately, go broke. That is why anti-discrimination laws are unnecessary for firms operating in free markets.

It also explains why prejudice can thrive in organisations, such as the Metropolitan Police, that are subject to no competition. In a tax funded monopoly, racism, sexism or any other source of inefficiency that can persist indefinitely. With no threat of bankruptcy or any other financial penalty, prejudice can be rooted out only by the kind of political process applied to the Metropolitan Police. People must agitate for change (as Stephen Lawrence's parents did) and the authorities must be sufficiently sympathetic to the cause or sufficiently alarmed by the agitation to act.

This political process is a poor alternative to the market process. Because it depends on action by politicians, reforms tend to happen only once they are no longer required. Only after the population has become generally tolerant of minority groups will democratic politicians have the "courage" to pass laws giving them special protection. For example, Britain's law against inciting hatred of homosexuals was enacted just when the vast majority of Brits had become utterly blasé about homosexuality.

The political approach is also partial. Which kinds of prejudice are eliminated depends on lobbying and ideological fashion. We are currently obsessed with race and sexuality. But there are many other potential bases of prejudice. For all I know, the police are snobs, over-estimating the chance that chavs are criminals and devoting more resources to crimes when the victim is posh. Without competition between profit-seeking police forces, and with no active

lobby for the prevention of discrimination against chavs, what will protect them from police snobbery?

But worse than being slow and partial, the political elimination of prejudice is clumsy. Consider, for example, the government-imposed target of making the percentage of black and Asian police recruits at least as great as the percentage of blacks and Asians in the local population. How can anyone know that this would be the proportion of non-white recruits in an unprejudiced police force? Never mind variation in aptitude; why would anyone expect all racial groups to be equally keen on the job?

But if the target is wrong – which only a miracle could prevent – it either requires or allows police forces to act in a racist way. If it is too high, it will require police to sometimes recruit blacks in preference to more able whites; if too low, it will allow racist police forces to continue recruiting whites when there are more able black candidates.

By contrast, if police forces competed in a free market, there would be no need for racial targets. We would discover the optimal proportion of black officers simply by observing what emerges, just as we can now know the optimal portion of black professional footballers by simple observation.

Many will think this a pointlessly academic discussion because the police cannot be subjected to market forces. But they can. Police forces could become independent commercial enterprises that compete for local policing contracts, with what they earn determined by how effectively they reduce crime.

For example, a police firm could charge a town council an annual fee less a charge for every crime committed during the year, the charge for each type of crime being proportionate to its severity and the same for all victims, regardless of race, sex or anything else. This would incentivise police forces to cut crime

as efficiently as possible, and would allow more efficient firms to win business from less efficient firms by charging town councils lower annual fees.

In such a policing market there would be no place for any slack practice, including misallocations of resources or poor recruiting motivated by racism. Nor would there be any need for partial and clumsy anti-discrimination rules.

Ed Balls and education apartheid

Wall Street Journal

12 August 2010

The British parliament last month passed the Academies Act, allowing parents to start tax-funded schools free from local-authority control. Ed Balls, the shadow education secretary, does not like the act. He fears it will create “social apartheid” in education.

Most people agree that South Africa’s apartheid laws were abominable. But, after Mr. Balls’s remark, I am not sure we all agree on what was wrong with them. My objection, which I had thought to be universal, is that apartheid limited people’s freedom of association. To take but one outrageous example, it was illegal for a black and a white to marry each other.

But this cannot be what Mr Balls thinks was wrong with South Africa’s racial apartheid because the social separation that might result from parent-run schools would be voluntary. The Academies Act does not force parents to start schools, it allows them to. Unlike South Africa’s apartheid laws, it does not limit freedom of association but expands it.

Mr Balls does not object to the Academies Act because it attacks our liberty (since it obviously does not), but because he predicts that people will choose to associate in ways that he dislikes. He thinks people should send their children to schools where pupils come from households of differing incomes, but he doubts they would do so if given a choice. Mr Balls wants the education system effectively to compel children to attend “socially mixed” schools.

Like the politicians of South Africa's apartheid era, Mr Balls is convinced that he knows how people should associate, and he is happy to use the coercive powers of the state to make sure we fall in line. South African-style association laws are not required. A government need only tax people to the point where few can afford an alternative to state-funded schools and then see to it that these schools have the desired social mix.

Mr Balls and those who support his "progressive" policies think of themselves as opponents of apartheid and the other kinds of political thuggery they condemn as fascism. They are mistaken. They have let the racist details of some historical fascist regimes distract them from the coercive substance of fascism.

On the fundamental issue, Mr Balls agrees with Hendrik Verwoerd, the architect of South African apartheid. He thinks the state should make people associate, not however they wish, but according to the "correct" principles. Messrs Balls and Verwoerd differ only on the details, only on the principles they deem correct.

Mr Balls's mistake may seem so obvious that you would expect him to be exceptional in making it. He is not. Consider another, almost farcical, example. One of the Nazis' "signature" totalitarian policies was banning books that they disagreed with. After the Nazis were defeated, the new German government, intent on displaying its rejection of Nazism, banned Hitler's *Mein Kampf*. On the important point, that the state should determine what people can read, they agreed with the Nazis.

British economist and commentator Anatole Kaletsky recently endorsed the new government's return to an industrial policy of "picking winners." According to Mr. Kaletsky, the only reason the policy failed in the 1970s was because the politicians back then had a habit of picking losers. The problem lay not with the policy of forcibly diverting resources to the businesses that, contrary to the

judgment of investors risking their own money, politicians deemed winners. No, the problem lay only with the politicians doing the deeming. Picking winners is an excellent policy when administered by the wise politicians of 2010.

Similarly, left-wing anti-fascists do not object to fascism but only to past fascists. Mr Balls and his ilk believe themselves to have attained a higher degree of moral enlightenment than the likes of Hitler and Verwoerd: An achievement that makes policies of state-coerced spending, association and speech safe in their hands.

Mr Balls is certainly a nicer man than Hitler was. And Business Secretary Vince Cable may really be better at detecting private sector underinvestment than his 1970s predecessors. But that is not enough to justify their coercive zeal. They must know how individuals should spend, associate and speak, not better than Hitler and Verwoerd did, but better than the coerced individuals do.

I don't know about you, but this individual still prefers his own judgment.

Part 6

Risk and Guarantees

Only a reckless mind could believe in safety first

The Times

21 July 2007

Worrying was considered foolish when I was growing up in New Zealand. Let your fretting show and you received the classic Kiwi response: “She’ll be right, mate.” When in doubt, just press on and set your mind at ease.

Times have changed. You never hear “she’ll be right” these days, except said ironically. And this new pessimism is not restricted to New Zealand. Across the West, the “she’ll be right” principle has been replaced by the so-called precautionary principle. When in doubt, stop and divert your efforts towards minimising the risks.

Indeed, precaution is now explicitly endorsed by the UN, the EU and Tony Blair, who has claimed that “responsible science and responsible policymaking operate on the precautionary principle”. From the genetic modification of crops to speed limits for trains to carbon dioxide emissions, the right policy is claimed to be the careful one.

Yet the precautionary principle is not really a maxim of good policy. In fact, it is meaningless. It can provide no guidance when making difficult decisions. Those who invoke it in support of their favoured policies do not display their prudence; they reveal groundless biases.

To understand the precautionary principle and its foolishness, we must first distinguish between what economists call “risk” and what they call “uncertainty”. An outcome is risky when it is not

guaranteed but we know its probability. An outcome is uncertain when we do not even know its probability. That a tossed coin will land heads is thus a matter of risk, while the destruction of an ecosystem from the introduction of GM crops is a matter of uncertainty.

Making decisions under risk presents no problem for which the precautionary principle could provide a solution. Suppose that, in return for an annual premium of £1, someone promises to pay you £1 million if you are abducted by aliens (such insurance exists). You should pay up if your chance of being abducted is greater than one in a million because then the policy is worth more than \$1. The right decision can be determined from the numbers alone, with no help from caution, recklessness or any other attitude.

But suppose that, for all you know, the chance of being abducted could be well under one in a million or well over. What should you do? You lack the information required to know if the insurance is a good deal. It is in such situations of uncertainty that the precautionary principle is supposed to apply.

What does the principle tell you to do? Those who advocate precaution typically favour incurring costs now to reduce the chance of incurring greater costs in the future. That is their reason for wanting to limit carbon emissions, ban GM crops and slaughter livestock with some unknown chance of contracting foot-and-mouth disease.

Applied to our insurance conundrum, this principle tells you to buy the policy. You should incur the £1 cost of the premium if there is any chance that it will save you from the greater cost of experiencing an uncompensated alien abduction. Whenever the prize is greater than the bet, and you do not know the odds, the principle says you should gamble. Bookmakers must dream of the day when punters bring such wisdom to the racetrack.

Better safe than sorry. This is the verity that the precautionary principle is supposed to bring to policymaking. But the difficult question is never whether it is better to be safe than sorry. Of course it is. The serious question is always which options are safe and which sorry.

The big lie behind the precautionary principle is the idea that we can identify safe options even when we are profoundly ignorant of the probable outcomes. It is nonsense to claim that betting or buying insurance is the safe option whenever you do not know the odds. And it is equally foolish to claim that slaughtering livestock is the safe option when you do not know by how much this will reduce the chance of an epidemic, or that banning GM crops is safe when you do not know its likely ecological effect.

For, as with insurance, such measures are costly. Those currently popular with the cautious lobby run into the billions and, in the case of limiting carbon emissions, perhaps the trillions. It is a strange kind of caution that recommends spending such sums when the chance of success is unknown.

Or, if it is crass to set mere monetary costs against risks to the environment or future generations, then consider the deaths such measures will cause. Banning GM crops, for example, will increase starvation in the third world. More generally, any serious economic cost will cause death because, among other things, less wealth means less nutrition and less healthcare.

Economists have estimated that a life is lost for every £10 million of cost imposed by regulation. Sacrificing thousands of lives for uncertain gains takes a very particular notion of caution.

The precautionary principle is either uncalled for, because we know the relevant probabilities, or useless, because we do not know them and so cannot tell whether any policy is a safe or a sorry proposition. So we should hear no more of it. Not only does it lend

bogus support to the policies it is fashionable, if arbitrary, to label precautionary. It also promotes the pernicious idea that ignorance is not a serious problem, that a wise policymaker can know that an action is right even when he does not know its likely effects.

Who broke banking culture?

Wall Street Journal

14 February 2012

Following the Libor price-fiddling scandal, Britain's parliament is to conduct an inquiry into the "culture and practices of banking." This is a depressing prospect, not only for the sanctimonious grandstanding we are sure to witness, but for the near-certainty that they will come to the wrong conclusions.

Here is what the politicians will conclude: That the culture at banks is "broken." Prudence, the value that characterised bankers back in the good old days when they were considered boring, has been replaced by greed, reckless risk-taking and contempt for customers. Bankers now believe any money-making scam is okay, provided you can get your bonus before it is discovered. And that "light-touch" regulation is to blame; new, strict standards of ethical conduct must be imposed on bankers by the Financial Services Authority and by criminal law.

The alleged change in banking culture has truth to it. But the diagnosis cannot withstand even a moment's serious thought (which Britain's parliamentarians are unlikely to give it). The prudence of 19th-century bankers emerged in an era of "no touch" regulation. Unregulated good conduct may bewilder the modern politician but it should not. No edict from the authorities is required to give bankers an incentive to be trustworthy.

Suppose you want to start a bank. Your problem will not be finding borrowers. If you have the money to lend, you will find no shortage of people willing to borrow it. Your problem will be

getting your hands on money to lend them. In other words, your problem will be finding people willing to deposit their money at your bank. Why should they trust you not to blow it all and never repay them?

A banker's basic challenge is to create confidence in potential depositors. So it is no surprise that bankers cultivated prudence and integrity at their firms and went to great lengths to signal this culture to depositors. The imposing bank buildings, the formality of manner and dress, the fastidious attention to details of contract and process, the conventional haircuts and absence of tattoos: It is all easily explained. Being boring was an essential selling point for bankers.

This did indeed change during the 20th century. To see it, you need only consider banks' pre-crisis advertising. They did not boast about their prudence or anything else that suggested trustworthiness. On the contrary, they tended to promote their willingness to say yes to borrowers – something that might normally agitate potential depositors.

What changed? Why did profit-seeking and unregulated bankers in the 19th century emphasise their prudence while profit-seeking and much more heavily regulated bankers of the early 21st century emphasised their willingness to lend recklessly? Deregulation is not even a candidate answer.

The real cause is obvious. It is ignored only because it is a political sacred cow. The cause of bankers' imprudent culture is government guarantees to depositors (and their reliable bailing out of banks' wholesale creditors).

Depositors do not care now about the prudence of bankers because they do not benefit from it. Because the government promises to cover the losses of depositors should their bank lose their money, they no longer care if the bank is a prudent lender

or is otherwise trustworthy. And if depositors do not care, banks have no reason to care either. They gain nothing from prudence. It gives them no advantage over their competitors.

On the contrary, depositors benefit if banks make risky uses of their deposits. There is no down side – government guarantee sees to that – but there is an upside. Banks that take more risks can pay their depositors higher rates of interest. By relieving depositors of any risk, governments have encouraged them to favour risky banks. Under these conditions, a culture of prudence would be a burden for a profit-seeking bank.

The culture of banking did not change the instant explicit creditor guarantees were introduced (the U.S. Federal Deposit Insurance Corporation was established in 1934), or even when the “implicit guarantees” became evident (probably from the 1980s, when mandatory bank capital ratios were introduced). Culture never changes that quickly. Entrenched habits are slow to adapt to new economic incentives. And it takes time to replace people selected for temperaments suited to the old regime with people more suited to the new one.

That is why state guarantees that create perverse incentives are often thought to be successful in their early years. The careful habits built up during the risky past persist for a while. At first, the guarantees seem to provide security at no material cost.

But even now that the effects have become obvious – with a banking culture that is indeed broke – British politicians will not, of course, abolish deposit insurance. Strange, half-articulated but entrenched ideas about the injustice of asking people to bear certain kinds of risk rule it out. Instead, politicians lament the cultural decline of modern Britain, hector people to change their ways and impose still more regulations intended to improve conduct.

This will not recreate the prudence their policies have made worthless. Compliance is not prudence. A heavily regulated banker who can raise funds from guaranteed depositors will tick every box regulators put in front of him, while making every effort to increase risk outside the box.

Genetics is a risky business

The Times

17 February 2006

This week Sir John Sulston, vice-chairman of the Human Genetics Commission, called for a law to prevent insurance companies from using genetic information to discriminate between policyholders. Genetic analysis may indicate that Mary is twice as likely as Jane to suffer a premature death. Nevertheless, according to Sir John, insurers should be legally obliged to charge Mary and Jane the same life insurance premiums.

This proposal will appeal to many people's sense of justice. Discriminating between policyholders on the basis of their genes, which they cannot help, would be unfair. Or, as Sir John put it: "Everybody should be treated equitably regardless of their genetic inheritance."

Despite its initial appeal, this sentiment gets things exactly the wrong way around. It is Sir John's antidiscrimination law that would be unfair. What is more, it would be impossible to enforce. In other words, it would be as bad as a law can be: wrong in principle and unworkable in practice.

To see why, consider the debate about telecoms pricing in Australia (trust me, it's the same issue). When deregulation of the Australian telecoms market began, some Australians, especially the management of telecoms companies, suggested that rural customers should pay more for phone calls than urban customers, since it costs more to provide them with the service. However, other Australians, especially rural Australians, did not like the idea. They claimed

that justice required telecoms companies to charge everyone the same price, regardless of where they lived. These Australians were making the same mistake as Sir John.

To keep the matter simple, suppose that, including a profit margin, it cost 10 cents to provide a one-minute call to an urban customer and 20 cents for a rural customer. Then, supposing also that there were an equal number of rural and urban customers, the one-price-for-all policy would result in all customers, urban and rural alike, paying 15 cents per minute.

The policy would thus provide rural phone users with a subsidy of 5 cents per minute. That is not necessarily unjust in itself. “User pays” has many virtues but it is not a principle of justice. No, what is unjust is that the cost of this subsidy is borne entirely by urban phone users, who must pay a premium of 5 cents per minute.

You may agree that rural phone users should receive a subsidy. Perhaps it will promote the rural economy or have some other benefit. But what on earth could make you think that the subsidy should be paid for by a tax on urban phone use? What special debt do urban phone users owe rural phone users?

The iniquity of Sir John’s proposal should now be clear. You may think that the life insurance costs of people with a genetic disposition towards fatal illnesses should be subsidised. But why should they be subsidised by life insurance customers without the disposition?

If Sir John is right in seeking such a subsidy, let it be funded from general tax revenues. Arbitrarily allocating the cost of social policies to some specific group of people – be it urban phone users or low-risk life policyholders – is, obviously, crassly unfair. For all the justice in it, you might as well fund the subsidy from a tax on the tall.

That policy would at least have some chance of working. Taxes on qualities you cannot change, such as being tall, can be avoided

only by death. The tall community would surely be unhappy about funding a life insurance subsidy, but not so unhappy as to kill themselves en masse. Low-risk insurance customers, however, could easily avoid Sir John's suggested tax on them.

Indeed, I plan to get rich by helping. If the Government takes Sir John's advice and bans discounts for genetically low-risk customers, I will start an insurance company serving British customers but based offshore, perhaps in the Cayman Islands. I will call it Genetic Life. (If you doubt that I have the wherewithal to start an insurance company, you are probably right. But there are people who do, and they will not miss the opportunity presented by Sir John's proposed law.)

Genetic Life will serve only those who can produce documentary evidence that they are genetically low risk. This will allow it to charge much lower premiums than its British competitors, who will be legally obliged to serve both high-risk and low-risk customers at the same price. As low-risk customers begin switching to Genetic Life, onshore British insurers will be left with an increasing proportion of high-risk customers. Which means that they will have to increase their premiums, which will make Genetic Life's prices even more attractive to low-risk customers, which will mean even more will switch to Genetic Life, which will mean British insurers have to increase their premiums yet again. This process will continue until British insurers are left with nothing but high-risk customers, who will therefore have to pay the full cost of their insurance. Sir John's tax and subsidy will have disappeared.

Sir John will, of course, want regulators to block Genetic Life's activities in Britain. Let them try! Genetic Life will advertise on the internet and in foreign airports. It will do deals with financial advisers to direct business to our office in George Town. We will

use every trick in the global economy. Eventually, Genetic Life will find a way through to genetically blessed Brits.

Being both unworkable and unfair should be enough to sink Sir John's proposal. But, in case it isn't, consider one further fact. We already accept genetic discrimination in insurance. Being male is part of my genetic inheritance, yet no one seriously complains about insurance firms charging women lower car insurance premiums than men. Does Sir John really want to outlaw Sheilas' Wheels?

Automatic Eurozone fiscal penalties are a SAD policy

City AM

14 November 2011

The cold war policy of mutual assured destruction stuck many people as mad. If the Soviet Union was wicked and foolish enough to launch a nuclear attack on the United States, killing millions of innocent Americans and plunging the planet into a nuclear winter, it would be crazy to compound this wickedness with a retaliatory strike. Yet that is precisely what US governments promised to do.

The policy was not really mad. It aimed not at mutual destruction but at avoiding any use of nuclear weapons. Its purpose was deterrence. To work, the threat had to be credible; the Soviets had to believe that the Americans really were crazy enough to retaliate even when all was already lost.

Though never achieved, the best way to signal this would have been to establish an automatic mechanism for retaliation, requiring no human judgement, that was triggered by a Soviet nuclear strike. (In Stanley Kubrick's cold war satire *Dr Strangelove*, the "Russkies" build such a doomsday machine but forget to tell the Americans about it.)

The threat of nuclear war has receded. Today, it is an economic winter that threatens us. But deterrence is still an important part of the plan for avoiding it. The Growth and Stability Pact, to which all member nations of the euro are signatories, threatens them with large fines should they run deficits greater than 3% of GDP or accumulate government debt in excess of 60% of GDP.

This threat did not deter any Eurozone government from exceeding these limits. They probably suspected that, when they got in trouble, no one would be crazy enough to compound their economic woes by imposing a fine on them. And, as it has turned out, they were right. So President Sarkozy and Chancellor Merkel, both old enough to have enjoyed *Dr Strangelove*, now propose that the penalties be imposed “automatically”.

Never mind the implausibility of Sarkozy, Merkel or anyone else designing a fine-imposing automaton that will obviate the need for any human decisions in the matter. Suppose fines really could be imposed automatically. The policy is still lunacy.

Ask first why one country in the Eurozone, such as Germany, should wish another, such as Greece, to keep its debt levels low. The Germans must fear that they will end up repaying Greek debt if the Greeks cannot do so themselves; Germans must believe themselves to be guarantors of Greek debt. If so, the Greeks will be unconstrained in their borrowing, and the Germans will pay the price. Hence the need for a deterrent.

Yet a fine cannot possibly deter Greek borrowing. The fine will simply become an addition to Greek debt and the Germans will end up paying it themselves. If you promise to pay someone's debts, you cannot effectively threaten him with fines, automatic or not.

And, if you do not propose to pay someone's debts, then you should not threaten him with penalties for borrowing too much, because doing so can only suggest to him that you do not mean it. If you are not, in the end, going to pay his bills, why do you care how much he borrows? Your threat is an implicit guarantee.

Despite its bad press and unfortunate acronym, mutual assured destruction was an effective way of preventing nuclear war. Merkel's and Sarkozy's “automatic fines” are a policy of self-assured destruction, which fully deserves its acronym.

How safe Sam ends up subsidising risky Ron

The Times

19 January 2007

Sir Keith Joseph said in 1975 that Britain needed “more millionaires and more bankrupts”. Both are natural consequences of financial risk-taking, something that Britain, then a near-communist country, was seriously short of. By 2003 the matter was not so clear. Having just witnessed the dot-com absurdities, you may have thought that Britain suffered from an excess of entrepreneurialism.

Not new Labour. It was sure we still needed coaxing out of our financial cowardice (recent converts are always the most fervent). If the prospect of financial ruin were not so dreadful, it figured, more people might be willing to risk starting a business. So it changed the law to make personal bankruptcy less painful, reducing its duration from three years to one.

For once a new Labour policy has had its intended effect. Fear of bankruptcy is in fast retreat. The number of personal insolvencies has quadrupled since this legislation came into force, from 30,000 in 2002 to almost as many in the third quarter of 2006 alone. Experts expect 120,000 insolvencies this year. A brilliant success, except for one problem: the number of business start-ups has not increased at all.

The policy need not have failed in vain. If the Government learnt its lesson, it could see where so many of its policies go wrong. It could better appreciate the perils of compulsory insurance.

Bankruptcy limits a debtor’s downside if he defaults. Suppose you default owing your bank £200,000 when your assets are worth

only £50,000. By declaring bankruptcy you walk away worthless but debt-free. The bank loses £150,000 and has no claim on your future earnings or the right to sell you into slavery, as the Romans did.

Do not pity the banks. They recover these losses by charging higher rates of interest. Bankruptcy laws mean that borrowers pay a small premium on their interest in return for limiting their losses should they default. In other words, they compel borrowers to buy, and lenders to sell, a small amount of credit insurance.

All but insanely confident borrowers will consider this insurance a good deal. Most people dislike carrying even small risks of a nasty outcome, such as irrecoverable financial ruin, and will gladly pay a reasonable price to be rid of it. That is why bankruptcy laws encourage borrowing and the enterprise that depends on it.

This much the Government understood. But from here it seems to have been misled by the idea that you cannot have too much of a good thing. It is not true of chilli powder, and it is not true of compulsory insurance either.

Insurers cannot assess risk with perfect accuracy. To a bank, Safe Sam and Risky Ron may seem equally likely to default on their loans. The bank knows their identical incomes, ages, duration of homeownership and so on, but it does not know that Sam is a Presbyterian and that Ron has a gambling problem. So it charges Sam and Ron the same “risk premium” (the average required for borrowers with their known characteristics), even though Sam’s true risk is only a tenth of Ron’s. The bank’s imperfect information means that Safe Sam ends up subsidising Risky Ron.

When the insurance cover is small – that is, when bankruptcy laws are tough on defaulters – the risk premium and cross-subsidy are also small. Sam may neither know nor care that he is paying a little over the odds. But as bankruptcy laws become more forgiving,

so the number of defaulters increases. Not only do risky borrowers become more willing to borrow, borrowers generally become riskier. Just as car accident insurance causes reckless driving, credit insurance causes reckless spending. Banks' losses increase, risk premiums increase and the subsidy Sam pays Ron increases. Borrowing becomes a better deal for Ron and a worse deal for Sam.

Extending bankruptcy protection does not universally encourage borrowing and enterprise. Rather, it encourages risky borrowers and entrepreneurs who are likely to fail at the expense of those who would more probably run successful businesses and repay their debts. In short, it perverts the allocation of capital.

In this respect there is nothing special about bankruptcy. Compulsory insurance always causes such perversions. Consider the risky business of reproducing. This increases your family's running costs. If you lose your job, having children will exacerbate the pain. To protect people against this misfortune, the Government guarantees unemployed parents a certain income. And it funds this protection through taxation.

Yet the tax we pay is not correlated to our chance of becoming unemployed. Quite the reverse. So this insurance is a good deal for those with a high chance of unemployment and a bad deal for everyone else. It creates a cross-subsidy that perverts the "allocation of reproduction", away from those with a reliable income and the virtues that go with it, and towards those with characteristics conducive of unemployment, such as indolence and stupidity. The cost of this cross-subsidy is not only the growing number of children raised by single parents: up from 6 per cent in 1970 to 24 per cent today. It is also the reduced fertility of responsible couples.

Labour and Conservative governments over the past century have constructed a comprehensive system of compulsory "social insurance", covering every misfortune that may befall us, from

having children we cannot afford to retiring with no savings. The system, they explain, is required by “social justice”, “compassionate conservatism” or some other moral imperative. But subsidising degeneracy by taxing the Protestant virtues is a strange way of promoting morality.

Rules won't help in money or love

The Times

23 April 2008

Courtship is a risky business. In *Sense and Sensibility*, for example, Marianne invests much time and emotion in Mr Willoughby. He turns out to be a cad and Marianne avoids conjugal ruination only because Colonel Brandon is so forbearing.

Things are even worse in the non-fictional world. There are many Mr Willoughbys and few Colonel Brandons. Every year millions of lives are irreparably damaged by “love cheats”. Yet, scandalously, dating is almost wholly unregulated. What incompetence or corruption can explain the Government’s inaction?

Regulating dating will strike most people as an absurd idea. And so it is. But no more absurd than the now popular idea that financial sector calamities, such as the current “credit crisis”, are the fault of insufficient regulation of the banking industry. In fact, the two ideas are absurd for the same reason. If we see why regulations cannot help daters, we will see why they cannot help investors.

Consider Marianne assessing the advances of Mr Willoughby. He is handsome and charming. Should things work out with him, Marianne will enjoy a good return on her courtship investment. But, as we all know, handsome charmers are also risky. Being attractive, they have many opportunities to fool around. Less attractive men, though yielding lesser rewards to their wives, also present them with less risk.

Marianne must decide where she wants to operate on the dating risk-return spectrum. Her favoured position will depend on how

much she values charm, how much she fears betrayal and the dating “risk premium” – that is, how much more charm you get for taking more risk of betrayal.

Having made your choice and taken your chances, there are two ways that things can go wrong. The first is simple bad luck. If 20 per cent of men with Mr Willoughby’s known characteristics turn out to be cads, then 20 per cent of women with Marianne’s risk-reward preference will end up losers. If Marianne is among them, that is bad luck for her.

But there is no systematic error here that requires correction by regulation. If women who prefer the Mr Willoughby trade-off are properly informed about the risk premium – if they know how much risk they are taking for the sake of how much reward – then the gains to the 80 per cent who get lucky must exceed the losses to the unlucky 20 per cent.

The same goes for investing in bonds. A “junk bond” rated B-minus has a 10 per cent probability of default. In other words, one in ten will not be repaid in full. But, provided the risk premium for junk bonds (i.e., the extra interest earned for taking this extra risk) is correct, the benefits derived from the other nine will exceed this loss.

Bad luck is not, however, the only cause of loss. Ignorance is another. People sometimes take risks not because they are willing to bear them for the sake of the possible returns, but because they underestimate them. Such ignorance is the cause of the current credit crisis. Investors in bonds backed by sub-prime mortgages did not realise how risky they were. Had they known, they would have demanded a higher risk premium, taken less risk and avoided the crisis.

Ignorance also explains some losses in the dating game. Underestimating the risks presented by a potential husband is

especially common in cross-cultural dating. My own move from New Zealand to England provides an example. The girls in my new social circle, all well brought up, did not expect such a charmless young man to present so much cad risk. This allowed me to attract many potential fiancées despite offering a low-risk premium. Back home, where the girls could read me, I had enjoyed far less success.

This is where you might think regulation can help. We are here dealing with a systematic error that can surely be corrected. Had regulators imposed a tax on dating muttish colonial immigrants or issued a warning about the unusual levels of risk we present, much grief could have been avoided.

Many people, including the Basle Committee on Banking Supervision, are now saying the same thing about the credit crisis. Had liquidity risk – which I will not explain but is what everyone missed – attracted higher levels of “regulatory capital” it would have been priced into bonds and the crisis would have been avoided.

Well yes. But the fact that after losses have occurred we can think of regulations that would have prevented them does not mean that regulation is any use for avoiding losses. The question is whether regulations that we could have thought of before the loss would have avoided them. And the answer is no.

When my now former fiancées did not know of the risk I presented, nor did any potential regulator, which made regulation to protect them from me practically impossible. And now that everybody knows about the risk, regulation is redundant. The same goes for liquidity risk in mortgage-backed bonds. When no one knew about it, regulating it was impossible. Now that everyone knows about it, regulating it is pointless; the market will now price it in.

In fact, once risks are known, regulating them is worse than useless. It can only move the price of risk away from, and usually above, the market price. That is a recipe not only for inefficiency

but for future calamities. It encourages financiers and investors to seek profit in areas where the regulators are not imposing their burdens – namely, those where the risks are poorly understood.

And that does not make the world a safer place. As Donald Rumsfeld could tell you, unknown unknowns are more dangerous than known unknowns.

Part 7

Economic Policy

Weighty economic ideas

Wall Street Journal

6 September 2011

I once saw a television program that canvassed the ideas of celebrities about how to lose weight. One claimed that you should eat food that does not weigh much: that heavy food makes you heavy. It is an implausible idea. An ounce of cream will pad your hips more than a pound of water.

Yet a similar idea in economics has recently caught on with British politicians, including Prime Minister David Cameron, and even with academics such as Warwick University professor Kumar Bhattacharyya. They think we would be economically heavier – or richer – if we increased the average weight of the things we make. The problem with the British economy, they reckon, is that so many of the things Britain produces, such as legal advice, pop tunes and structured financial instruments, weigh nothing. We must return to the glory days of the 19th century, when Britain was a heavy-weight economy.

This is not how Messrs Cameron and Bhattacharyya express the idea. They say that we would be better off if the economy were “rebalanced toward manufacturing.” But it is the same thing, because the only difference between manufactured products and others is that the manufactured ones can be put on scales. The paper on which legal advice is written is manufactured; the advice is not.

When you put it this way, Mr Cameron’s big idea sounds silly. Why is weight economically significant? If it were you would expect New York and Paris, where almost nothing weighty is produced, to

be impoverished, and the homes of heavy industry – places such as Detroit and Marseilles – to be wealthy.

You would also expect entrepreneurs to prefer investing in companies that make weighty things, and labourers to prefer working for them. Yet in the richest countries, no such preferences can be observed. Over the last century, the share of capital and labour devoted to manufacturing in Britain has steadily declined.

The weight enthusiasts do not see such facts as evidence of their own folly. They regard them as evidence of mass error in the population, error that must be overcome by the coercive power of the state. In an interview with the *Financial Times* last month, Mr Bhattacharyya lamented the fact that profit-seeking banks do not lend as much as he would like to manufacturers. He called for the government to establish a bank devoted to such lending, with its capital provided by taxpayers – as always, on threat of imprisonment.

Mr Bhattacharyya surely does not enjoy the prospect of imprisoning people who refuse to invest as he commands. But he believes investors are so gravely flawed that coercion is in order. Specifically, he believes they suffer from “short-termism”: the sin of the high discount rate.

A discount rate measures how much less you value money you might have in the future than money you could have today. Suppose I offer to sell you a promise of £100 in a year. How much would you pay today for that promise? Not £100, since you could deposit £98 in a government-guaranteed bank account and get £100 in a year. And though government guarantees are not worth what they once were, they are worth a lot more than my financial promises. So you will be willing to pay even less than £98 for my promise of £100 in a year. Suppose that, after all, you are willing to pay only £90; then you are applying a discount rate of 10%.

Someone with a high discount rate is a short-termer. He demands a high rate of return on his investment and hence a short pay-back period. Mr Bhattacharyya told the *Financial Times* that investors' discount rates are too high. But he gave no reason for why anyone should believe this beyond claiming that if investors were less short-termist, they would do what he wants.

Whatever his reasoning, he is almost certainly wrong. The Bank of England is keeping interest rates lower than they would be in a free debt market. This means investors' discount rates are now artificially low and long-term ventures are being subsidised by a tax on savers. Mr Bhattacharyya ought to be concerned about excessive investment in manufacturing.

Neither Mr Cameron nor Mr Bhattacharyya nor anyone else who seeks to "rebalance the economy" has good reason to believe that too little capital is being deployed in manufacturing. Instead, they rely on strange prejudices against weightless products and fabricated accusations of "short-termism." Nevertheless, they presume to meddle in our economic affairs, forcing us to invest in firms we would prefer not to. They are as arrogant as they are ignorant.

Osborne's crony capitalism

Wall Street Journal

15 February 2011

Last week George Osborne, the Chancellor of the Exchequer, told parliament what he has been able to extract from British bankers. They have promised to pay smaller bonuses to their staff, to pay more tax and to lend more to “regional” businesses.

His speech had a triumphal tone, yet it displayed an alarming ignorance of how banks benefit society and what went wrong before the crisis. He is moving the relationship between the government and the banking sector in precisely the wrong direction.

Start with Mr Osborne's claim that, by getting the large British banks to increase the funds they have committed to the Business Growth Fund from £1.5 to £2.7 billion, they will make “an additional £1.2 billion contribution to society”. The idea that when banks lend the benefit to society is equal to the amount lent is absurd. Banks are merely conduits between borrowers and lenders. That “additional” £1.2 billion is a transfer from people who lend to banks to people who borrow from them. There is no £1.2 billion contribution to society.

Banks contribute to society by facilitating transfers between lenders and borrowers. Their branches, call centres and websites allow lendable funds to be collected and dispersed. And the pooling of lenders' funds by banks means that someone who wants to borrow a given amount for a given period need not find someone who wants to lend the same amount for the same period. Most importantly, the scale of lending done by banks means they can

afford to develop credit assessment skills that individual lenders cannot. Lending that is intermediated by banks is, thus, better directed towards sound borrowers.

These are the services that bank customers pay for and the means by which banks benefit society. Alas, politicians who think that banks benefit society by the simple act of lending are inclined to become hostile to banks' credit assessment standards. If only the standards were lower, more of that lovely lending would happen.

One way to make banks lower their credit standards is to set them targets for lending to the "deserving". In America before the crisis, the deserving were poor people who wanted to own expensive homes. Now, in Britain, the deserving are regional businesses whose commercial prospects are too poor to allow them to borrow. Some say that "perfectly good" businesses cannot now find willing lenders. This is implausible. Why would profit-seeking banks not lend to perfectly good businesses?

When governments force or subsidise banks to lend where they otherwise would not, they are harming society. The money has better alternative uses. That £1.2 billion "contribution to society" engineered by Mr Osborne is in fact an assault on society, as was the politically directed lending to poor American home buyers.

But this waste is only the start of the problem. Bankers who do Mr Osborne's bidding – who pay their staff what he says they should, who lend to his favoured borrowers, who pay his arbitrarily imposed taxes without fighting him in the courts – can surely expect his protection in hard times. If Mr Osborne directs their actions then he cannot let them fall when those actions result in losses.

Indeed, despite his stated desire to ensure that no bank is "too big to fail", Mr Osborne made it clear that his public spirited friends now have little to fear. In return for their obedience "the

Government commits to the success of a strong, resilient, stable and globally competitive financial services sector ...” British bankers can be confident that, if they are good children, and comply with the new capital regulations, they will always be bailed out. Mr Osborne has increased the moral hazard in the banking system.

When Mr Osborne became shadow Chancellor, he gave the impression of favouring a market economy. Since becoming Chancellor, however, he has changed his position. He now favours the economic system of the 1930s fascist states, in which capital is privately owned but its use is directed by politicians. Under this system, a business's prospects depend on its relationship with the government. Business people start thinking not about what consumers want but about what politicians want. I predict that, keen to signal that they are “with the program”, many business people will soon be talking about the Big Society.

In last week's statement to parliament, Mr Osborne said that the British had been let down by “those entrusted by us to regulate bankers and run our economy”. If he had stuck to his old liberal principles he would have complained that no one should have been entrusted to “run the economy” in the first place. But now he likes the idea. This is understandable; running the economy must be thrilling for those who do it. But, given the corruption and inefficiency of crony capitalism, it is not so thrilling for the rest of us.

Don't reform labour laws – eliminate them

Wall Street Journal

14 January 2011

David Cameron this week announced a plan to reduce the legal obstacles to firing employees within two years of their being hired. He hopes that, by reducing the risk involved in hiring new staff, it will happen more often. Bob Crow, general secretary of the Rail Maritime and Transport Workers union, does not like the idea. He thinks it will strip workers of their “hard-earned rights.”

This is a peculiar complaint. An employee's rights are specified in his employment contract. He can negotiate any rights he wants, including obstacles to swift dismissal. Of course, his employer will seek compensation for agreeing to such burdensome terms, probably by paying a lower wage. Nevertheless, the low-risk, low-pay deal may suit some employees. Others will prefer a higher-risk, higher-pay deal. And they too are free to negotiate such a contract.

Or they would be if laws of the kind Mr Crow likes did not restrict employees' freedom of contract. What Mr Crow calls a right is really an obligation for employees to accept certain kinds of deal. Why would a trade unionist seek to limit his members' ability to negotiate deals that suit them?

To see why, note that, in the labour market, employees are the suppliers and employers are the consumers. Employers buy the labour offered for sale by workers. Labour laws are thus a kind of product regulation. Product regulations usually impose minimum standards. When it comes to labour, however, they impose maximum standards.

Among other restrictions, labour laws prevent workers from selling labour that functions on more than a certain numbers of days a year, that continues uninterrupted for more than a certain number of hours in a day, that costs less than £6 an hour or that can be terminated easily and at short notice.

In short, labour laws prevent workers from offering a product that exceeds certain standards. And that is precisely why trade unions support them. Regulated maximum standards are required by suppliers attempting to fix their prices above the market-clearing price.

Consider a different example. Suppose you manufactured a basic type of bicycle. If the most efficient bike-maker could produce such a bike at a cost of £100, then this would soon be its market price. In a free market, competition between suppliers drives the price of goods down to the cost of producing them. This is nice for consumers but not for suppliers. How might you avoid this unpleasant consequence of competition?

You could try collusion. Create the British Association of Bicycle Manufacturers and, at your annual conference, agree that no one will sell bikes for less than £200. Or lobby the government to set a minimum bicycle price of £200.

Alas, a minimum price will not work on its own, because it does not stop competition on quality. If everyone must sell bikes at £200, and your competitors' bikes are worth £100, then you can get an advantage by producing better bikes at a cost of £110. Your competitors will then retaliate with a yet better bike that costs £120 to make. This process will continue until you are all making bikes at a cost of £200, and no one is better off than when they sold for £100. To keep the benefits of your minimum price, you also need to restrict the quality of bikes. You need maximum standards.

Trade unionists are devoted to keeping the price of labour higher than its market value. So they must also stop the suppliers of labour

from competing on quality. The endeavour is corrupt in principle – indeed, it would be illegal if the product were anything except labour – and futile in practice. The laws they favour do not eliminate competition between workers; they simply benefit some at the expense of others.

I recently managed a team of two consultants. They were of roughly equal value. John was brighter but Don worked harder, often violating the Working Time Directive. If I had stopped him, who would have benefited? Not Don. He would have been unable to achieve as much as John and his chance of promotion would have been reduced. A ban on long working hours benefits not those who work “too hard” but those with other qualities to offer. It rigs the competition in their favour.

It is impossible to eliminate competition between the suppliers of labour. Rule it out in one respect, such as effort, and it will merely shift to something else, such as talent. Rule it out in all economically relevant respects – allow no price or quality competition – and it will shift onto irrelevant preferences of the employer. A bigot might employ foreigners if they come at a discount. But why would he otherwise? Immigrants do better in America than in France, not because Americans are less racist, but because their labour market is less regulated.

Labour laws are intended to protect employees from employers. But no such protection is needed. Feudalism ended long ago, and the labour market is not a monopsony, with only one purchaser. No one is forced into any particular job. Indeed, unemployment benefits mean that no one need work at all.

Labour laws do not provide “hard-earned rights” for workers. They simply limit our freedom to negotiate contracts that suit us. David Cameron is wrong to trim some of them. He should eliminate them all.

Spending your money like a sex-crazed ape

City AM

7 November 2011

I once saw a documentary about the extraordinary sexual appetite of the bonobo ape. This gave me an idea for an anti-impotence drug. I plan to isolate the genes in bonobos that account for their virility, pack them into some kind of a pill and sell them off by the truck load.

The idea is at an adumbral stage. But I am confident that if only a venture capitalist or drug company would advance me the few hundred million pounds required to develop it, we would be onto a winner.

Alas, this is not how those I have approached see it. They tell me that the chance of developing my idea into a successful drug is too low to warrant the investment. They expect their money would be wasted. This absurdly cautious attitude has distressed me.

So you can imagine my delight to discover on Monday that I am not alone in my frustration and that the government is on my side. According to David Willets, the universities and science minister, there is an “appalling rate of attrition” of research at an early stage of development. Many ideas go undeveloped because, as Willets put it, “there isn’t necessarily the proof of concept or proof of market that would enable a venture capitalist to invest”.

Exactly. What we in the drug development industry need is investors who do not mind if their money is wasted (as they foolishly think of it). Of course, such people are hard to find. But this need not matter. Last month I was pondering this unfair obstacle

to my business when I had an epiphany. Investors' objections to having their money wasted are a problem only when they have a choice in the matter.

I toyed with taking things into my own hands. My friend Dave is quite high up at a big bank. Over a drink one night, I explained my problem and he remarked that several venture capital funds had accounts at his bank. I persuaded him to redirect a few hundred million from their accounts into mine. They might not like it but he could do it without their permission and, after all, their failure to voluntarily invest in my idea was criminal stupidity from which Dave has a duty to protect them.

The next morning Dave phoned to say that he had a headache and that, in the cold light of day, our little scheme was making him queasy. If we found ourselves in court, we may find the judge and jury to be no more enlightened than the venture capitalists, clinging to outmoded ideas about the right to choose the investments you make. We should drop the scheme. I began to fear that my love pill would never come to be.

But wait. Willets agrees with me that people should be forced to invest in drug development even when they think they have better uses for their money. Being a government minister, however, Willets can confiscate their money and give it to me without breaking the law. He has announced a plan to use taxpayers' money to establish a £180 million "catalyst fund". And it is perfectly legal!

I rejoice not only for myself but for the whole nation. Politicians being lobbied by would-be recipients of taxpayers' funds are well known to make better investment decisions than people risking their own money. Economic growth, here we come!

A free lunch for you is a painful cost for someone else

The Times

21 November 2008

Children are selfish. Not because they are unkind (though many are) but because they believe in cost-free transfers. They do not understand that providing the toys and other amusements they demand imposes a cost on their parents. Children live in a fantastical world where Barbie dolls and trips to the zoo can be delivered without depriving their parents of something they might have enjoyed, such as a bottle of wine or a few extra hours off work.

Learning that cost-free transfers are impossible is an important part of growing up, and parents usually make sure it happens quickly. Most of us learn that there is no such thing as a free lunch long before we have ever picked up a bill.

Except when it comes to public policy. Encouraged by politicians, many adults indulge the infantile fantasy that the Government can bestow gifts on us while imposing costs on no one.

No one asserts this plainly, of course; that is never how nonsense is promoted. As usual, the fantasy is insinuated by a special way of talking. Politicians and commentators demand that corporations, markets or societies carry various burdens, never pausing to note that the cost must ultimately fall on the individual people who make up these abstract entities.

During the presidential campaign, Barack Obama derided John McCain's plan to lower the corporate tax rate, claiming this would

mean tax breaks for “some of the richest companies in America”. To an economic child, taxing companies sounds like an obviously good idea. Who cares about companies? Can a company be hungry, homeless, uneducated? Will you put the interests of these wealthy inhuman entities ahead of real, flesh and blood people, many of whom are struggling to make ends meet?

But companies cannot be rich or poor; only the people who own them or work for them can be. Nor can the cost of taxation fall on a company; it must ultimately fall on the company’s owners, employees or customers. Before you can tell whether corporate tax is a good idea, you need to understand who bears the cost and how it affects their behaviour. Once you do, it turns out that taxing companies is a bad idea.

Research shows that the cost of corporate tax falls more or less evenly across a company’s shareholders (in lower dividends), employees (in lower wages) and customers (in higher prices). So, in terms of the “social justice” so beloved of the Left, corporate tax is no better than a combination of income and sales taxes.

But, in terms of efficiency, it is worse. Research also shows that corporate tax has a greater “deadweight cost” than both income and sales taxes, because it discourages the allocation of resources to productive uses – in other words, it discourages investment.

Markets are another, increasingly popular, fantastical bearer of costs. The current financial crisis, we are told, was caused by “unfettered markets”. Fetter them! Alas, you cannot fetter a market. Markets are nothing but places (sometimes “virtual” places) where people enter into voluntary transactions. You can fetter a market only by fettering those who participate in it. You must dictate the terms on which they may do business with each other or conditions they must meet to participate in the market.

Market fetterists claim their shackles protect the vulnerable. That sounds plausible only if you ignore the effects on individual market participants. Complying with regulations imposes a fixed cost on businesses. It thus disadvantages small firms, creates a barrier to market entry and stifles the competition that delivers the best deal for consumers. In short, it shafts the little guy. That is why large incumbent firms lobby politicians to increase market regulation.

Markets and companies may be fashionable sources of economic and moral delusion but society is the perennial favourite. Its imagined godlike power as the provider relieves its secular supplicants of any shame. For example, no one believes that, just because they live next door, the neighbours owe them £70,000. But almost everyone believes that society owes their children an education, despite a state education costing £70,000 and society being nothing but a collection of neighbours.

When it comes to bearing costs, there are no companies or markets or other aggregations of people. Costs are always borne by individuals. That is what Margaret Thatcher meant when she denied the existence of society: “They’re casting their problem on society. And, you know, there is no such thing as society. There are individual men and women, and there are families. And no government can do anything except through people.”

Denying people morally convenient fantasies makes them angry. That is why Baroness Thatcher’s simple observation has always caused such outrage and why David Cameron’s new, pandering Conservative Party has repudiated it. It is a shame they are not capable of more honesty. Many people today wish to offload rather than repay their debts. No one should indulge the fantasy that this can be achieved without imposing the cost on other individual men and women.

Why taxes should be slashed by half

The Times

21 May 2008

On Monday, David Cameron gave a speech about taxation. He thinks it is a difficult topic. Although there is growing demand for government spending, “we have reached the limits of acceptable taxation and borrowing”.

He is wrong. We are miles past the acceptable limit of taxation. Mr Cameron fails to see this because his discussion of tax is uninformed by a concept that, though familiar in business, is nowhere to be found in the public discussion of taxation: namely, the “cost of funds”.

Suppose yourself the manager of a telecoms company. You are considering expanding into China. This will require an investment of £1 billion, from which you expect an annual operating profit of £100 million: that is, a 10 per cent return on investment. Should you do it?

The answer depends on how much it will cost you to raise that £1 billion. Businesses typically obtain funds from a combination of investors and lenders. Suppose the weighted-average cost of funds from these two sources is 8 per cent per annum. Then the Chinese venture will earn more than it costs to fund, and you should proceed.

A company should keep raising money until its cost exceeds the return from spending it. That is the logic that guides the fundraising activities of businesses. And it ought to be the logic of taxation. The Government should raise taxes until the cost

(to society) of doing so exceeds the benefit (to society) of the spending it funds.

So, what is the cost of raising another £1 via taxation? Tax imposes costs on society in four main ways. Among these is not the amount paid in tax. This is a loss to taxpayers, of course, but it is perfectly offset by the gain to Her Majesty's Revenue. The taxes themselves have simply been transferred from one bank account to another, with no net loss or gain to society. The real costs of taxation are the administrative, compliance, avoidance and dead-weight costs.

The first three are familiar. The Government employs many thousands of people to administer and enforce the tax system, and businesses and individuals spend a great deal on avoiding and complying with the Government's demands. These costs are considerable: about two pence for every pound of tax raised. But they are negligible compared with the less familiar, deadweight costs of taxation.

Suppose you are willing to pay up to £10 an hour to have some work done, and the cheapest qualified labourers are willing to work for anything over £9 an hour. Then you should find someone to do the job. But if the Government taxes incomes at 20 per cent, the most the labourers can earn from you is £8 an hour and they will be unwilling to take on your job.

Sales taxes have the same effect. If I can produce a widget for £10 and you are willing to pay £11, then a widget will be produced – unless, of course, a sales tax drives the price of my widget up to £12. The greater the tax, the greater the wedge driven between the prices that sellers are willing to accept and buyers are willing to pay, and the greater the lost opportunities for productive activity.

Measuring the deadweight cost of a tax system is difficult. You cannot observe all the valuable things that are not made or done

but would have been if not for taxes. But economists are clever, and estimates have been made (I will spare you the methodological details). Most put the deadweight cost of raising £1 of tax revenue at between 20 and 50 pence.

Though systematically ignored by politicians, this is a fact of the greatest importance. It means that just to breakeven, government spending must deliver a return of 20 per cent (or probably more).

Some of it passes this test. The most obvious examples are those where the Government provides public goods: that is, goods that are “non-excludable” (if it exists, I cannot stop you from consuming it) and “non-rivalrous” (your consumption of it does not reduce mine). Public goods are likely to be undersupplied by the private sector. Street lighting is the classic example of a public good. If your neighbours pay for street lighting, then you need not. You can “free ride” on their spending. Since everyone can figure this out, no one will pay for street lighting.

Without tax-funded local council spending on street lighting, it might not happen at all. And the return on this spending surely exceeds 20 per cent. The value people place on the convenience and safety provided by street lighting is far greater than its cost.

But most government spending is not aimed at avoiding such “free rider” problems. Most merely provides people with what they would otherwise buy for themselves, such as education, health-care, housing, unemployment insurance and pensions. Given the enormous cost of raising funds by taxation, such government spending is ludicrous.

For example, a tax-funded school with an annual budget of £10 million costs society more than £12 million. So, to avoid imposing a net cost on society, state schools must provide education worth at least 20 per cent more than the educations provided by private schools with the same budgets. But how could they?

More than half of all government spending replaces what would otherwise be private spending. So Mr Cameron is wrong that tax is at its acceptable limit. It is at least double what it should be.

Given the politically sacred status of “public services”, eliminating this spending and taxation will not sound like a very nice idea. And Mr Cameron is determined to make the Conservatives seem nice. But imposing pointless costs on society is not really a nice thing to do.

The kindness of geniuses

Cobdencentre.org

29 January 2010

I once saw an advertisement for a book that would reveal the secret of making money in the foreign exchange markets. I did not buy it. Someone who knew such a secret could use it to make billions for himself. He would not sell his secret, and thereby render it worthless, for £9.99.

You should be sceptical of those who claim to be giving away something valuable, including their extraordinary knowledge or skills. Yet that is precisely what politicians are now asking us to believe of financial regulators.

At the World Economic Forum in Davos last week, Lord Turner, chairman of the UK Financial Services Authority, said that financial regulators should limit the supply of commercial bank credit when asset price bubbles are developing. He wants “some sort of macro-prudential committee, charged twice a year with looking at what is going on in the UK market”, empowered to intervene when it thinks house or other asset prices are too high.

Last year the Obama administration announced a similar idea concerning commodities, such as oil. They want regulators to intervene in commodity markets to counteract speculation that is making prices too high or too low.

Let us not argue about whether a price can be too high when people are willing to pay it, nor whether any human, even computer-assisted, could possibly know that it is. Suppose that some

people really do know such things. Why would they work for the government on a salary of less than £50 million?

Knowing that the market has over-priced oil, for example, is extraordinarily valuable. You could take a massive short position and make a killing when the price falls from the heights it wrongly occupies. Or, if you knew that house prices are too low, you could buy shares in real estate investment trusts and soon be rolling in money. For someone who knows whether tradable assets are incorrectly valued, massive wealth is assured.

Perhaps I underestimate the benevolence of those blessed with such amazing skills. But it is hard to believe that they would forgo great wealth for the sake of working in a government department. My guess is that the people who will end up occupying the regulatory roles envisaged by Lord Turner will be ordinary human beings. They will know no more about the proper value of things than any other well informed market participant, such as an investment banker guided by his economic research team.

Intelligent, informed people disagree about the value of things. Market prices reflect the balance of disagreement between those willing to put their money where their mouths are. If you think a panel of government employees with no “skin in the game” can do a better job ... well, I wonder if you would like to buy this sensational new book ...

Grossly meaningless domestic product

City AM

25 April 2012

Two years ago, the Bank of England predicted that GDP would today be growing at a rate of 2.5 per cent a year. It is in fact growing at 0.0 per cent or thereabouts. An economic forecaster overestimating GDP growth by 2.5 percentage points is like a weather forecaster predicting that the temperature will be 20 degrees warmer than it turns out to be. If the forecasters at the BoE were paid by voluntary subscribers rather than taxpayers, they would be out of business.

But the problem is worse than poor GDP forecasting. The supposedly observable facts of GDP – for example, the fact that it is now growing at a rate of about 0.0 – are themselves suspect. This is because we do not know what roughly a third of the measured economic output is really worth.

To see the problem, start with the old Soviet Union. Plenty was produced by its factories and farms: Ladas, beetroots, brown polyester suits, and so on and on. But what was all that stuff worth? It was impossible to tell because, even when the goods were priced, these prices carried no information about consumer preferences nor, therefore, about what the goods were worth. Prices were set not by supply and demand but by government officials. And citizens had almost no choice in what they consumed. Soviet GDP figures were close to meaningless.

The same problem arises in the UK. The education, healthcare, foreign invasions and other goods supplied by the government are

not priced. Consumers pay nothing for them. So what are they worth?

For the purpose of measuring GDP, goods and services supplied or procured by the government are valued at cost. If your child's unpriced state education costs £7,000 a year to supply, that is what it is supposedly worth. But since no one willingly paid £7,000 for it, this is an unsafe supposition.

In fact, given that government suppliers are subject to no serious competition, the safe assumption is that what they produce costs more than people would be willing to pay for it in a free market. I, for one, would not pay £7,000 for the education my daughter receives at that cost.

Worse: the government provides things to people who do not value them at all. For example, when you are robbed a policeman will come to your home to comfort you. This must cost a few hundred pounds. How much would you pay for it? Personally, nothing. Yet that won't stop the comforting from happening. Nor stop it from being counted as a contribution to GDP.

Even worse: GDP includes "services" that people would pay to stop. The salaries of all those bureaucrats who devote themselves to placing regulatory burdens on productive businesses are counted as a contribution to GDP.

Never mind the unreliability of forecasts for next year's GDP. The figures for current GDP are themselves an elaborate governmental fiction.

Rich? Grumpy? Come on, let's play spend my money

The Times

21 February 2007

The British are increasingly wealthy. The economy has grown for 15 consecutive years. Per capita income is now higher than in France and Germany. Anyone who owns a house in London, or even a few of its bricks, is moving rapidly up the international rich list.

Yet the British are not content with their lot. Nothing satisfies us. Crime rates have fallen consistently since 1993, yet we think law enforcement a shambles. Trains are faster and safer than ever. Still, we consider the railways a disgrace. Waiting lists for surgery are shorter. Third World health service!

Upon meeting the wave of English immigrants in the 1970s, Australians dubbed them “whinging Poms”. Well, the Aussies should hear the Poms who stayed at home. It is a shame there is not an Ashes for complaining. An urn containing the cinders of a thousand self-combusting letters to the Editor would find an unchallenged home in a trophy cabinet at the offices of the *Daily Mail*.

Why should people who are so much better off complain so much? Why are the British so grumpy? Many consider it a mystery. And some consider it a shame. Surely a little gratitude is called for.

But it is not a mystery, as anyone who has worked in an expensive hotel could tell you. The rich are hard to please. Not because they are ungrateful egomaniacs who deserve a slap. They are hard to please because, unlike the poor, it is hard to know what they want.

If you doubt it, imagine you were a contestant on a game show called *Spend My Money*. The object is to allocate the spending of people you do not know as they themselves would choose to: 35 per cent on housing, 10 per cent on food, 5 per cent on clothes and so on.

The task would be relatively easy if you were spending on behalf of a pauper. He would put all his income into the basics: food, shelter, and clothing. But imagine you were spending for a billionaire. You wouldn't know where to start. Or, rather, you would know only where to start. The basics consume less than 1 per cent of his income. How will you allocate the other 99 per cent? Should you buy a football team? A Picasso? Case loads of Château Palmer 1961? Everyone buys roughly the same things with their first £10,000 of income. Then they start to show some individuality.

Spend My Money is not a real game show, but it is a real model of government. And it explains why the increasingly rich British are increasingly grumpy about their "public services".

Take education. Given even modest incomes, most seek schooling for their children. And their basic expectations are similar. They want their children to learn reading, writing and arithmetic. As people can afford more education, however, their preferences begin to diverge. I want an impractical education for my children: Latin, cello, hockey and all that. But I know people who would not waste a penny on such piffle: computing, accountancy and into the job market with you!

The same goes for healthcare. We may agree on what a service that costs us £500 a year should provide. But what extra should we get when we are spending £2,000? Nicer hospital rooms? Better-paid doctors? Viagra? People differ in how much and what flavour of icing they want on the basic healthcare cake. Force them to pay for any given quantity or flavour and most will feel cheated.

A natural reaction is to be sparing with the icing. If preferences are predictable only where the basics are concerned, a government may be reluctant to provide any more than basic tax-funded services. That is where things were headed under the previous Tory Government.

This may be tolerable if we could easily top up government spending to buy the kind of services we really wanted. But we cannot. I do not want my children to go to a bog-standard comprehensive and then get Latin and cello lessons at the weekend. I want them to go to a school with Latin and cello teachers. I might be able to pay the fees of such a school, if only I were not taxed to fund bog-standard comprehensives. By forcing me to spend £5,000 on an education I do not want, government stops me from paying £10,000 for one I do want. This explains the apparently perverse fact that the state provision of something often leads to low levels of aggregate spending on it.

New Labour and the Conservatives are dimly aware of the problem. In this age of “empowered consumers”, they declare, we must offer more choice in the public services. But this Third Way cannot work, and not only because monopoly suppliers are hopeless at responding to consumers’ preferences. Choice between equally expensive options does not address the *Spend My Money* problem. We empowered consumers differ not only in what kind of £5,000 education we want, but also in whether we want any kind of £5,000 education.

If Tony Blair and David Cameron are dimly aware of the problem, Gordon Brown seems dimly unaware of it. He has reversed the natural logic of *Spend My Money*. As we have grown richer he has increased the portion of our incomes that he allocates on our behalf. Either he believes that we all want roughly the same things, and that he knows what they are, or he thinks our preferences do not

matter very much. Either way, he is on course to make us some of the grumpiest rich people in history.

Cameron's comedy economics

Wall Street Journal

11 March 2011

The best comedy operates on more than one level. Monty Python's *Life of Brian*, for example, is delightfully silly, with its speech-impered Pontius Pilate and his lisping friend. But it also makes profound jokes about religious devotion and revolutionary politics.

Good nonsense is similarly layered, combining obvious foolishness with hidden depths of error. In a speech Monday about his plan for economic growth, David Cameron, the British prime minister, delivered a gem. He explained that his government plans "a major re-balancing of our economy. We have been too reliant on government spending, on housing, on finance, on immigration ... Instead of that we have got to be more reliant on manufacturing, on exports, on technology, on investment, rather than consumption and borrowing."

The obvious mistake here is the idea of a balanced economy and the policy of picking winners that goes with it. Mr Cameron has succumbed to the self-aggrandising delusion that politicians are better able to determine the best allocation of capital than are the people who own the capital.

Not only does the policy of picking winners have a calamitous recent history, contributing to Britain's economic malaise in the 1970s, but it makes no theoretical sense. Politicians have less information and expertise than private investors, and utterly perverse incentives besides.

Whom do you trust more to make good investments: someone risking his own money in search of profits or someone risking other people's money in search of votes? Politically directed investment will go not to where it is most productive but to businesses that employ many voters, especially in marginal constituencies, or that are owned or staffed by party donors.

Yet this error – almost irresistible to those who seek to “run the country” – is minor compared to Mr Cameron's less obvious mistake. Mr Cameron does not understand that the purpose of economic activity is consumption. If he did, he would not say that we are over-reliant on it. For this would amount to the claim that our consumption relies too heavily on our consumption, which is either gobbledygook or necessarily false.

Rather, Mr Cameron appears to believe that the goal of economic activity is production. To see how preposterous this idea is, imagine that God existed but that he were not the distant sort of chap described in the Bible. Suppose, instead, that he were a “your wish is my command” kind of deity who showered his human creatures with whatever they wanted. Then no one would have any reason to produce anything. We produce only because no god or other benefactor will supply us with everything we want to consume.

Some will think I am reading too much into a few words of a single speech. Alas, there is more evidence. Mr Cameron has simultaneously got it into his head that we should export more. He defends the scandal-beset Duke of York in his role as a trade envoy on the ground that he has helped to sell British-made goods to foreigners. And Mr Cameron has himself taken on a part-time role as a salesman for British companies abroad. He seems to believe that we will benefit if a greater portion of the goods we produce are bought by foreigners.

But why? The benefits of trade are not increased by the presence of a national border between those who do it. Suppose that the pattern of trade between the United States and Britain remained unchanged but that, seeing the error of their fateful decision 235 years ago, the Americans successfully sought reunification with Britain. Would those of us in what is now Britain be worse off because of the sudden decrease in our exports and increase in internal trade? Mr Cameron surely cannot think so; he cannot believe that borders create value. Why, then, does he act as a salesman for British firms selling abroad but not for those selling at home?

Again, this behaviour makes sense if, like the mercantilist Tories of the 18th and 19th centuries, he thinks that we benefit from producing more than we consume. Selling goods to foreigners allows us to achieve this while selling to other Brits does not. The mercantilists thought this was a good idea because they identified wealth not with the goods that money can buy but with the money itself. By persistently exporting more than we import, and thereby producing more than we consume, we build up reserves of money from what foreigners have paid for our products. They have the stuff we made, we have their money, which we are determined never to spend on anything they have made, and, according to this bizarre view, we are the winners.

Under Margaret Thatcher's leadership, Conservative economic policy was influenced by free market thinkers such as Friedrich Hayek and Milton Friedman. This recent intellectual tendency is not to Mr Cameron's taste. It does not fit with the nostalgic, "we're all in it together" brand he wants to build for his party. For this, the crackpot ideas of his 18th-century predecessors have a better ring to them. It would be amusing if the Conservative Party were only a social club.

Minimal principles about the minimum wage

City AM

29 February 2012

The government has introduced a scheme that encourages people on the unemployment benefit to work at selected firms, such as Tesco. They are paid nothing but are alleged to benefit by gaining work experience.

This is not slave labour, as some have alleged. No one is forced to do this unpaid work, not even as a condition for receiving the dole. Nevertheless, the policy reveals the government's moral confusion about labour policy.

It is illegal in Britain to work for less than £6 an hour. Most who favour a legislated minimum wage believe it benefits unskilled workers. Perhaps it does, but not by increasing their pay.

To see why, suppose you owned a nasty little house for which no one was willing to pay more than £100,000. Now suppose the government imposed a minimum house price of £200,000. This would not help you sell your house for a higher price, since it would make it no more desirable. The law would effectively ban you from selling your house.

Similarly, a minimum wage does not make unskilled labour more valuable to employers. It simply bans people whose labour is worth less from working. If government ministers think this is a way of helping the unskilled, they must believe that it is better to be unemployed than to work for £5 an hour. Better to be on the dole than to be exploited!

But, then, how can we understand their new unpaid work scheme? You are exploited if you work for £5 but helped if you work for nothing? What principles can justify a policy of increasing the minimum wage and then creating a scheme designed to encourage people into working for no pay?

Despite ministers' recent laments about cronyism, that is the effect of this policy. The government sets a minimum wage that creates unemployment and then arranges for some of the unemployed to work unpaid for favoured firms, with these workers' subsistence funded by taxes on the rest of the population. Economically, this is an even better racket than slavery; slave owners had to cover the cost of their slaves' food and lodging.

Nor is it only when someone is a ward of the state that the government suspends its objection to low paid work. My friend Scott has a vegetable garden. He scratches away at it for about five hours a week and produces about £10 worth of vegetables. That is a rate of pay of £2 an hour, paid in vegetables. The government does not stop him. But if he preferred pubs to gardens, and worked in his local for five hours to receive £10, he would be breaking the law. What's the relevant difference?

Similarly, I might hire someone to cook for me if I could pay him £4 an hour. But I am not allowed to. So I cook myself, thereby working for less than the minimum wage (no one would pay £6 an hour for my cooking). This legislative incentive for do-it-yourself is not only ethically arbitrary, it restricts the division of labour and, hence, economic growth.

If the government wants to help young and unskilled people gain work experience, and wants to promote growth, it should abolish the minimum wage. Alas, I fear they are too confused and too gutless.

Part 8

Politics and Culture

Sincerely, folks, an apology on demand is so phony

The Times

14 May 2004

My sister used to suffer from unromantic boyfriends. Sometimes she could no longer contain herself: “Why don’t you ever buy me flowers?” Unromantic her boyfriends may have been, but they could take a hint. The next day the flowers would arrive. It didn’t work, of course: “You only bought them because I told you to!” Some things cannot be successfully demanded. My sister wanted romance, not obedience. Spontaneous flowers are romantic; flowers on demand are pathetic. Demanding romance is worse than a waste of time; it is self-defeating.

Demanding an apology is the same. If someone is sorry he will volunteer an apology. If he waits until the apology is demanded, he probably wasn’t really sorry in the first place. In his appearances on Arabic-language television, George Bush condemned the atrocities committed by American prison guards in Iraq but he didn’t apologise for them. Perhaps he did not feel personally responsible.

Many were shocked. They demanded an apology. And they got one, indirectly from a White House spokesman, then from Mrs Bush and, finally, from Mr Bush, after meeting with the King of Jordan. Those demanding an apology could not, however, have got what they really wanted. Just as my sister wanted the romance and not the flowers, outraged Arabs surely want real contrition, not simply the words “I’m sorry”.

By demanding an apology you undermine its credibility once received. It will always appear that the apologisee is merely bowing to pressure. The apology will look like self-interest, not contrition. If you seek a genuine apology, you shouldn't ask for one.

I spent the first term of my secondary education at a school where caning was common. I was caned a couple of times, justly, since I had committed the alleged offences. Yet on one occasion, I was wrongly accused. When I protested my innocence, the teacher expressed his contempt for boys who would not admit their crimes and demanded an apology.

I am ashamed to say that I buckled and said sorry. "That's more like it," the teacher replied. Instead of sticking to my guns, I had lied to avoid punishment. Much more like it!

Apologies offered under duress can only appear insincere. To compensate for this, extra sincerity will often be demanded. A sullen, mumbled "sorry" will not do. Say it with sincerity, as if you really mean it.

Sincerity is not, however, something that can be added to a statement, like extra cheese on a pizza. Only the gauche gestures of sincerity can be added: the beseeching tone of voice and the eyebrows drawn together. Deep down, everybody knows this. That is why "sincere" now means insincere. Tony Blair appears so shifty precisely because he makes such a display of his sincerity.

It is a peculiarity of today's culture that so much insincerity is called for. When Diana, Princess of Wales, died, the Royal Family was advised to show more emotion in public. But once these displays of emotion had not been volunteered, why would anyone want to see them feigned?

In 1998, John Howard, the Australian Prime Minister, was widely condemned for refusing to apologise for what happened to "the stolen generations" of Aboriginal children during the early

and mid-20th century. Yet even if you think he should have felt sorry, even if you believe in inherited guilt, you are surely glad that he did not bow to the pressure and compound his original sin with a nauseating display of hypocrisy.

Jesus apparently said: "Ask and you will receive." That looks like over-promising in general, but if he meant to include sincere apologies then he was certainly going too far. Once you have asked, though you may get an apology, it will be hard to believe it is sincere.

When in doubt, call for Reg

The Times

7 September 2006

There is a scene in *Life of Brian* where Brian has been arrested by the Romans. His girlfriend bursts into a gathering of the People's Front of Judaea and demands that her comrades save Brian from his imminent crucifixion. Their leader, Reg, seeing the urgency of the situation, declares that they must immediately convene a meeting to agree a firm resolution in response to this gross violation of Brian's rights. And everyone sits down.

It is a good joke. But it does not go far enough to capture the absurdity of many contemporary British politicians. They do not simply substitute acting with talking; they substitute talking with talking about talking.

Alan Milburn was at it again in *The Sunday Times*. In a comment article he claimed that the date of Tony Blair's departure is not nearly as important as which policies Labour will pursue when he has gone. And just as I was expecting to be told what the correct policies are, he pulled a Reg. He called for a debate on the issues.

We do not live in Singapore or Burma. If Mr Milburn wishes to contribute to the various debates about public policy, he is free to do so. Indeed, he had been afforded the luxury of a column in *The Sunday Times* with which to make a contribution. What was stopping him? Watch *Question Time* or *Newsnight*, read the comment section of any newspaper or simply visit a pub: Britain is awash with debate about the issues. It stops only when politicians

intervene to call for a debate. They are like people who interrupt an orgy to call for sex.

Those who are unusually fond of talking about sex are often suspected of having difficulties actually doing it. Something similar explains why politicians prefer requesting debates to having them. Debate is demanding. In our gaffe-obsessed political culture, it requires both knowledge and courage.

But calling for a debate requires neither. It allows you to show concern about the issues without taking a position. It implies that others are shirking a duty that you recognise. And, if you pick your moment, it can even get you a headline.

To which I would have no objection if it always read: "Political lightweight evades issues with meaningless call for debate."

Ed Miliband's tribalism

Wall Street Journal

23 September 2010

Karl Marx believed that capitalism drives workers' wages down to subsistence levels – that businessmen pay them the bare minimum required to keep them working and, therefore, alive. Capitalism turns workers into “wage slaves”.

Ed Miliband disagrees. During his campaign to be elected leader of the British Labour party, he has claimed that the government should coerce employers to pay workers a “living wage.” Without such coercion, Mr Miliband must believe, employers drive wages so low that workers cannot even live. And he has calculated this survival wage – apparently workers die if they earn less than £7.60 an hour.

He is wrong. The minimum wage is now £5.80 an hour, yet no British workers die from starvation or exposure. On the contrary, a worker on minimum wage is nowadays more likely to die prematurely because he has over-consumed food, alcohol or cigarettes.

Of course, Mr Miliband knows that workers do not die if paid less than £7.60 an hour. If challenged, he may well deny that this is what he means by a “living wage.” But if this is not what he means, why call it this? Why does Mr Miliband speak in a way that suggests he believes something preposterous?

The answer is that by talking this kind of nonsense Mr Miliband is displaying a quality that many members of the Labour party seek in their leader. He is letting them know that he is willing to be unreasonable in his devotion to his party and its supporters. He is signalling his tribalism.

Such tribal signalling is not confined to politicians. An Arsenal fan who wants to display his solidarity does not engage in sensible discussion about the merits of the referee's decisions or the opposing team's play. He wears a dreadful shirt and insists on an Arsenal-centric view of events. When Arsenal loses, he sees conspiracy and injustice everywhere.

He need not be so stupid as to believe the foolish things he says. Believing them is not the point; he is not a truth seeker. He seeks only unquestioned membership in the Arsenal tribe, and talking the right kind of nonsense helps him achieve this.

So it also goes with religion. The more tribal the impulse, the more absurd the dogma. A modern American protestant who claims that the universe is not 14 billion years old, as scientists say, but only 6,000 years old, is not telling you what he believes about the age of the cosmos. No modern American is that ignorant. He is telling you that, unlike those equivocating Episcopalian nancy boys, he is a real Christian, by gum! Insisting on something well known to be false is a display of tribal allegiance.

But why, some may wonder, would a politician such as Mr Miliband wish to signal his tribalism? The answer is unpleasant but simple. Tribalists are disposed towards pillaging outsiders and giving the loot to their tribesmen. How better to win supporters than to speak in a way that suggests this disposition? Provided those in line to be looted are a small portion of the voters – or, better, ineligible to vote – it is a winning campaign strategy. That is why policies aimed at bilking foreigners have always been popular with politicians. It's also why their rhetoric is more tribal during internal party elections, such as the Labour Party leadership contest, than in general elections.

Grievance-mongering is the best signal of intended looting. Contrary to Mr Miliband's claims, the living wage in Britain is

zero. The unemployed earn nothing, yet thanks to public housing and unemployment benefits, they live. Nevertheless, Mr Miliband and his ilk complain that the unemployed and workers with low incomes are the victims of "social injustice." The beneficiaries of this supposed injustice are those with higher incomes who are taxed to pay for the consumption of their victims.

The idea that people who live off money confiscated from others suffer an injustice is so perverse that no one can seriously believe it. But that is politically irrelevant. The contorted logic of "social justice" is to left-wing British politicians what bogus history is to ethnic demagogues. When a politician tells you that your neighbour's land or other property is rightfully yours, that you have been robbed by history or "the system," you need not believe him to support him. The appeal of the idea lies not in its truth but in its insinuation that, should its advocate gain power, you will soon be in receipt of stolen goods.

Hard-working families

The Times

19 March 2005

Gordon Brown appears to believe that all families are hard-working. He can no longer say “family” without first adding the words “hard-working”.

He is mistaken. I know this from personal experience. I am quite lazy. Only when a Cabinet minister says something utterly stupid can I be bothered to get in front of the computer and do some writing. My wife is worse. She does nothing but lunch with friends and tend to our 2-year-old daughter when the latter is not asleep or at pre-school. And the child herself is indolence on little legs; she has made not the least contribution to the gross domestic product. The Whytes are, at best, a soft-working family.

Mr Brown must know about us – not the idle Whytes in particular but slack families generally. He must know that many or even most families are not really hard-working. So why does he say they are?

To see why, consider another of Mr Brown’s favoured falsehoods. In his speech to the Labour Party spring conference, he declared that “every child is precious, every child unique, every child very special, every child counts”.

There were about a thousand children at my school and I doubt that even a hundred were special or precious. And, if I have properly understood the meaning of unique, it is impossible for every child to be unique. All my classmates could count – that much I’ll concede – but standards were higher back then.

Mr Brown cannot really believe that every child is special, any more than he believes that all families are hard-working. But it is useful to say such things because it obviates the need for any proper defence of his redistributive policies. Why is it a good idea to direct more government spending at poor families with children? Quite simply because these children are precious. There is no need to consider the incentive effects of means-tested benefits, the impact of shifting money from one part of the economy to another, or any such policy wonkery. Who will deny special children what they deserve? And who will deny that every child is special?

I do, of course, but then I am not a politician. Michael Howard cannot afford to take my stand against the mediocre little scroungers. Nor can he point out that many families are not really hard-working. Once Mr Brown has offered the virtuous their reward, Mr Howard cannot insult them and take it away.

And then it is a race for the high ground of targeted caring. Mr Howard matches Mr Brown on hard-working families but trumps him on pensioners, who “make a huge contribution to our society”. In fact, of course, many pensioners contribute next to nothing. But that is irrelevant. In the politics of pandering, everyone must be flattered.

Morality fever is catching

The Times

28 April 2005

A hundred years ago, if a politician returned from Africa and stood before us sweating, hands flailing and gibbering, we would assume that he had contracted malaria or perhaps dengue fever. Today, he is more likely to have contracted morality fever.

Gordon Brown seems to have come down with a very nasty dose of it. On Monday, when discussing poverty in Africa, he claimed that “when there is an injustice anywhere, it is a threat to justice everywhere”.

This is not something that the Chancellor would normally say. He knows that the integrity of Canada’s judicial system, for example, is not threatened by injustices in Tibet or Zimbabwe. It is quite possible to have injustice in some places and justice in others. But when the fever takes hold, nonsense like “injustice anywhere means injustice everywhere” starts sounding plausible.

We should not blame Mr Brown. Those who fall ill are only to be pitied. It is his audience that worries me. You might have expected them to fall into a stunned silence upon hearing such an absurdity from the man in charge of our public finances. Someone might have rushed forward with a damp cloth to reduce the swelling in his fevered brain. But neither sympathy nor help was offered. Instead, they applauded, as did those journalists who described his speech as a bravura performance.

When it comes to moral issues, many people prefer crazy talk. They take it as a sign of moral sincerity.

I encountered this idea at an early age. My mother used to react to problems by panicking and ranting, while my father remained calm. She always drew the conclusion that he did not really care. This common inference explains why a little foolishness can be so helpful when trying to show your sincerity. It does not help to solve the problem, of course, but that is not so important.

Talking nonsense is also tremendous fun, as anyone who has been to a charismatic church will testify. Especially when it is associated with something virtuous, such as saving poor Africans. I imagine Mr Brown's audience could have enjoyed themselves more only if he had led them in collective weeping.

Yet no one should mistake such self-indulgent pleasures for moral seriousness. Those who take football seriously don't enjoy hearing nonsense about it. Why should those who take justice seriously have lower standards?

I don't believe that believers really believe

The Times

16 September 2008

Many atheists behold the persistence of religion in the West – and especially in America and its politics – with something close to incredulity. How can it be, they lament, that despite the absence of any evidence for the central tenets of Christianity, despite the enormous progress of science in explaining the origins of the Earth and its inhabitants, so many people continue to believe pre-enlightenment gobbledygook?

That the world was created by an invisible deity, that He later impregnated a virgin who then bore a son who was his own father, that we have immortal souls and will live forever in Heaven if we are good and love Jesus: how can anyone who has even attended high school believe such things? And how can agreement with this nonsense be a prerequisite for winning the support of the American electorate. It defies belief.

So it does. And if something defies belief, a good starting position is not to believe it. That is my position. I am not shocked by the persistence of religious belief in the West because I do not believe it exists. Apart from a few lunatics, no one really believes the central tenets of Christianity or of any of the other major religions. It is simply not possible for people who know as much as modern Westerners do.

Of course, religious assertion persists. But there are many reasons for saying religious things other than actually believing them. Most often, I suspect, people are expressing their hopes rather than their

beliefs – substituting “I believe” for “I wish” in the unconscious endeavour to convince themselves.

But we need not speculate on the psychological cause of religious assertions. Because the real test for genuine belief is not what people say, but what they do. To believe something is to be disposed to act on it. The vast majority of Western Christians fail this behavioural test for genuine belief.

Imagine this. Recognising that many people find their children an unwelcome burden, the government creates a network of slaughterhouses. Each year, about a million unwanted children are dropped off for extermination.

It is a horrifying idea. Anyone who believed it to be happening would surely rise up against the regime, with violence if necessary. To sit at home watching TV while millions of children are murdered would display despicable moral complacency.

Yet British Catholics allegedly believe that such slaughter really is happening. They claim that humans have immortal souls from conception, and that killing a foetus is no less murder than killing a ten year old. From the Catholic point of view, abortion clinics are slaughterhouses for children.

Is the lack of Catholic anti-abortion militancy not then strange? If they believe what they claim to, then they are no better than those who turned a blind eye to the Nazi atrocities. But I do not think they are that wicked. It is just that they do not really believe the things they say about foetuses and immortal souls.

I do not mean to pick on Catholics. All Christians fail to act on their avowed beliefs. Suppose you believed that Heaven exists and that only some of us will qualify to live in it forever, as the vast majority of Christians claim to. How would this affect your behaviour?

It would depend on what you thought were the admission criteria for Heaven. But whatever you took these virtues to be,

they would utterly dominate your life. When everlasting bliss is on offer, nothing else matters at all. People who believed in Heaven would surely act quite unlike those who do not.

Yet the expected behavioural difference is not to be observed. The vast majority of Christians display a remarkably blasé attitude toward their approaching day of judgment, leading lives almost indistinguishable from those of us open non-believers. Put simply, they fail the behavioural test for belief.

So do American politicians. All claim to be Christians but they approach policy exactly as non-believers would. Consider John McCain and Barack Obama, to take the most topical examples. Both recommend their policies on grounds that weigh only earthly costs and earthly benefits. The afterlife consequences are never mentioned.

By the light of their avowed Christianity, this is perverse. If we have immortal souls, then earthly costs and benefits are an infinitesimal fraction of the total. For true believers, the first question to ask about any policy ought to be: how does it affect people's chances of getting into Heaven? But it is never even the last question asked.

American politicians obviously do not really believe that we have immortal souls. And they know that voters do not believe it either. They know that, contrary to popular mythology, a politician who approached policy from a truly Christian perspective would be considered an unelectable lunatic.

The persistence of religious profession is irritating. It is a sign of something intellectually unserious in the professor and his appreciative audience. But it is not alarming once you realise that it is all just talk.

Homeopathy: voodoo on the NHS

The Times

15 July 2006

Homeopaths are prescribing their potions for malaria prevention, it was reported in *The Times* yesterday. This is worrying, even to Melanie Oxley of the Society of Homeopaths, because, as she says, there is no evidence that homeopathy can guard against malaria.

Of course, malaria is not a special case. There is no evidence that homeopathy can guard against or cure anything at all. A review of clinical trials of homeopathy published in *The Lancet* in 2005 concluded that homeopathy has no more than a placebo effect on patients.

This is not surprising. Homeopathy is based on two main hypotheses. The first is the “Law of Similars”: the idea that illnesses are cured by small doses of substances that cause their symptoms. Since arsenic causes shortness of breath, for example, small doses of it will cure diseases that also cause shortness of breath, such as asthma.

The second idea is that the smaller the dose, the stronger the cure. A homeopathic potion is created by repeated dilution of the active ingredient in water. The dilution is repeated so often that a drop of the potion will be lucky to contain a single molecule of the active ingredient. When homeopathic pills have been infused with nothing but water, how could anyone expect them to prevent malaria or cure asthma? Despite the impotence of homeopathy, Ms Oxley and the NHS Direct website still conclude that it should be used alongside conventional medicine. Homeopathy should be a complementary therapy, if not an alternative therapy.

This is a peculiar conclusion. After all, many procedures will do nothing to protect you against malaria, such as jumping up and down on one leg or reciting three times “Mother Earth, protect me”. Yet no one ever recommends these as complements for conventional medicine.

The sensible reaction to the fact that homoeopathy does not work is simply not to use it. This was the suggestion of Professor Michael Baum and the other doctors who signed his open letter in *The Times* in May suggesting that the NHS should stop providing homoeopathy. They complained that money wasted on homoeopathy could be spent on therapies that actually work. And that is true. But this understates the case against homoeopathy on the NHS. Bogus treatments are not merely wasteful, they are dangerous. Several of those who have taken homoeopathic prophylactics have contracted malaria.

It is outrageous that the NHS should knowingly promote this quackery. And it is knowing. The NHS Direct website points out that homoeopathy is contrary to everything we know about chemistry and medicine, and that there is no experimental evidence to support its preposterous claims. Yet the NHS still promotes it, because “despite the lack of clinical evidence, homoeopathy remains one of the most popular complementary therapies in the UK”.

Popularity is no excuse. Many medical treatments are “confidence goods”; their quality cannot be judged by lay people. Consumers need reassurance that confidence goods are fit for purpose, such as certification by a professional body. We visit doctors and NHS hospitals, in part, to receive this kind of reassurance about the remedies provided.

Most people will quite reasonably take the fact that the NHS offers homoeopathy as certification that it works. Since the NHS knows that homoeopathy does not work, it is intentionally

misleading the public. The popularity of homoeopathy only aggravates the crime.

There will always be charlatans who exploit ignorance and superstition. The Government need not outlaw them. Human folly should be permitted when it is only the fools themselves who suffer from it. But where folly is likely to harm others, higher intellectual standards should be required. This principle explains why we cheerfully tolerate voodoo as a religion but frown upon voodoo economics and absolutely ban voodoo engineering.

Yet, no matter how much private nonsense should be tolerated, state-sponsored nonsense is never acceptable. For the State's actions always involve compulsion, if not in what we receive, at least in what we pay for. And no one should be compelled to pay for nonsense. Taxing us to fund homoeopathy is outrageous. It is no better than forcing us to pay for a space programme based on Aristotelian physics or a meteorological service based on numerology.

The Enlightenment idea that beliefs should be based on evidence and reason is losing ground. Many Westerners claim a right to believe whatever they like – from Christianity to astrology to homoeopathy – whether or not their views are supported by even a shred of evidence.

And, despite their intellectual frivolity, they also claim a right to be taken seriously. They expect their prejudice (or “faith”, as they prefer to call it) to be protected by limitations on free speech and to be pandered to in tax-funded hospitals and schools.

Tony Blair is eager to oblige them. Of course, he is himself a man of superstition. But even among more rational politicians I sense a drift towards the idea that state services should reflect the distribution of stupidity in the population. It is a shame. Nothing could be less in need of government subsidy than stupidity.

We live at the historical high point of human civilisation. It is neither a fluke nor a miracle. Our liberty and prosperity flow from of our commitment to Enlightenment values. Our leaders should never forget it.

Today, children, I will teach you my prejudices

The Times

14 June 2007

My school provided its sixth-formers with something called liberal studies. In these lessons we discussed issues of concern to 16-year-olds.

I still remember what I learnt about sex. Under a certain circumstance, it is a beautiful thing. This circumstance was not alleged to be marriage. Our teachers were not there to preach Christian ethics at us. Goodness me, no. The special circumstance, we learnt, was love. Sex with someone you do not love is a nasty business.

This is not true, I later discovered. Sex with a person, or group of people, whom you do not love can be a very nice business indeed. I do not know if the teachers who told me otherwise were lying or simply ignorant. And I do not much care. The moment someone decided that our teachers should tell us the circumstances in which sex is to be recommended, we were in for a large dose of humbug.

As will be primary schoolchildren if Gordon Brown has his way and they are taught about drug abuse – a plan he announced last week. Can you imagine a teacher telling children the truth? “Well, kids, snorting cocaine is illegal, expensive and, like some other things you might do, such as skiing and giving birth, it involves health risks. But, by God, it feels fantastic. You will just have to try it and see if the pleasure is worth the costs.”

Politicians cannot resist the temptation presented by compulsory education and a national curriculum. All those little minds just waiting to be formed. Let’s do what people are always calling

for and teach them the difference between right and wrong. That will fix society.

Alas, neither politicians nor teachers know what the difference between right and wrong is. If one does, I suggest he write an account of it for publication in *The Journal of Philosophy*. He will soon be acclaimed the greatest philosopher in history.

What politicians really know is simply what they do or do not approve of. (For the overconfident, this is easily confused with knowing the difference between right and wrong.) And what they would have teachers impart to children is not any real knowledge but only their own values. They want their preferences – for things like loving sex and chemical abstinence (at least in others) – to be made universal by means of the education system.

Mr Brown is so hooked on this abuse of schools that he has suggested they teach an heroic version of history that will make everyone share his high opinion of Britain. Let us hope that these lessons are given a special name, such as “social democracy studies”. Then children will be able to tell when they have temporarily been transferred from a school to a propaganda camp.

Dumbing down? No, we're much too clever

The Times

13 June 2007

The celebrity fool thrives, not only in Britain but across the Western world. Characters such as Jade Goody and Paris Hilton attract mass attention and the money that comes with it. Big Brother and similar reality television shows make their producers millions by broadcasting stupidity to eager audiences. And magazines that report the lifestyles of the rich and dumb sell as never before.

Society is dumbing down, we are told. But this is an unlikely explanation for the premium now placed on foolishness. Since when did an increasing supply of something – be it oil, orange juice or stupidity – cause its price to go up? The opposite hypothesis seems more plausible. It is because we are so much cleverer and better educated than previous generations that foolishness commands such a high price.

Forty per cent of the population now attend university, and the average IQ is 20 points higher than it was in 1950. Every village once had a good supply of idiots, and any decent-sized family gathering could furnish a slow Uncle Ted or two. Nowadays you hardly ever meet a true nitwit. When did you last socialise with someone who did not know that East Anglia is in England or who spoke without fear of contraception?

The steady disappearance of fools from our midst is generally welcome, but it entails a loss. Stupidity is funny. Authentic, spontaneous idiocy is hilarious in the same way that breaking wind at a formal dinner is: surprising, inappropriate and a blessed relief from

the prevailing stuffiness. Those who complain of dumbing down seem to think that smarter populations should have a lower demand for stupidity. But why should they when stupidity is so delightful?

Fools are expensive because they are a desirable but increasingly scarce commodity. Not globally, of course. There is still an abundance of fools in those parts of the world where education is a minority interest. But that does not suppress the price of local fools. For, just as flatulence is not funny in a hospital's gastric ward, we do not enjoy stupidity when it comes from the systematically benighted. Similarly, the absurd superstitions of an illiterate Tibetan are not amusing until you discover that they are shared by your Mercedes-driving neighbour.

Our celebration of a foolish elite reveals us to be not stupid pigs but increasingly clever and too nice to mock the truly disadvantaged. The real shame of it all is that stupidity is not nearly as much fun on TV as it is in real life. If the population keeps braining up at the current rate, I fear my grandchildren may never know the side-splitting joy of conversation with a complete nincompoop.

No holidays for our saviours

TheCommentator.com

1 September 2011

In Christian theology there are two views of God's role in the universe. Some see Him as the First Cause. In the beginning, He created all matter and the laws of nature. Then He stood back and let the universe get on with it. In effect, He has been on holiday since creation.

On the Sustaining Cause view, God is actively involved in everything that happens. He is the glue that holds the universe together. If he went on holiday, chaos would reign.

The same disagreement arises in politics. Some think politicians should establish the structure of society – its laws and institutions – then step back and let us get on with things. A politician taking a holiday is a source of no anxiety for people with this view.

Others, however, think politicians should take responsibility for everything that happens in society, that they should continually intervene to make sure things turn out for the best. When politicians take holidays, chaos looms.

This Sustaining Cause view of politicians is winning out. You can tell from the hysteria about senior politicians being on holiday while the yield on foreign governments' bonds increased, while people rioted in London or while the wind got unusually strong on the east coast of America.

The implicit assumption is that politicians can control such things. If only the Prime Minister were not relaxing in Tuscany, the government of Italy would not have run up such massive

debts that people now fear its ability to service them. If only the Home Secretary were here to “take charge of the situation”, no one would loot. If the President had not returned to Washington from Martha’s Vineyard, the agencies established for dealing with the effects of strong wind would have been crippled by indecision.

According to conventional wisdom, we have never had less respect for politicians. But this cannot be true. People seem to believe that politicians have godlike powers. Surprise and disappointment are expressed when the very politicians who squandered hundreds of billions of euros to advance their own electoral prospects cannot magic away the economic crisis they have created. Commentators suggest that it is only the peculiar intransigence or indolence of the current crop that mean we have any problems. If they really tried, politicians could fix things.

Reality contains only limited resources and we humans are incapable of completely mastering them. So reality will tend to disappoint us and sometimes frighten us. Hence the religious urge: the desire to believe in a magical source of salvation.

Advances in science have made it difficult for most educated people to keep believing in invisible spirits. But it has not killed off the underlying religious urge. We are still so keen to be saved from harsh realities – for example, that consumption requires production and that idle young men are disposed to violence – that we soften our minds sufficiently to believe that we have found saviours. And politicians are glad to exploit this urge. They fly back from holiday to save us.

Perhaps we will grow up in the next millennium.

Unhappy about your looks? You should be

City AM

9 November 2011

Ivian Sarcos from Venezuela was crowned Miss World on Saturday. Outside the event, protesters waved placards condemning the event. “Look what society expects from young women” protester Jo Robinson beseeched a journalist. “There is terrible pressure put on them to look a certain way. I wear make-up, I want to look nice, but to go to such an extent as to have operations performed on yourself?”

Nor is it only young women who are apparently tormented by society’s twisted values. A 2006 study conducted by Tracy Tylka of Ohio State University revealed that, on a scale from “never” to “always”, American undergraduates “often” or “usually” think of themselves as insufficiently muscular. According to Tylka, “Men see these idealised, muscular men and feel their own bodies do not measure up . . . Instead of pressuring men to be more muscular we need to accept men’s bodies for what they are and instead focus on internal characteristics.”

This analysis is familiar but absurd. The dissatisfaction people feel about their looks is not a consequence of society’s twisted values, and it cannot be cured by reforming society. It is a simple consequence of scarcity.

Consider another common disappointment. Why don’t you live in a mansion bordering on Hampstead Heath? Some will say it is the exorbitant price of such homes that explains this disappointing fact. They are mistaken.

Suppose a law set the price of London mansions at zero. You still wouldn't live in one, because reducing the price of something does not increase the quantity of it. If they were made free, there would still be only a handful of London mansions and millions of Brits wanting to live in one. Why suppose that you would be at the front of the queue for mansions?

That most people do not live in mansions, or more generally do not have everything they would like, is not a consequence of "the system" but of scarcity. Since reality will always contain less than the sum of what everyone would like to have, disappointment is unavoidable. The serious question is how scarce resources should be allocated.

Return to the bodily dissatisfaction suffered by so many. Why do they want bigger muscles, smoother skin and so on? It is because beauty is one of the bases on which certain desirable scarce resources are allocated. Among other things, more beauty will improve your job prospects, increase the quantity or quality of your sex partners and, ultimately, attract a more desirable spouse.

Suppose society instead followed Tylka's advice and focused on "internal qualities". That would not solve the underlying problem of scarcity. It would not increase the number of attractive sex partners, desirable spouses or good jobs that are available. So it would not change the number of people who are disappointed. It would merely shift the basis of their disappointment and hence the focus of their feelings of inadequacy – perhaps from their physiques to their intelligence. Pretty soon do-gooders would be complaining about the suffering caused by society's unhealthy obsession with brains.

Scarcity and disappointment are unavoidable facts of life. And so is our obsession with physical appearance. Which makes those who complain about it not merely foolish but alarming. How do

they plan to stop me finding beautiful women attractive? I cross my legs and hope they never get their hands on the lever of power.

FREE THOUGHTS

Leave your preconceptions at the door; Jamie Whyte's novel and compelling insights will change the way you see the world. His writing is fresh, witty and provocative, and every time I read him I'm convinced anew that he's the wisest man on earth. Settle in for a wild intellectual ride.

Steven Landsburg, author of *The Armchair Economist*

About the author

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