

## Through a glass darkly

It was a far more pleasant experience over the Christmas break to read Winnie the Pooh or watch The Great Escape than it was to read the economic predictions for 2012. These were almost universally negative and we can take heart in the historical fact that most economists have been wrong in their predictions. These dismal attitudes are only the latest in dire predictions reinforced by periodicals, newspapers and other media. What happened to the bright side?

One half of 1% growth either way is seized upon as being dire, and articles about the failure of Capitalism and demonstrated about in Wall Street and St. Paul's might make us wonder as some certainly think, it has failed. So, has it?

### Is half of 1 % growth a failure?

It is worth looking at the implicit assumptions. Is continual high growth in an economy possible, or even desirable? Desirability is questionable if it means ripping out the world's irreplaceable resources at an unsustainable pace. But what does GDP (Gross Domestic Product) mean, because that is what does or does not grow by half of 1%? It means the total output of a nation. It can also be described as wealth. A much more meaningful figure is wealth per person.

This however is also not exactly what we are after. What we really want to know is whether on average we are better off. Here we need to see what the figures mean. It is not really a lot of use if all the growth in wealth is concentrated in the top 10% who are already wealthy which tends to happen in the United States and to a lesser extent in the UK. We need to see if both the average (mean) person is getting wealthier and the poorest 10% does not include extreme poverty.

There is a statistic which is often brought up which describes poverty as "less than 60% of the median household income". This is a statistic which could mean that all are better off and wealthier but the poverty level remains the same. This is relative poverty, but not absolute poverty which it is often mistaken as. What is really needed is a statistic regarding absolute poverty and comparable with other countries, but there isn't one.

### Can growth continue?

Taking one year with another it probably can, by new inventions merely making economic activity more efficient; but it becomes much more difficult once the basic labour saving devices are in place. That is why China is able to produce growth of 8% per annum when their population use cars and washing machines for the first time. But for advanced economies, 2% is very good.

Stephanie Flanders at our conference in London mentioned that we may expect 1% growth over the next 10 years. Disaster? I don't think so. The disaster would be if that increase ended up only in the top 1% of the population and not more evenly distributed. I am not talking of increased taxation, but of a better and fairer system of competition for the ability to earn high amounts. There is a feeling that a type of closed shop at the top exists, and if so it is economically a terrible waste, and the belief that it exists is possibly dangerous because of the backlash that it may well cause.

### **Has Capitalism failed us?**

If you were one of the 23% unemployed in Spain you may be thinking just that. However the alternatives have fared much, much worse. Capitalism has never worked well if completely laissez- faire. It is in the end self-destructive. If it were allowed to run without check, it leads to monopolies and imperfect and unfair competition. It is when there is proper fair trade, free competition and equality of opportunity that capitalism works best. Then only with government intervention to ensure changes that must take place in dynamic economies, are done with a human face, and with a safety net for unfortunate circumstances.

The capitalism of the last 30 years started with Thatcher's dismantling of restrictive practices, both of employers and employees. Where that process eventually failed was knowing what to rein in and control. The banking system was the prime example, but so too was Government spending and borrowing. It is that borrowing that now has to be paid back. At the same time the banks' profligacy, poor (many just plain stupid) practices have to be controlled. It is an understatement to say that it is unfortunate that we non bankers have to pay the price, especially as this is not for the first time.

Capitalism has to be operated as a controlled system. It has to be pared down and corners knocked off it and moulded to a better operating system with the blossoming of the good bits and the strict control of the bad bits. It has been and always will be a continually evolving process.

Which leads me onto:

### **Europe, Free Trade and Democracy.**

I can see that even the papers are bored with this, but the future of Euroland is important to our jobs and economy, although there seems that our Government now has little influence on the outcome.

Just a few thoughts:

- Is the Free Trade element working as well as it should? If it did there should not be 23% unemployment in Spain and 6.8% in Germany.

- Is it really so, that in 9 hours, 26 nations agreed to let a foreign bureaucrat decide how much their Governments can raise in taxes, borrow and spend without that decision being approved by their populations?
- Is it important that two nations in Europe now have Governments that are not elected?
- Should we be concerned that one nation in Europe is dismantling democracy much as Germany did in the 1930's?

This could be a long story unfolding and making history.

### **Finally**

1% growth which also reduces average poverty is a cause for optimism. The looking glass will always be darkened as we do not know how individuals will react. However at 1% growth that glass is half full, and we should be glad of it.

With kind regards

**Andrew Roberts**