

Multiplication...

is a song by Bobby Darin in 1961 and also the subject of much brutal planning, ideology, worry and pleasure. It first came to economists' notice in any organised form in 1798 when Thomas Malthus published essays on Population. It was he who was guilty of causing Economics to be called the miserable science as he saw that the increase in population would only lead to war, famine or disease because populations increase geometrically and food production could not. Unfortunately there is nothing much wrong with his theory, but he could not foresee the increase of land under production largely through increased irrigation, but more importantly the gigantic strides in plant culture especially the discovery of new strains of cereals.

This did not stop China's one child policy nor France's tax incentives to have more children at roughly the same time. So why is this business of children important to Governments and why should they poke their nose into what is a private affair? Is it important to us as investors, and is it a problem? Unfortunately yes to both.

This is in two main areas; that of companies' profits, and state intervention.

Businesses

In virtually all economic circumstances, there will be some companies that will do well, but it is easier to do well if there are many people who have money to buy what is being sold. This was one of the main thrusts of the purpose of the European Union; to make a bigger market for all and encourage specialisation. If there are a healthy growing number of people to buy, then it is easier to sell. However the birth rate in Europe is dire. It is at a rate where population is hardly likely to increase at all. Thus it is wise for European companies to investigate outside the E.U., to see where the increase in population is occurring, what people want and can afford there, and then market there. It almost does not matter where the production is as long as the profits are in the E.U., thereby helping investors in those companies and the countries who can tax those companies.

It seems to me that the current tendency for UK schools to reduce the importance of learning a foreign language a short sighted mistake. It is an arrogance to think others should speak English, and another language, certainly beyond the basics ensures the realisation that other cultures exist, which have to be not only respected but exploited if sales are to be made in that country. You might not like Vimto very much, but it sells fantastically in Saudi Arabia where alcohol is banned. I also often wondered if the Lone Ranger's assistant ever found out that "Tonto" means stupid in Spanish.

By contrast to the E.U., Africa's population is set to double to 2 billion by 2050. In Mexico 50% of the population is under 25, in Saudi Arabia 38% is under 15. To be international for an already big domestic company seems to me to be vital if that company wishes to grow.

State Intervention

Governments have to plan their finances. In 1908 when the Old Age Pension was introduced in the UK, life expectancy was 52 years for males. For a child born now, it is 77.4 years. Thus life expectancy continues to increase at the same time as the birth rate has declined (although there has been some improvement since 2001). Because the State pension schemes are unfunded, that is paid for out of current taxation; this is putting and will put tremendous strain on the taxation requirements to meet not only pensions but healthcare on future generations. There will not be enough people in paid employment to pay for the taxes required to keep the over 65's in the manner they have been promised. Hence the move to higher pension ages, causing mayhem in France now, but not half as much mayhem as will take place if it does not happen. The UK still has a long way to go to fund these costs. This will mean either the promises will not be fulfilled, people will have to work even longer than currently planned, the birth rate takes off or we have increased immigration of young families. All apart from the third option may produce social unrest. It might seem boring to them, but a privately funded pension scheme for young people seems essential.

Other European countries are addressing the same problem in a similar inadequate manner, but China, which is so often quoted as the driver of world growth has a looming problem. Through their own planning, they will have a very small number of people of working age relative to those who wish to or have to retire. Will this stunt their growth in 2020 and beyond? Will this stunt world growth? It will in fact be only one of a number of factors when we get there.

African Beef

Some fund managers are looking at Africa, or at least parts of it as the next place for successful investment. A growing population and mineral production is usually the basis for these thoughts, and the countries whose names come up most often are South Africa, Nigeria and Egypt. One fund manager, whom we respect, has recently invested in Zimbabwe. As I have said before, economics is not an exact science, and my feelings are highly sceptical. It is difficult for a country to be successful without property rights, an independent judiciary, universal education and an efficient immunisation programme. One hopes and keeps hoping that corruption may reduce, but the recent moves by the Government in South Africa to silence political dissent, and it's giving in to its supporters regarding wage rises, does not augur well. This is supposed to be the best of the countries.

It has been said we should have left Africa alone. That is past, but the real scandal is the tariffs charged by the developed countries and the subsidies for their own industries- the E.U. being a chief culprit. Get rid of these so that there is a level playing field, then Africans can fend for themselves, and there may be a brighter future for them, and for us.

Best wishes

Andrew Roberts