EC1800 ECONOMICS

Lectures 19-21

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Last Week’s Feedback Form Results

None!

Feedback So Far

Date	Boring/ Interesting	Slowly/ Quickly	Confusing/ Clear	Hard/ Easy	Average Hours Studied	Average Section 1 Mark	Average Section 2 Mark
11th Nov	4.5	3.78	4.44	3.22	7.67	54.17%	58.30%
18th Nov	4.5	3.75	4.08	2.92	4.1	79%	8%
25th Nov	3.46	3.38	3.69	2.92	2.03	76.67%	
2nd Dec	4.33	3.33	4.25	2.83	3.06	70%	
9th Dec	3.92	3.23	3.85	3.0	3.69	65%	

Congratulations to Nora for handing in the most assessments out of the class!

More Gloomy News I

- Over the Christmas break I performed an analysis of the Food situation over the next thirty years
- From the UN's Food and Agricultural (FAO) statistics database, I have calculated that the direct inputs into food (water, fertiliser, pesticide) is about 0.49 of the energy returned => therefore, half of all food is literally fossil fuels and this continues to rise
- Therefore about two billion people currently alive wouldn't be without fossil fuel inputs into food (source: Vaclav Smil, *Enriching the Earth: Fritz Haber, Carl Bosch and the Transformation of World Food Production* (MIT Press, Cambridge, MA, 2001))
- Therefore, as the oil price rises, around three to four billion people will have to starve to death (remember their children!)

More Gloomy News II

- Most of these deaths will occur in China, then Africa, then India. Widespread war will almost certainly break out all over the world
- Meanwhile, the equilibrium food price should stabilise at between 400% and 800% of present
- As all wage prices in the West are dependent on food, I estimate a general price inflation of between 40% and 60% as food costs move from 7-10% of income to about 25-33%
  - This equals a loss of general purchasing power of between 40% and 60%

More Gloomy News III

- This should happen by between 2020 and 2030
- If our economy then is much like now, then share prices will be flat during this time period
- This means that pension funds – including private pension funds – will be worth between 40% and 60% less than they should have been
- Realistically speaking, anyone who is retired will have to seek part time work to make ends meet
- This means mass unemployment on a scale not seen in a century

Want to know more?

Visit http://www.freeinggrowth.org/about/

Structure of this Lecture I

- The course has covered a lot of material over the last two months:
  - High theory from the lectures
  - Readings from books
  - Celtic Tiger theory
  - Some of Niall's postulations on Irish Economic History!
- The last lecture before Christmas might have seemed irrelevant (you all looked very, very bored!) but I was giving you an option for your essay (to duplicate my approach but with academic referencing)

Structure of this Lecture II

- I have uploaded sample essays, research material, Excel spreadsheets with Economic data and extra readings to Blackboard
- Only a quarter of the class have accessed anything on Blackboard
  - EVERYONE here is correctly registered with Blackboard – I manually checked the class list
  - You WILL need a thing called "Adobe Acrobat Reader" from http://get.adobe.com/uk/reader/
  - You MAY need a thing called "Microsoft Office Compatibility Pack for Word, Excel, and PowerPoint 2007 File Formats"
- You also have your essay writing guidelines handout

Structure of this Lecture III

- The following slides are a quick overview of everything taught during this course
    - May be useful for revision and deciding the approach of your essay
- I am happy to try to answer any questions you might have
- Other than that, we are more or less done!

Kinds of Wealth

- First Kind (‘hard’ wealth, associated with maleness):
  - Relative to Society
  - Therefore we measure using money which compares to the market (which equals the average of society)
- Second Kind (‘soft’ wealth, associated with femaleness):
  - Relative to You
  - Therefore we measure using subjective surveys which compare what you think about yourself with what others think about themselves

Potential Wealth

- There is wealth now and potential wealth i.e. That which you may have in the future
- There can be a significant disparity e.g. Most people take a hit to current wealth now in order to increase potential wealth by investing in study
- Potential wealth ALWAYS introduces **risk** because of opportunity cost and unpredictability of future
- Economics is all about optimising your potential utility (the benefit you gain from an activity)

Gross Domestic Product

- Two kinds of good: final and non-final
- GDP = all the money spent on final goods and services in a geographical region
- GDP is a reasonable measure of activity
- GDP per capita is a reasonable way of comparing economic activity between geographical regions
- However, **cash flow** is a much better estimator of how rich people feel
  - You can be sitting on a house worth a fortune yet still be as poor as a beggar

Estimating true wealthiness

- Genuine Progress Indicator (GPI) is GDP + “free” work – “bad” GDP
  - It is a better measure of “good” economic activity
- European Quality of Life Survey roughly matches GDP per capita in Europe. Not so much in Africa
- What about sustainability?
  - Sustainability is being able to carry on an activity in the future
  - It requires investment into the future

Economic Sustainability Definitions

- Productive capacity is called **capital**
- Value produced by productive capacity is called **revenue**
- If your revenue is greater than your costs you make a **profit**, otherwise you make a **loss**
- Anything which is sustainable MUST make a profit over time

Five types of Capital

1. Natural Capital
2. Social Capital
3. Human Capital
4. Manufactured Capital
5. Financial Capital

- All types of capital can produce revenue which is value to humans
- We adjust value-to-us of the capitals over time

Value Adjustments over Time

- Human capital is now (last 50 years) valued much more than manufactured or natural capital (before 1950s)
- This has seriously screwed with the natural order of balance
  - Wage rises => Global warming, wealth gap = climate change (see my dissertation on Blackboard)
- Natural Capital is accounted as being infinitely large, therefore one can infinitely convert natural capital into human revenue forever
  - This has led to ecosystem degradation

Sustainable Wealth

- Happy Planet Index (HPI) Sustainable Wealth Index = Happiness * Longevity / Ecological Footprint
- Main inhibitor of sustainable wealth is lack of quality information distribution
- If more people knew what was actually going on more of the time, there would be no recessions, no boom & bust cycles, no environmental destruction
- Therefore most of our problems stem from information asymmetries as exemplified by Enron

Stability being Wealth

- Predictability of future is considered very important in Western culture
- Huge amounts of resources are invested in maintaining stability. We covered:
  - General Equilibrium Theory (Demand & Supply approximately equal each other over time => no growth, no decline = no change)
  - Why? The Western cultural tradition of Cartesian Mechanism (the worldview that the Universe is like a complicated machine whose behaviour can be predicted)

The Normal Curve

- “Bell” shaped curve
- Simply means drawing a line as close to as many dots as possible
- Lots & lots of things very closely approximate the Normal Curve almost all of the time => they are predictable
- The fun stuff happens when suddenly a system stops behaving itself and starts doing something else

Price Inflation I

- When the price of all the goods in an entire segment of an economy rise together, you have a thing called price inflation
- This happened recently with food just before the recession began because the price of oil rose and half of all food is a direct conversion from oil (source: FAO)
  - There are roughly four loaves of bread in every litre of petrol => filling up your car might equal 160 loaves of bread
- Inflation is why you can't give everyone €10,000 and then everyone would be rich => money wealth is you relative to society

Price Inflation II

- Inflation is what killed off the Roman Empire => Hyper-inflation is always a very good indicator of imminent collapse e.g. Zimbabwe
- Western governments try to prevent inflation by raising interest rates to make borrowing more expensive, therefore people use less money
- Unfortunately there is a lag of six to twelve months which means they must predict the future
- You can only predict the future when a system is tending towards equilibrium (remember the Space Shuttle Challenger!)

Predicting the Future

- When a system suddenly moves from one form of predictable behaviour to another, it is called a **structural break**. What came before is **incommensurable** with what comes after
- In between the regularities/equilibria, it is called chaos = **black swan events**
- Tiny differences in initial conditions can become massive over time => amplification of volatility
- Remember the ants from the Butterfly Economics reading!

The Celtic Tiger I

- Most of the Celtic Tiger was really Ireland catching up with the rest of Western Europe by adopting typical European work practices
- The rest of the Celtic Tiger was Ireland importing a slice of the US economy via multinationals
- Nevertheless, Ireland achieved catch-up where other similar EU countries such as Portugal and Greece have not

The Celtic Tiger II

- The Seven Main Causes of the Celtic Tiger as according to Economists:

1. Labour Force Participation (more than half the cause!)
2. Demographics
3. Education
4. Foreign Direct Investment (mostly from US)
5. EU Subsidies
6. Wage Restraint/Social Partnership
7. Paid off the National Debt

The Economic History of Ireland I

- I argued that the Irish are unique in the world in tending to primarily see themselves as part of a greater whole, mostly likely due to the 80m Irish Diaspora living in the US (44m), Europe, Britain (6m), Canada (4m), Australia (2m), Argentina (0.5m), Puerto Rico, the Caribbean etc.
- In my opinion, this was the source of success in the Irish revolution and is also one of the primary sources of the Celtic Tiger (it is a source we share with Spain)
- => This is why Irish and Spain have caught up with the EU average while Portugal & Greece – both much more inward looking countries – have not

The Economic History of Ireland II

- You guys seemed to feel that we brought in the multinationals purely for jobs and money
- I argued that the we did so because we understood better than others how “the system” works and therefore how we could use it to our advantage
  - After all, how many countries do you think the US government would tolerate stealing annually US$2bn in tax revenues from them? It’s only because we’re Irish, and therefore they’re especially nice to us

The Economic History of Ireland III

- I further argued that the Irish have a particularly good understanding of Relativity and Holism, and for this fact the Irish are widely respected where other peoples and cultures are not
  - Admittedly, I took much of that from Tim Pat Coogan's Irish Diaspora book but also some from the writings of Garrett Fitzgerald and literary opinion on James Joyce
- Lastly, I argued that the main reason the Celtic Tiger didn't happen sooner was simply bad timing – we repeatedly missed the boat through no real fault of our own. We are a small fish in a much bigger pond

Thank you very much for having me as your lecturer!

Best of luck in the future!