EC1800 ECONOMICS

Lectures 19-21

Mr. Niall Douglas MA BSc
NDouglas@bismail.ucce.ie
Last Week’s Feedback Form Results

None!
Feedback So Far

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

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 1

- 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.
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 \textit{structural break}. What came before is \textit{incommensurable} with what comes after.
- In between the regularities/equilibria, it is called \textit{chaos} = \textit{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
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 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!