

2008 Economics in the Year of the Rat

Brent Wheeler Limited Newsletter Late Summer - 2008

Greetings after the best summer in 10 years

Best Rat Year note so far: "MMP is the only competition where you can come 4th and still get a gold medal" – (inevitably) Jane Clifton

The Curse of Expediency and Vote Catching in Election Years

It is a curse, a predictable one yes, but a curse nonetheless that in election years whatever will catch votes is generally tried by incumbent and aspirants alike. Thus we have seen plenty of baby kissing and posing for No Idea and the Woman's Weakly by the Opposition Parties already.

More sinister is the big threat posed by incumbent governments having the ability to try out their loony tunes via legislation as they struggle to maintain power. Even if they disappear at election time, we have to live with this law spawned of vote chasing until it is repealed – or more often given inertia – on a permanent basis.

One worrying threat at present is the idea that developers of residential housing should be "forced to provide lower income housing in their development projects." This idea is, of course, a great way to drive up housing costs through lowering supply of houses of all types as developers slow down the rate of development since other forms of investment will be more attractive for the same level of risk.

The way in which such idiocy hurts the poor is too obvious to labour. What is scary is that an incumbent government has the capacity to turn such ideas into law which new governments find hard to reverse. Just how hard is evidenced by the fact that in every western democracy the size of the statute book has grown over the centuries.

Plenty of new governments ousting the old know they ought to overturn crazy ideas but the incentives to do that are low. Sexy legislative programmes are not made up of lists of Acts to repeal.

Sanity in economic policy therefore demands scrutiny of incumbent governments' actions during run ups to elections. It is so much easier to throw out No Idea, the Woman's Weakly, turn off the TV and ignore startling insights into what a great person opposition aspirant x, y or z is, than it is to repeal legislative coercion.

Oh – and additional note – "Ditto" for grand spending programmes, which appear to be the big flavour this month.

Late Footnote on Dangers Posed by Dying Incumbents – Nationalise Northern Croc

If ever there was a dead man walking it has to be Gordon Brown. Shuffling would be more like it – and his ailing beached whale Labour Govt (protector of the proletariat and the little guy) is nationalising Northern Croc, calculate its value and "work out" compensation for the shareholders. The reasons this is lunacy on efficiency and equity grounds need no explanation.

Once nationalised though how tough is it going to be to sell this institutional monument to why incompetence is acceptable?

Useful Software

At the beginning of each year I am in the habit of recommending useful software – usually free – for the year.

The candidates this year are:

Winpatrol.... this free program (or at least the free version) runs all the time checking (unobtrusively – you would never know its working) for unnoticed additions to your disk, newly installed processes you weren't told about and a huge variety of other management tools – such as how to get of unwanted start up programmes. The most significant addition is protection against "key copying" software which tracks and copies your keystrokes and then reports them to malicious types – deadly in respect of internet financial transactions etc.

Get it here: www.winpatrol.com

Good Sync.... I have spoken of this before. It has been improved and continues to be update all the time. For synchronising files between machines, its most obvious application is in tying together laptops and desktops. Most usefully it syncs Outlook – mail, calendars etc and I find it easy to sync before leaving and upon return. Again free and very easy to use and also updates directories etc when you clean out the desktop (you do clean out the desktop – most of what we use is available somewhere, hoarding is a sign of technophobia and to be avoided).

Get it here: www.goodsync.com

JPG Optimise.... lets you cut down the size of those 1 meg or more photos that Aunty or whoever with the shiny new digital camera insists on sending at full size. The beauty of the programme is that it places two images in front of you so you can make the size / quality trade off before your eyes and get files down to a socially acceptable email size without great trouble.

Get it here: <http://www.photo-freeware.net/interactive-jpeg-optimizer.php>

Firstup.... my home web page for N.Z. people. Over 93 links to all sorts of information, not just finance and economics, but govt departments, universities, legislation and much more. Key features are very fast loading and all the sites you typically want to go to. Free and updated often. Set it as your home page.

Get it here: <http://www.brentwheeler.com/index.php?catid=70&blogid=15>

Late news – I am testing the beta 4 of Firefox 3 at present prior to its general release. It promises that it is 7 times faster than Internet Explorer – and on present experience that seems to be the case. Very robust, very fast and packed with features the lumbering competition has yet to catch up with. IE 7 needs to be kept since Bill G will only allow access to Windows updates via "his" platform (or does it really belong to the EU???), but Firefox is a worthy addition.

The Brief Rein of Monetary Policy 1980 – 2007

The one conclusion arising from the subprime crisis fallout which appears most obvious but which almost all commentators are hesitant to draw concerns the final proof of the impotence of monetary policy and the redundancy of central banks as a weapon of positive economic policy.

It seems clear that 23 years of gazing at the tea leaves and entrails of Central Bank Governors' speeches was, as suspected by even the faintly cynical when alone on a dark night, largely a waste of time. The idea that vague fiddling with a few basis points up and down was an important driver of the economic prosperity of those years seems to have been an illusion.

Such worthies as Greenspan were solving problems we didn't have. Now that there is a real problem, even violent alterations in the instruments which distort short term interest rates are having less and less effect.

Nor is the logic by which N.Z. (and latterly Australia) flies in a northerly direction while the rest of the OECD heads south to the point where something like 525 basis points separates us, immediately obvious.

The UK appears to have adopted central banking as a nationalisation tool which imposes risks taken by interest seeking investors on the remainder of the community.

It is not too harsh at all to conclude that monetary policy, like much government policy which is intrusive has the capacity to damage but not heal.

As usual the advice is the incredibly unsalable and unpalatable policy of "staying out" – but the testosterone requirement of following such a dictum seems well beyond us.

NZBR - Perspectives

For those who have not seen them, NZBR does a great job of scouring the media for useful comments (all short and straight to the point) on a plethora of subjects which impinge on public policy issues which are current in N.Z. These now number 154 documents.

Go to: <http://www.nzbr.org.nz/perspectives.asp?DocType=Perspectives>

[What is the aggregate cost of trying to beat the stock market?](#)

from [Marginal Revolution](#) the ever changing blog run by Tyler Cowen

"Investors collectively spend around \$100 billion a year trying to beat the stock market. That's the finding of a rigorous effort to measure the total costs of Americans' efforts to surpass the returns they would have received by simply holding a stock index fund. The huge price tag helps explain why beating a buy-and-hold strategy is so difficult.

You can think of this sum as the amount it costs to keep markets relatively efficient, a source of societal fraud and rent-seeking, a Nash equilibrium mixed strategy (no one tries to beat the market on every margin), a donation to the broader social good, or most properly all of the above."

Website

The website has had a significant number of additions since the last newsletter. Some areas are worth a couple of explanatory notes:

- The Instant Economics posts (<http://www.brentwheeler.com/instanteco.php>) provide the briefest introduction I can muster to economics (micro not macro –

no bank economist stuff here) and are best tackled in sequence. This category has various examples and case studies as well.

- In the history area in the categories British Empire and The East India Company are various discussions concerning the commercial character of various activity. In particular there is plenty to be learned about governance, incentives and institutional arrangements from a study of these topics, see <http://www.brentwheeler.com/history.php?catid=89&blogid=10>
- The AIAL saga has taken up some space in the Finance section recently (start here... <http://www.brentwheeler.com/finance.php?itemid=529>) because it raises so many questions:
 - o What is the role of a director under xenophobic value imperatives?
 - o Why is the Government still ruling by fiat?
 - o Why should local government use rates to be an investor?
 - o Does the word strategic mean anything other than "loses money"?
 - o How threatening is a Canadian teacher?
- It is arguably a pity that the long suffering shareholders and their board should have these questions debated in their living room as it were, but they are critical debates nonetheless.
- Other areas of interest include:
 - o Current tax debates <http://www.brentwheeler.com/index.php?itemid=511>
 - o Tax and housing impacts <http://www.brentwheeler.com/index.php?itemid=496>
- And a good deal on climate change in that category.

At present the website is scoring about 28,000 page views a month and still appears to be growing.

Books

My review of Tim Harford's latest is here <http://www.brentwheeler.com/index.php?itemid=510> . During his recent visit to N.Z. Tim was interviewed by Kim Hill – a slightly odd effort the greatest value of which was, I think, the way he unpicked the "romance" out of so many ideas we have. The one which seemed to bother Kim Hill most was killing off the idea that the vote of any one individual actually counts in an election. Once this fact is faced then the absolute rationality of the majority low ebb of interest in policy is both understandable and has to be seen as rational.

The Right Year

When I was 10 I read a book, of which I still have a copy entitled "The Year of the Rat", by a classic "is it fiction....?" WW II story of a British agent impersonating a German General so as to swipec various plans regarding D Day. This all goes splendidly with two twists. The only person he doesn't fool is the General's sporadic mistress. Ergo they fall in love. Twist two is the realisation by the narrator, on the last page, that the only person who could have known the detail and related the tale would have been the supposedly dead Martin Bormann. All very satisfying – available for loan from me to discerning readers.

Flash by Name Flash by Nature

Courtesy of a good friend I have "plunged" my way through about half a dozen Harry Flashman books in the last three months. George MacDonald Fraser, the author, unfortunately passed away last month but his works remain a unique monument not just to strong British humour but to a peculiarly idiosyncratic means for describing and explaining history.

The rise and rise of Flash is attributed to endless sequences of utter serendipity coupled to general cowardice (most of which is closer to most of us than would ever be wise to admit). Reading at the same time a "serious" tome on Clive of India however, I could not help but notice the incredible similarity – not on the cowardice front let alone as an unparalleled rake – but in terms of serendipity and pure randomness.

As to the history method – MacDonald faithfully sets out times, dates and places as one would expect but the interpretation of events is unashamedly taken from the perspective of Flash himself. Thus rather than making a (vain) attempt to be objective, the author simply leaves the reader to unpeel the Flash value set so as to form a judgment about the events, their meaning and their implication.

Last Word

Fault: One of my offences as distinct from yours, the latter being crimes.

Ambrose Bierce – The Devils Dictionary

Brent Wheeler

Brent Wheeler Limited

Company website: <http://www.brentwheeler.com>

The Boardroom Practice: <http://boardroompractice.co.nz>

Ph: (03) 466 7072

Mob: 027 495 0989