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DECEMBER 2008

FROM GAGS TO RICHES

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DYNAMATCH

CREDIT CARD FRAUD IN THE UK ROSE 26 PER CENT TO A RECORD TOTAL OF £505M LAST YEAR

POLICE, 2005

ECONOMIC THINKING

An age-old problem

Is our ageing population about to trigger an economic crisis? George Magnus looks at the demographic challenges of the future

THE THREE MEGA-TRENDS

Fertility rates have now reached the point where many countries, including most of Europe, are not producing enough children to keep the population stable (about 2.1 children per woman). Secondly, life expectancy is getting longer, thanks to improvements in healthcare, medical technology, diet and so on. Thirdly, these two trends have been accentuated by the post WW2 fertility increase. The so-called baby boomers, now in the 40-60-year-old age group, will soon inflate the retiree section of the population.

DECLINE AND FALL

These trends mean there will be a significant decline in the labour force (people aged 15-64) and a significant surge in the population aged 65 and over. As the supply of labour slows down, the growth rate of economies will be reduced. Other economic effects might include reduced living standards, as the smaller labour force has to support a bigger elderly population. Savings could fall sharply, which means equity and house prices could be quite vulnerable and most people know that the prospects for adequate pension income, be it private or from the state, are in great danger.

People worry about these long-term trends for good reason. Governments are being forced to consider ideas such as lifting the retirement age, reducing pension benefits, raising the overall tax burden and giving permission for the extension of private schemes. Corporate pension funds also face severe financial stress because their pension liabilities now exceed their assets significantly.

ARE THINGS REALLY THAT BAD?

In my view, economic and social success has brought us to this unique demographic challenge and we are presented with management and resourcing problems, not an economic crisis. And many of the alleged negative effects of ageing on economies also have important offsets.

For example, spending more on the more numerous elderly will be offset to some extent by spending less on the sparser young. The feared savings crisis may not happen if people have to work longer and face the prospect of living longer. And equity and house prices may not tumble as some envision in what I think will be a sustained period of rather low interest rates. There's no question that life is going to be very different and we'll all have to make adjustments – but talk of a crisis seems somewhat far-fetched. Glass of milk, anyone?

George Magnus is senior economic adviser at UBS Investment Bank

GETTY/DOUBLE MAGIC/GETTY

MY FIRST JOB

"I was in show business!"

Simon Woodroffe, founder of YO! Sushi, on his life as an assistant stage manager in fringe theatre

I started my first job in 1969. I hated public school and left when I was 16. I had two O levels and went to Cambridge Tech to do my A levels. I didn't do a lot of work there and then got into trouble with the law. I was 17 and felt I'd completely screwed up my life. I had no idea what I wanted to do.

To my surprise, I got a job at The Little Theatre Club on St Martin's Lane. As assistant stage manager I earned 10 shillings (50p) a day. Every morning I travelled up from Essex to do lunchtime theatre, then went straight home, as I had no money to spend.

It was a tiny fringe theatre with a black stage, an old curtain, a few lights, 30 rickety velvet seats and a small bar – it had the atmosphere of a drinking club. There were lots of "luvvies". I had to prepare the props, lay out the stage and do the lighting cues. I absolutely loved it. I was in show business!

One day, my father climbed the six flights of stairs to see the show. I kept peeping out from the curtains to see how things were going. Brigadier Woodroffe, President of the Indian Army Association, sat there with his bowler hat and umbrella. Afterwards, I went out to see him. He looked at me hard and said: "It's little better than a Soho strip joint!" I remember thinking: "How do you know that?"

Three months later, I got a job at Richmond Theatre as an assistant stage manager. I earned £8 a week, got a flat in London and my Equity card. From there, I went on to stage design at the Royal Court.

In my first job, I was simply trying to survive. Those early years taught me never to break the law: it's just not worth it. SHERIDAN WINN

DATA BOOK

THE AVERAGE CHILD BETWEEN SEVEN AND 16 RECEIVES POCKET MONEY OF £7.85 A WEEK.

SOURCE: MORI

ECONOMIC THINKING

All the rate moves

Interest rates are on the rise after falling to their lowest levels for nearly half a century. But why are they going up? And just how far will they go? Economist George Magnus consults his crystal ball

WHY ARE RATES RISING?

There are three interrelated reasons. First, inflation is beginning to increase again, now that the global economic expansion has become more robust.

Second, central banks are anxious that the explosion in household debt and in property prices, which their policies in recent years have nurtured and encouraged, could end up in a bust.

Third, central banks like to run monetary policy somewhere close to neutral, where interest rates neither stimulate nor restrain inflation and growth. However, no one knows exactly where neutral is and it's quite possible that they will drag their feet or go too far.

HOW HIGH CAN THEY GO?

Two factors could contribute to significantly higher increases in rates. First, the financial sector is better able to manage negative interest rate shocks. Central banks and financial institutions have continued to improve the quality of the information that highlights risk in loan assets and liability structures, and technology and deregulation have given banks the ability to manage those risks better.

Two examples are 'securitisation' and 'hedging' techniques. The former has allowed banks to parcel up risk and sell it on to investors, removing instability from the financial sector. The latter allows banks to use complex derivatives markets to protect themselves and their clients from negative interest rate shocks.

Second, because today's level of interest rates is still so low, modest rises might not bite much.

CAN WE AVOID A CRUNCH?

Not necessarily, as the impact of higher interest rates could start to affect property prices significantly. Asset prices in 21st century economies look to be far more important as determinants of spending than mortgage interest payments and debt servicing. And since consumer spending approximates to about 60 to 70 per cent of GDP in most economies, central banks know they have to handle this problem with care.

The surprise may be that rates won't have to rise that much because, thanks to the increased importance of asset prices, the economic sensitivities are now significantly greater than ever before.

George Magnus is senior economic adviser at UBS Investment Bank

MY FIRST JOB

Kelvin MacKenzie, chairman and chief executive of The Wireless Group

"I was 17 when I started as a junior reporter cum tea boy on the *South East London Mercury*, a local paper based in Deptford. It was 1964. My main role was to make the tea in the pre-fab that was our office, and to get the sausage and bacon rolls for the more senior journalists, who were held in considerable awe.

There were two things that made me slightly concerned when I started. First was a strange knocking sound on the roof. One day, our editor went up to investigate. Work stopped and we all went quiet as he tapped his way across the struts. Then there was a loud "Urghhh!" as his foot came through the plaster and there was just this shoe waggling away through the hole. I never felt the same about him as a figure of authority after that. I've often felt it was that moment that put me on the outside of the establishment.

The second episode was making the huge pot of tea in a dark, dingy room down below. Every time trucks passed, the building rattled. One evening, a load of the ceiling fell down – straight into the teapot. I had the choice of tipping it out or stirring in the dust and shards of paint. I decided I couldn't be bothered to start again – and stirred it in. Nobody died, but the chief reporter was absent the next day. I was often concerned I may have assisted in that.

At that time, I had a firm ambition to be night editor of the *Daily Express*. Some years later, I achieved this. It was a big moment in my life. It's very unusual to want to do something and to achieve it. These kinds of things are not given to us all. I was lucky." SHERIDAN WINN

JONATHAN RAINSFORD/BRETT RYDER

DID YOU KNOW?

GRANDPARENTS IN THE UK SPEND £4BN A YEAR TO HELP WITH THE COST OF RAISING THEIR GRANDCHILDREN

SOURCE: AMAZON.CO.UK HOME TO STAMFORD

ECONOMIC THINKING

Tourist economies

Travelling for pleasure continues to be a phenomenal growth business, says George Magnus. But who really gains from it?

ON THE RISE

Tourism accounts for about 12-13 per cent of world GNP and employs, directly and indirectly, about 150-200 million people. The tourist industry has chalked up a growth rate of about seven per cent per annum since 1950 and is still expected to grow at about five per cent per annum until 2020.

Over two thirds of all tourism spending occurs in OECD countries, although this proportion is gradually declining as Asian and other less developed country destinations become accessible and develop tourist infrastructure.

GOING PLACES

Ageing is contributing to the increase in demand. Early retirement, increased life expectancy, better health and more active lives for longer are all producing a sharp rise in tourist rates among 56-74 year olds. As the waves of retirees start to mount, travel firms catering for these clients should benefit.

Domestic tourism is still about three-to-four times greater than international tourism and tends to be particularly high in the US and Canada. Within Europe, Greek, Spanish, French and Italian citizens are more likely to holiday at home, while Belgians, Germans and Austrians are least likely to. Americans and Japanese travel the biggest distances.

HIGHS AND LOWS

The downsides of mass tourism have been well documented. With more extensive use of transportation comes more intensive energy use. And with the spread of commercial tourist resorts comes the risk of disruption to local communities, wage and price distortions in local economies and destruction of local environments.

There is a considerable plus side, however. As an economic activity, it has been in the 'fast lane', contributing significantly to employment and income growth. It has allowed a certain wealth transfer to take place between richer and poorer countries, as investments in hotels, utilities and even second homes have been made. It has generated income, used to protect and preserve national and cultural amenities, and it has led to the creation of infrastructure (transportation, ICT facilities, energy generation, pollution control, waste water management and so on) that benefits wider local communities.

Happy holidays!

George Magnus is senior economic adviser at UBS Investment Bank

MY FIRST JOB

"The river was wide and teeming with alligators!"

Leading management writer Charles Handy on his first job for Shell in Borneo

After Oxford, I joined Shell Oil in 1956 and was sent to Sarawak a year later. Although Borneo is the size of England, there were only 30 miles of road. We went everywhere by boat or small aircraft.

As Shell's representative, I wrote cheques for 80 per cent of the colony, whose income came from import duties. Oil was the biggest import and Shell had 98 per cent of the market. There were around one million people, but most lived up-country in the jungle. There were a couple of hundred expats. It was all very Somerset Maugham.

I always felt safe, although I saw shrunken heads hanging in the natives' long houses. I was told these came from the time of their grandparents. The drink they gave you didn't taste dangerous, but it was lethal.

The scariest thing was travelling the Rejang river by canoe and outboard motor. It was wide and teeming with alligators! It was also full of logs floating upright just below the surface of the water. If you hit one as you were speeding along, you'd be in the river with the alligators.

I'd also fly around in tiny planes, landing on strips in the jungle. I was a carefree bachelor in those days and felt immortal. There were places I went where they had never seen a white man.

I reported in to Singapore. There was no phone line, so I mailed occasional reports. Although I had 100 people working for me, I liked the job because I was independent.

Because I was left to get on with things, I was able to make mistakes and learn from them. SHERIDAN WINN

THE NEW ALCHEMIST, BY CHARLES HANDY, IS NOW AVAILABLE IN PAPERBACK

ECONOMIC THINKING

Continental drift

Africa has missed out on the global boom in trade for a multitude of reasons. George Magnus reports

THE EXPORT GAP

African economies are among the least integrated into the global economy. Despite having 11.5 per cent of the world's population, Africa accounts for only 1.6 per cent of world exports of goods and services. Although African economies are fairly open, with total trade rising as a share of GDP in the last 20 years to about 50 per cent, their share of world exports has fallen sharply from 1980's 6 per cent.

LACK OF INVESTMENT

Part of the reason for this is Africa's export structure. The bulk of its exports are agricultural commodities and primary products. The real prices of most of Africa's commodity exports have been in decline for a long time. And although African exports of manufactured goods – the dynamic element in world trade – have grown, they are relatively small and undiversified as yet. Simply put, there has been a dearth of investment in Africa that would have allowed it to diversify and modernise.

THE COST OF SUBSIDIES

Although domestic structural problems have meant that Africa has lost market share in cocoa, tea and coffee, for example, to other developing countries, a hostile trading environment in the developed world is also to blame. Rich countries spend $300bn or so each year on agricultural subsidies to local farmers. This is more than the accumulated external debt of the whole of Sub-Saharan Africa.

MORE RESTRICTIONS

The global trading environment provides for a variety of other trade restraints and distortions that have tended to favour richer economies. These include agricultural tariffs that are about three times those on manufactured goods, and non-tariff barriers including technical and labour standards and intellectual property restrictions. The overall effect of this panoply of measures is to sustain a weak pricing environment for food and raw materials but to raise the costs of essential imports, such as drugs and medicines.

Stronger trade performance is crucial for faster African development but it can only happen if both rich and poor countries accept the need for collective action rather than diktat, the removal of costly and onerous trade barriers, tolerance of higher food prices and an investment and trade strategy that will require reforms to succeed.

George Magnus is senior economic adviser at UBS Investment Bank

MY FIRST JOB

"The best cheap food was apple pie!"

Former ICI chairman Sir John Harvey-Jones missed the boat in his first job

I was nearly 17 when I passed out of Britannia Royal Naval College, Dartmouth, in 1941, young, simple and ingenuous. I was to join my ship as an officer and hoped it was bound for the East Indies, as I wanted to see my father. He worked in India and we hadn't met since 1936. We turned out to be sailing to the West Indies.

There were three of us young midshipmen. We alternated watch as we crossed the Atlantic in a convoy, carrying troops, heading for Halifax, Nova Scotia. On arrival, we were sent to join *HMS Diomede* in Bermuda, but when we got there, she had already sailed to Vancouver. Back we went to Halifax on a third ship. There we boarded the train to cross Canada. We each had a ticket but no food and we were running very short of money.

We soon discovered the best cheap food on the railway was apple pie. Whenever we stopped at a station, one of us would hare off and buy some. By the time I reached Vancouver, I felt I could not face pie again.

There were further difficulties. The *Diomede* would not be in port for a fortnight so we were told to go on holiday. Fine, except that we didn't know anybody or have any money. One friend remembered a cousin, so we landed on his family. At last we would have something to eat other than pie. But our hostess thought she would give us a real treat for our first night. And what do you think it was? Bloody pie!

I finally joined my ship in the Pacific, but it was not until 1949 that I saw my father again. I had done a lot of growing up by then.

SHERIDAN WINN

DATAWATCH
A NEW PRODUCT WAS LAUNCHED EVERY THREE-AND-A-HALF MINUTES LAST YEAR
SOURCE: MINTEL

ECONOMIC THINKING

On the up and up?

Interest rates are rising around the world. So what are the implications for global economic growth? By George Magnus

ALL RISE

By early March, the American Federal Reserve had already raised short-term interest rates to 4.5% and financial markets were discounting further rises to a little more than 5% by the summer. The European Central Bank had raised interest rates twice since late 2005 to 2.5%, with expectations that it would raise them to as much as 3.25% by year end. The Bank of Japan has kept short-term rates at zero since 2001 but there has been widespread speculation that it will begin to change its policy.

WHAT'S GOING ON?

First (and this is the good news), the world economy has started out in 2006 in pretty good shape. America has bounced back from the hurricane-inflicted setbacks late last year, Japan's economy has been surprisingly robust and, more significantly perhaps, the European economies, paced by Germany, have greatly strengthened and could register 2% or more growth this year. With this growth rebound, the US and European central banks have become more vigilant about house price and general price inflation risks.

Secondly, many investors have been borrowing virtually costless Japanese money and investing it almost anywhere else, including bonds, commodities and emerging markets. In the jargon, this is known as a 'carry trade' – carry being the difference between borrowing costs and your return. If Japanese interest rates are now expected to rise, the carry trade makes no sense and, as investors exit the trade, it could cause volatility in financial and currency markets.

Thirdly, with all major central banks raising interest rates, bond yields could rise further, even though higher inflation doesn't look to be a big risk. This and the unwinding of the carry trade and the expected softening in profits growth could combine to undermine equity markets.

REASONS TO BE FEARFUL?

The interest rate increases across the globe and the prospective shake-out from crowded investment trades and asset bubbles here and there certainly warrant some caution as regards asset risk in financial markets. However, it's also probable that interest rates will fall again after the central banks have completed their tightening tasks. In time, the cycle will move on, asset prices will adjust and the underlying economic case for so-called risk assets, such as equities, emerging markets and commodities, will probably endure.

George Magnus is senior economic adviser at UBS Investment Bank

CORBIS

MY FIRST JOB

"I was fed on scrag-ends of the worst sheep"

Simon Loftus, chairman of Adnams brewery and hotels, laboured Down Under in his first job

In 1967, aged 21, I left Cambridge and set off for a year's backpacking. I had all my money stolen in Pakistan, which was frightening, and eventually ended up in Perth. I had just enough money for one night's youth hostel accommodation, so I had to find a job the next day. I forged some agricultural experience and got work on a farm.

The farmer told me to sit in the open back of his truck. It was a bumpy 200-mile ride to the back of beyond in Western Australia. The roads were unsurfaced and I arrived covered in chalk dust. The farm was huge: a "paddock" could be 1,000 acres.

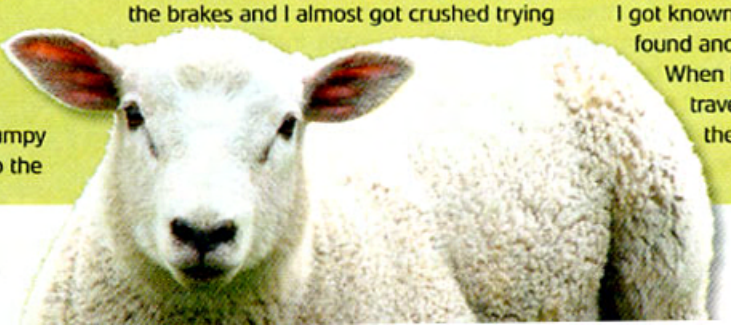
The farmer was a mean, miserable man and lived like a pauper. I was fed on the scrag-ends of the worst sheep.

I worked hard clearing land in a huge, cab-less bulldozer. The farmer hadn't fixed the brakes and I almost got crushed trying to hitch up a plough. There were other hazards: ducking falling trees and running for my life from wild bees' nests. Night ploughing was dreadful: I didn't know what I might hit. I sang to keep up my spirits.

The experience gave me a strong sense of self-reliance; the worst bit was eating awful, rank sheep. I'd come back from night work at 6am and be given my reheated supper.

I got known as a hard worker and quickly found another job with a good farmer. When I saved enough money, I travelled to Sydney, then made the sea voyage home.

SHERIDAN WINN



DATAWATCH

26 PER CENT OF BRITONS DREAM OF BECOMING A PROFESSIONAL SPORTSMAN OR WOMAN

Source: caterer.com

Card done by?

Under-used and auctioned off, gift cards aren't all they're cracked up to be, says Tim Harford

This Christmas, will you buy your loved ones presents that they may not like? Or will you slip them some cash instead? Neither option has much appeal. A gift of money, unless to a much younger relative, looks lazy and even patronising. Yet many people are incompetent present-buyers: I wrote on this page last year about economist Joel Waldfogel's famous discovery that the typical recipient of a gift costing £25 would not have paid £20 for it himself.

Perhaps it's not surprising, then, that gift cards have taken the western world by storm. (According to the economist Jennifer Pate Offenberg, they are now the most popular type of gift in the US.) These electronic versions of the traditional gift voucher appear to offer the best of both worlds – the flexibility of cash coupled with the thoughtfulness of a proper present.

But in my opinion gift cards are neither flexible nor thoughtful, and research from economists and business consultants seems to back me up.

The first thing to understand about gift cards is that many of them are never used. I once gave a gift card to a teenage niece so that she could buy books, DVDs or music at what struck me as a ubiquitous chainstore. I was wrong: she lived two hours from the nearest branch. My experience seems to be fairly typical: TowerGroup, a market research firm, estimates that about 10 per cent of the money spent on gift cards is never redeemed.

That sounds bad enough, but it underestimates the true waste involved, because of the 90 per cent of redeemed cards, many have been sold on through eBay. (How romantic!) Offenberg has studied the 'shadow' gift card market on eBay, and the story isn't pretty. The typical seller accepts a loss of 15 per cent on the face value of the card. That doesn't include the cost and inconvenience of selling it in the first place.

About 10 per cent of money spent on gift cards is never redeemed

If you must buy a gift card, Offenberg's research offers a few pointers as to how to do it. The most romantic gift cards – redeemable at lingerie or jewellery shops – are in fact the worst choices, selling at a discount of about 20 per cent. More prosaic choices, redeemable at Starbucks or Wal-Mart, sell for much closer to their face value.

But a gift of cash doesn't need to be resold at all, which raises the question of why more people don't just send cash with a note attached: "I intended for you to spend this money at Tiffany's, but please don't feel obliged."

Financial Times columnist Tim Harford is author of *The Logic of Life*

BRUCE MACKIE

MY FIRST JOB

James Averdieck, MD of Gü Chocolate Puds, on an early Alpine adventure

"Within a week I was promoted to pizza chef"

After a gap year, I went to Durham University to read Economics, aged 19. Meanwhile my identical twin brother, Ed, went to Meribel to get a job and do some skiing. The last restaurant he tried, at the top of the hill, took him on as *le plongeur* – the washer up.

A year later Ed came home, but I fancied a month's skiing in the Easter vacation. So I wrote to Monsieur Simon, Ed's former employer and the restaurant owner, and signed my letter 'Edouard'. As M Simon – the French equivalent of Basil Fawlty – had been impressed by my brother's work, I got the job.

As 'Monsieur Edouard', I began work and within a week was promoted to pizza chef. Nobody complained about my pizzas, but there were many complaints among the mainly English clientele about the generally terrible food. It was obvious the clients weren't happy, but Jean-Claude, the chef, didn't care – ski restaurants tend to have rolling clientele, so he got away with it. I spoke French and Monsieur Simon spoke no English, so I got caught in the middle translating the customers' complaints. I watered down the swearing, but I was honest. It taught me the importance of good product and good service.

For four weeks I'd skied all day, then worked from 6pm. At night, I made my way home by climbing in to a black bin bag and sliding down the piste. The ten-minute ride was fun, but I got the occasional sore bum.

SHERIDAN WINN

DATAWATCH

ALMOST ONE IN FOUR FULL-TIME BRITISH WORKERS NEVER TAKES A BREAK DURING WORK

Source: Legal & General

Not so fair

One man's discount can be another man's surcharge, says Tim Harford

I recently saw a blast from the past: an independent coffee shop trying to charge an extra 10p for a Fairtrade cappuccino. Fairtrade coffee is bought from certified coffee growers who get a premium, and a guaranteed minimum price. So it might seem reasonable for a coffee shop to ask its customers to pay more for a Fairtrade cappuccino.

It isn't, because there is very little coffee in a cappuccino – about seven grams of beans, or a quarter of an ounce. The Fairtrade premium, so important to a struggling grower in Kenya or Ecuador, is typically less than a penny when applied to such a small quantity of coffee. When a coffee shop charges 10p extra for a Fairtrade cappuccino, the grower gets his due, but most of the mark-up is profit for the shop.

That sounds cynical, if not surprising. But an alternative way of describing the same situation makes it seem much odder: the coffee shop is willing to slash prices and take a big hit to margins if you don't buy Fairtrade coffee. Profiteering is one thing, actively working against Fairtrade is another. Why does it happen?

The coffee shop – like many businesses – faces a dilemma. Raise prices and it loses some customers; cut prices and it loses margins. Sometimes, however, it is possible simultaneously to raise prices to price-insensitive customers while cutting prices to customers hungry for a bargain. Grown-up economists call this "price discrimination" – I call it "price targeting".

Outside the bazaar or the used car forecourt, customers rarely accept the idea of haggling for a special price. So businesses work out their own methods of price targeting. The discount for students and pensioners? You might just as well call it a surcharge for people with a job. Kids eat for free? Childless couples have cash to burn and can be offered a bit less for their money.

And Fairtrade coffee is a terrific marker for price sensitivity. Those willing to pay 10p extra for Fairtrade coffee are demonstrating that they don't mind paying a bit more.

The first rule of price targeting, though, is that it should never aggravate the customers. Economists started to point out what was happening, customers got cross, and the big chains now tend to offer Fairtrade coffee without any mark-up.

That makes sense: they have plenty of other ways to identify price-insensitive customers, which is something to think about next time you pay 30p for a couple of marshmallows on the side.

> It's something to think about the next time you pay 30p for a couple of marshmallows on the side

Tim Harford is a *Financial Times* columnist. His new book, *The Logic of Life*, is out this month

MY FIRST JOB

"The loo door malfunctioned and locked me in"

Scott Clark, CEO and co-founder of Tonic Life, on working the night shift

In 1987, aged 21, I was fresh out of university and wanted to be an on-air news journalist. As a stepping stone, I worked as a late night radio DJ at an easy listening station in Greeley, Colorado, the home of the world's largest meat packing plant. Mine was the graveyard shift, from 11pm to 7am. The unsocial hours were not the only downside. Friends taunted me for playing soothing, saccharine tunes – Whitney Houston and the like – while they listened to Aerosmith and Guns N' Roses.

This was my introduction to the world of media and the therapeutic and essential qualities of large doses of caffeine. To counteract the effects of all those sleep-inducing tunes, I drank a lot of Jolt Cola, which had twice the caffeine and the same amount of sugar as regular colas. I learned to stay interested and motivated through the dark hours and deal with tricky callers who requested songs such as 'Muskrat Love' and 'Afternoon Delight'.

Sometimes I was the only person in the station, which made bathroom breaks tricky. I became an expert at the 'triple play' – topping up my coffee, taking a listener's call and going to the loo during a three-minute track. It was fine until the loo door malfunctioned one night and locked me in for five minutes. Two minutes of dead air on the station seemed like an eternity, but at 2am I'm not sure anyone noticed.

Three months later, I got my career break and started working as a newsreader at the same radio station.

SHERIDAN WINN

DATAWATCH

CHOCOLATE DIGESTIVES ARE THE BISCUITS MOST LIKELY TO IMPRESS CLIENTS IN MEETINGS, FOLLOWED BY SHORTBREAD AND HOBNOBS

Source: Holiday Inn

GDP glee

The economic field of national income accounting is more interesting than you might imagine, says Tim Harford. Yes, really

Sir William Petty, an advisor to Oliver Cromwell and professor of anatomy at Oxford, seems an unlikely hero for economists. Yet nowadays his claim to fame is that he produced the first estimate of Britain's national income, which he put at £40m a year back in 1664, or about £4.5bn in today's money. The modern equivalent, UK gross domestic product (GDP), is a little larger: about £1,400bn.

Sir William was celebrated in his day, but the field he fathered, national income accounting, seems to be the most tedious in modern economics: back-office bean counting, far removed from eye-catching 'Freakonomics'-style research.

Yet the bean counters have been having their revenge. New ways of gathering data have gradually been transforming our understanding of how economies grow, and even changing the way we think about what really matters when they do.

One important step was taken by Alan Heston and Robert Summers, professors from the University of Pennsylvania's economics department. After the World Bank neglected to take up the task, Heston and Summers collected international data on prices all over the world, allowing a meaningful comparison, like-with-like, of rich countries with poor ones. The fruits of this labour were published in 1986 in the first Penn World Table.

The two decades since have seen an outpouring of studies based on the Penn data, trying to answer the question of what makes poor countries poor, and how they might get rich. One conclusion is that investment in roads, factories and even education doesn't seem to matter as much as was once thought. What really matters is that rich countries manage to use these investments well.

> One economist is developing happiness accounts – not so much bean-counting as smile-counting

With this in mind, the World Bank is now trying to count things that might matter for the business environment – for example, its Doing Business project, which has been running for five years, collects and broadcasts information about red tape in 178 countries, such as the number of days an entrepreneur needs to wait before legally establishing a new business. The project is intended to diagnose problems, but it is also a terrific spur to shamefaced bureaucrats.

Other statistics aim to show economic performance in a new light. The most respected is the Human Development Index, published since 1990, which emphasises literacy and health as well as economic growth, and has helped to change the focus of development agencies.

And the data gathering goes on: Nobel laureate Daniel Kahneman is trying to develop credible happiness accounts, based on time-weighted data on how people feel throughout the day. Not so much bean-counting as smile-counting – Sir William would have been astonished. ●

Tim Harford's latest book is *The Logic of Life*

MY FIRST JOB

"I surged out on to the Grand Canal"

Alastair Sawday, founder of Alastair Sawday Publishing, on causing chaos in Venice

In 1967, aged 20, I gained my law degree at Oxford and got a job as a tour guide with Grand Circle Travel. On one trip, I was charged with careering 35 elderly Americans around Europe on a hired bus via a pre-booked set of hotels. Other than that, I could do pretty well what I liked with them – and I did.

Ah, Venice! To have a free rein and a group of innocent people upon whom I could impress my wild enthusiasm for the city: that was sheer happiness. On one occasion, I hired a small boat, filled it with wine and excitable Americans and set off to find my way through the canals. I was used to boats and used to Venice, but not to a combination of the two.

Things went well until I surged out of a side canal on to the Grand Canal, causing two *vaporetti* – those clunky, metal ferries that for decades have plied, safely, up and down the Grand Canal – to collide.

Thankfully, no one was hurt and little damage was done. But I was fined by the only policeman on the Canal, and the next year a ban appeared in that otherwise intensely liberal city: foreigners could no longer hire boats.

I did the job for 18 years on and off, for two weeks a year, and had a lot of fun. I learned that it's easy to avoid the worst aspects of tourism by looking for interesting people doing interesting and worthwhile things. SHERIDAN WINN

ALAMY

DATAWATCH

76 PER CENT OF BRITISH MEN EXPECT TO GO THROUGH A MIDLIFE CRISIS COMPARED WITH JUST 24 PER CENT OF WOMEN

Source: Norwich Union

Matched for life

By finding ways to match pairs of kidney donations, economists really can save lives, says Tim Harford

Basic economics says that when supply can't keep up with demand, raising the price will solve the problem. It sounds sensible – but what if we're talking about a market for live human organs? Economic logic doesn't seem to be much use, because the mere idea that patients might pay others to donate organs is offensive to most people.

Our attitude to an organ market might change eventually. Life insurance, for example, was considered ghoulish until about 100 years ago, because it is a bet about when you're going to die. Nowadays it is regarded as something that any family breadwinner should take out.

But whatever some economists might wish, there is no prospect of a legal market for live kidney donations any time soon. One economist, Al Roth of Harvard, has therefore taken a more pragmatic approach to the problem. He realised that there is an untapped resource: many people on the waiting list for a kidney have a friend or relative who is willing to make the donation, but is unable to do so because the pair are biologically incompatible.

Professor Roth realised that while it is not socially acceptable to offer money for a kidney, it is acceptable to offer a kidney for another kidney. And so he looked for ways to match pairs of donations, with the aim of making the transplants more compatible. My friend donates to you; your friend donates to me, and both transplant operations are more likely to be successful.

> The UK has recently changed its laws to permit paired donations

This is an example of a "matching market", something on which Roth is the world's leading expert. He has spent much of his career designing them; for instance, matching student doctors with a favourite list of training hospitals with training hospitals, which have a favourite list of students. That turns out to be a simple problem – until you realise that many student doctors are in relationships with other student doctors, and that the system will be rejected if it splits up these couples.

Matching markets for kidneys can also be technically demanding. For example, an altruistic donor who declares herself willing to donate to anyone can trigger a little avalanche of transplants on a kidney exchange – but only if the exchange is well-designed.

The kidney exchange programme designed by Roth and fellow economists Tayfun Sonmez and Utku Unver in New England is really working: over 30 transplants had taken place by this summer. And the UK has now changed its own laws to permit paired donations. Economists are saving lives – sounds strange, doesn't it?

Financial Times columnist Tim Harford is author of *The Logic of Life*

MY FIRST JOB

Craig Sams, co-founder of Green & Black's, on an early break

"Delivering papers in a plaster cast was a nonstarter"

In 1958, aged 14, I worked as a paperboy for the *Omaha World Herald*. This wasn't so much a job, more my first business. With $40 borrowed from my parents, I bought myself a paper round. I bought my newspapers from the publishers, took them up to my territory in inner city Omaha – mostly run-down 1900s houses, within sniffing distance of the stockyards – and then delivered them to my customers on foot.

I soon mastered the art of rolling the papers into a throwable baton. My aim at people's porches was pretty good, so it doubled as practice for pitching softball. I collected the money: a decent profit of $30 per week on a round of 130 customers.

Then, disaster struck. I landed badly after a throw in karate practice and fractured my wrist. Delivering papers with a big plaster cast on my arm was a nonstarter, but I had a brainwave. I asked my friend Jimmy Wickencamp to do the deliveries, while I continued the sales and cash collection. Jimmy was happy: his territory was next to mine.

He'd turned 16 and had a 1949 Pontiac convertible to freight the papers up to my round. I paid him $15 a week as a 'logistics solutions' payment.

My wrist healed, the cast came off and I went back to delivering papers, but by then I'd had a taste of delegating. After a week, I contracted with Jimmy to deliver my papers again. Without knowing it, I'd discovered outsourcing and – just like that – become an entrepreneur.

SHERIDAN WINN

SCIENCE PHOTO LIBRARY

DATAWATCH
A NEW PRODUCT WAS LAUNCHED EVERY THREE-AND-A-HALF MINUTES LAST YEAR
SOURCE: MINTEL

ECONOMIC THINKING

On the up and up?

Interest rates are rising around the world. So what are the implications for global economic growth? By George Magnus

ALL RISE

By early March, the American Federal Reserve had already raised short-term interest rates to 4.5% and financial markets were discounting further rises to a little more than 5% by the summer. The European Central Bank had raised interest rates twice since late 2005 to 2.5%, with expectations that it would raise them to as much as 3.25% by year end. The Bank of Japan has kept short-term rates at zero since 2001 but there has been widespread speculation that it will begin to change its policy.

WHAT'S GOING ON?

First (and this is the good news), the world economy has started out in 2006 in pretty good shape. America has bounced back from the hurricane-inflicted setbacks late last year. Japan's economy has been surprisingly robust and, more significantly perhaps, the European economies, paced by Germany, have greatly strengthened and could register 2% or more growth this year. With this growth rebound, the US and European central banks have become more vigilant about house price and general price inflation risks.

Secondly, many investors have been borrowing virtually costless Japanese money and investing it almost anywhere else, including bonds, commodities and emerging markets. In the jargon, this is known as a 'carry trade' – carry being the difference between borrowing costs and your return. If Japanese interest rates are now expected to rise, the carry trade makes no sense and, as investors exit the trade, it could cause volatility in financial and currency markets.

Thirdly, with all major central banks raising interest rates, bond yields could rise further, even though higher inflation doesn't look to be a big risk. This and the unwinding of the carry trade and the expected softening in profits growth could combine to undermine equity markets.

REASONS TO BE FEARFUL?

The interest rate increases across the globe and the prospective shake-out from crowded investment trades and asset bubbles here and there certainly warrant some caution as regards asset risk in financial markets. However, it's also probable that interest rates will fall again after the central banks have completed their tightening tasks. In time, the cycle will move on, asset prices will adjust and the underlying economic case for so-called risk assets, such as equities, emerging markets and commodities, will probably endure.

George Magnus is senior economic adviser at UBS Investment Bank

MY FIRST JOB

"I was fed on scrag-ends of the worst sheep"

Simon Loftus, chairman of Adnams brewery and hotels, laboured Down Under in his first job

In 1967, aged 21, I left Cambridge and set off for a year's backpacking. I had all my money stolen in Pakistan, which was frightening, and eventually ended up in Perth. I had just enough money for one night's youth hostel accommodation, so I had to find a job the next day. I forged some agricultural experience and got work on a farm.

The farmer told me to sit in the open back of his truck. It was a bumpy 200-mile ride to the back of beyond in Western Australia. The roads were unsurfaced and I arrived covered in chalk dust. The farm was huge: a "paddock" could be 1,000 acres.

The farmer was a mean, miserable man and lived like a pauper. I was fed on the scrag-ends of the worst sheep.

I worked hard clearing land in a huge, cab-less bulldozer. The farmer hadn't fixed the brakes and I almost got crushed trying to hitch up a plough. There were other hazards: ducking falling trees and running for my life from wild bees' nests. Night ploughing was dreadful: I didn't know what I might hit. I sang to keep up my spirits.

The experience gave me a strong sense of self-reliance; the worst bit was eating awful, rank sheep. I'd come back from night work at 6am and be given my reheated supper.

I got known as a hard worker and quickly found another job with a good farmer. When I saved enough money, I travelled to Sydney, then made the sea voyage home.

SHERIDAN WINN

DATAWATCH
78 PER CENT OF WORKERS WOULD RATHER HAVE AN OFFICE TO THEMSELVES THAN WORK IN AN OPEN-PLAN AREA
SOURCE: OFFICE ANGELS

CRASH COURSE

MARK JONES
EDITORIAL DIRECTOR OF CEDAR COMMUNICATIONS

Om sweet om

Energy Management guru Jyotish Patel helps stressed executives to 'detox' their working lives. So how does meditation compare with a large whisky?

THERE ARE 30 OF US TALKING AT ONCE. Not talking, shrieking. We are walking around in circles in a basement room voicing all the frustrations and tensions of the working day that's just passed. We can't hear each other – we can barely hear ourselves. Josh brings the exercise to a merciful halt. "What did that feel like?" he asks us. "More or less like a normal meeting," says someone.

Jyotish Patel ('Josh') has brought us here to "stop, declutter, redesign". Qualified in the usual alternative arts – aromatherapy, Indian head massage, acupressure, wearing ponytails – his speciality is energy management. The idea is "to inspire corporations to adapt to their fluctuating environments in innovative, flexible and creative ways."

Well, cometh the bloody stressful, exhausted, washed-out hour, cometh the man. It's Monday evening. I flew in from Cyprus last night. Got to bed at 2.50am. Up at 6. Day of intense meetings. To do list decreases by one item and increases by seven. Come 6pm I am ready to adapt to my fluctuating environment with a very big glass of something 16-year-old and Scottish. The apologetic email is at the tip of my digits when I think – if I'm not a prime candidate for some Energy Management, who is?

So I schlep over to Covent Garden in a biting wind to be met by my old college chum, David Pearl, who has invited Josh over as part of the regular month-end programme of events at his corporate inspiration agency. With rather offensive cheeriness, Pearl announces that the only refreshments tonight will be nuts and water. The session is called "Detox your working life". The same, apparently, goes for the working body.

So we write down all our troubles and shout them out in the afore-described manner. Then we meditate. Time was when I'd have been fidgeting like a ten-year-old in church at this bit. But maybe my chakras have mellowed with age. Guided by Josh's words I'm soon floating over the WC2 postal district like a fakir of the old school. I am still in that post-hypnotic fug when Josh drags me to the front alongside a man in a suit and starts doing things with our wrists. He presses down on them and asks us to resist his pressure. Easy enough. Then he asks us to shake hands. Wrist test again – and my arm falls limply to my sides. Lesson one in the transfer of energy.

The action becomes more complicated as various volunteers have their energy meridians traced, interfered with and realigned. We locate various strategic points on our bodies and heads and press them hard. Slightly strange things happen. One by one, our bunch of exhausted execs begin to show signs of bright-eyed, bushy-tailedness. Are we all slightly hypnotised? Or, with practice, can we all learn some simple and non-toxic techniques for getting body and spirit to be equally willing at the same time?

Me, I believe in this energy thing. We've all been confronted by people – 'drains' is the technical term – who physically and mentally sap your energy by drawing you into their negative sphere of influence. We've all witnessed the effect a passionate soul can have on a dead meeting (and how they can lower your own energy levels). Josh had some handy techniques for dealing with them all. But will I give up the mid-morning coffee boost? No. Did I have a huge whisky when I got home? Absolutely.

Jyotish Patel: www.naturesrhythms.com;
David Pearl: www.davidpearlgroup.com

NEIL WEBB

WORDS TO THE WISE

No.8
"KNOW YOUR TERRITORY"

Anthony Willoughby, adventurer and MD of leadership development business, Territory Mapping, on earning his spear

I headed east in 1973 and lived in Japan. I had previously spent some time with the Masai tribe in Kenya and learned a lot from them. In 1982, I decided to go to the wildest place on earth, to see what I could learn from the indigenous people there. I went into the Papua New Guinea embassy in Tokyo and met Sir Joseph Nombri (below), the ambassador. He had complete confidence, total, natural authority and a great sense of humour.

Nombri was the tribal chief of Chimbu, in the highlands of New Guinea, and was the first person to leave his village. I headed off and spent time there. I learned that everybody knows how respect has to be earned: how you earn your spear and accept the responsibilities that come with it.

I returned to Tokyo and met with Sir Joseph. Within myself, I felt I could identify my own feathers, spear and shield. I asked him what was the most important thing in his life. "My territory," he replied. "It's my identity. We are taught to protect it from the age of three." Nombri and his people have complete clarity about their physical, emotional and spiritual territory.

We are aware of ours, but don't understand or use it. Ultimately, we have to define where we belong and how we can contribute. If we can't, we are lost. Nombri's words made me see that the whole world is my territory. That what is important is where we are going and how we can get there.

SHERIDAN WINN

LOGIC PROBLEM ANSWER
FROM PAGE 17
TWO MORE SQUARE PENS CAN BE POSITIONED AS SHOWN TO GIVE EACH LLAMA ITS OWN ENCLOSURE