



17th October 2012

How the West was lost

“Sir, I see Sir Mervyn King has signalled that he no longer believes that price stability should be the Bank of England’s primary objective. Perhaps if he had his gold-plated, index-linked pension replaced by a private sector annuity pension he would be more focused on reducing inflation.”

- Letter to the Financial Times from Mr Tony Clarke of Plymtree, Devon, 11th October 2012.

A thousand years ago, back in 1999, a handful of technologist writers created something called [The Cluetrain Manifesto](#). Cluetrain (as in “The clue train stopped there four times a day for ten years and they never took delivery” – said by a veteran of a fast-failing Fortune 500 company) was a reworking of Luther’s 95 Theses of 1517 – credited with sparking the Reformation. Cluetrain remains a strikingly prescient account of how the Internet will change Business As Usual. Among Cluetrain’s Theses:

- All markets are conversations; the Internet provides a means of connecting people and allowing them to engage and transact on a scale previously impossible;
- Hyperlinks subvert hierarchy; the ability of the Internet to link effortlessly to information outside the formal hierarchical structure of traditional business changes Business As Usual at a profound level;
- A metaphysical construct called ‘The Company’ is the only thing standing between internetworked markets and intranetworked employees; markets are getting more informed more quickly than companies are.

I read The Cluetrain Manifesto whilst working as a portfolio manager at Merrill Lynch Private Banking in London. It had a profound effect on me. (Ironically, I first read about Cluetrain in a research piece by Henry Blodget, Merrill’s internet analyst who was subsequently barred from the securities industry for life after being charged with securities fraud. Not that that has stopped him from making a living opining on all things Internet – that’s the power of the internet for you.) Separately, three things had combined to give me a somewhat jaundiced view of my then employer. Firstly, Charles Schwab and its discount brokerage model was eating Merrill’s breakfast. Secondly, in allowing its analysts *carte blanche* to promote their material on channels like CNBC (which the company didn’t provide for staff), Merrill Lynch, crucially in a business so heavily dependent upon information and proprietary information, had successfully managed to disintermediate its own employees – a fact that wasn’t lost on our clients. Thirdly, they had

managed to fire just about everybody in the intake I joined when I chose to transfer from Merrill's institutional fixed income business. This wasn't like working in an investment house – this was like the first day of the Battle of the Somme.

Fuelled with Dutch courage by The Cluetrain Manifesto, I elected to walk, and take my chances in the digital economy..

The culturally transformational power and potential of the Internet features strongly in Douglas Carswell's new book, 'The End of Politics – and the birth of iDemocracy'. Carswell is a Conservative MP, Eurosceptic and libertarian who also maintains a handy [blog](#). He is also deeply sceptical about central planning and the delusional role of intellectuals and supposed experts – people Friedrich Hayek described as 'second-hand dealers in ideas'. His thought experiment, which follows below, is notable:

Imagine you were an alien flying past planet Earth in AD 1000. Looking for signs of intelligent life, you would probably consider the Chinese empire on the far eastern part of the Asian land mass. There you would see large towns, canals, the invention of the compass and gunpowder. You might well expect China to be the dominant player in human affairs over the coming thousand years.

You might also spot some of the cities and temples produced by 5,000 years of civilisation in India.

If you flew over the north western part of the Eurasian land mass, on the other hand, you would see “only the occasional hovel amid thick forests, with a few baronial castles here and there”.

So how did Europe end up dominating much of the subsequent 1,000 years ? Why were the Chinese, in other words, not the first to circumnavigate the world ?

“The West rose, suggests the Australian historian E.L. Jones in his book 'The European Miracle', because Europe, unlike the empires of the Ming, the Mughals or the Ottomans, was never a unified state. Power remained dispersed and diffused.

“Western society was remarkably innovative and dynamic because – until remarkably recently – power was so dispersed and constrained, little could be organised by deliberate design.

“[Europe] lacked the social and political institutions that might have enabled one person or elite to manage to run Europe uniformly according to any particular design – despite the best efforts of the medieval papacy, the Habsburgs, Napoleon and the Kaiser.

“The West's lead in terms of scientific discovery, learning, navigation and technology are all consequences of the West's ascendancy, not causes of it.”

China, conversely, did not only fall behind Europe over the centuries to come. “China by the end of the millennium had fallen behind China at the beginning of the millennium”. Astonishingly, someone living in China in 1950 would have been poorer than someone living in China a thousand years beforehand.

'The End of Politics' has much in common with Guy Fraser-Sampson's similar *cri de coeur* for sanity in the management of our society and economy, 'The Mess We're In' (see our [Commentary](#) of the same title of 6th August). In other words, it's the politicians' fault – and ideally, the Internet will help in the process of slopping out the Augean stables.

Those stables are certainly filthy. It is disturbingly easy to get a profound sense of gloom from the analysis. Another example. What is the biggest purchase you will ever make in your lifetime? You will probably answer: a mortgage. Perhaps school or university fees. A car. A divorce.

The answer is: government.

For every \$100 that the average American worker earns, \$36 is spent on paying for the government - \$29 directly in payroll taxes and \$7 in various consumption taxes when the average American tries to spend the rest of his or her pay packet.

In Japan, the average worker pays for ¥33 of government for every ¥100 earned (I'm surprised it's not higher).

In Britain, the average worker buys £46 of government for every £100 earned.

In France and Germany, after spending €59 paying for government, the average worker has only €41 left to spend on themselves.

As we suggested in a recent commentary ([‘Think small’](#)), national salvation across Europe requires not bigger government but much, much smaller. But that would be to fight against the tide. According to Carswell, there are so many quangos in the UK (quasi-autonomous non-government organisations – even the vocabulary is inflationary) that nobody knows the true figure for sure – estimates vary between 766 and 1,148. We have even run out of letters of the alphabet to name them all. The letters FSA, for example, refer to both the Food Standards Agency and the Financial Services Authority, the City regulator so adept at overseeing our banks. In the words of Matt Ridley,

“Government has employed more and more ambitious elites able to capture a greater and greater share of societies’ income by interfering more and more in people’s lives as they give themselves more and more rules to enforce, until they kill the goose that lays the golden eggs.”

Decline set in, writes Carswell, as the mandarins attempted to do more and more by design.

“First, officials required farmers to produce in accordance with official decrees, rather than in response to what the market required. Then they insisted on trade with the outside world through quotas.

“Possessed of an almost celestial arrogance, the mandarins believed they could micro-engineer all human and social affairs. Cocooned in their remote administrative capital, they issued decrees that encouraged the emergence of corporate monopolies, while regulating ever more aspects of business and commerce. They debauched the currency, making worthless a system of money in pursuit of an imperial design.”

But Carswell is not talking about Ming China in the fifteenth century; he is referring to Europe today.

Lest the gloom seems overwhelming, ‘The End of Politics’ is surprisingly upbeat – provided the transition to smaller government (which is surely inevitable) ends up being more orderly than chaotic. As regards the pursuit of sound money and the role of the Internet in helping to facilitate that journey, I was intrigued to see that fellow MoneyWeek scribe Dominic Frisby is plotting a book, too. ‘Life After the State’ will be available as soon as it receives enough pledges from early

adopters. It's being crowd-sourced. I've already pledged, and I would encourage you to do likewise, which you can from [here](#). Vive la révolution !

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