in saving the insurance industry thousands of pounds and gallons of goodwill a year.

BILA members should have several 'extra' interests in the Academy. Not only will they recognise two former and very active Presidents who are also BAE Vice-Presidents, but they may also notice a common secretariat and the involvement of many BILA personalities. Many BILA members are well qualified to apply for membership and most are potential users or employers of Experts or Conciliators. 1990 has been dubbed the decade of Dispute Resolution. Both BILA and BAE are active in these fields and hopefully the insurance industry will take full advantage of the services on offer.

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# CHAIRMAN'S LUNCHEON

## HELD ON TUESDAY 5TH JUNE 1990 AT THE INSURANCE HALL OF THE CHARTERED INSURANCE INSTITUTE:
## "Perspectives on the Economy, Insurance and the Law" by Dr. David Bland, Director General of the Chartered Insurance Institute.

Karl Marx has a very great deal to answer for on his own account, as we all know. But he got his own economics from the British tradition, particularly the Scottish Anglican, Adam Smith and the English Jew, David Recardo. These, and other so called classic economists, tremendously influenced the way Marx's own thought was developed.

But Marx had his own very particular attitude to capitalism and his analysis based upon that attitude is fundamental. He reckoned that everybody in the capitalist system, both the capitalist and the proletarian was a victim of the forces that were endemic to capitalism.

Each capitalist had to maintain his position as a capitalist. That meant he had to compete effectively with every other capitalist in a world where the rate of profit must inevitably fall and competition become more vicious as the rate of profit per unit of output declined. This meant that no capitalist had any choice about whether or not he ground his worker harder. If he didn't, he would cease to be a capitalist and would join the increasing queue of the unemployed, seeking employment from other capitalists.

The only choice a capitalist had was to be as effective as possible in doing what capitalists do which was essentially inimical to the interests of labour. If any capitalist was in a terminal position of decay whereby his factory was almost incapable of competing then in order to preserve his position he would commit any personal fortune he might have in order to avoid going into the other infinitely worse social situation of becoming a proletarian.

Therefore, the capitalist who is next most likely to fall will commit his entire reserve to the unsuccessful battle against failure and will therefore be a totally ruined, despairing and angry proletarian when he joins that increasing majority of the population.

For the proletarian there is no choice, he or she is a prole and has no chance of ameliorating that condition under capitalism, which is, of course, a system of exclusively *material* production.

This is the message that Marx elucidated about capitalism in the 1840s, 50s and 60s and it was specifically in opposition to that case that the conventional non-marxist model, generally known as marginalism, was established in the year 1871.

Marginalism appears to have been thought of individually and separately. In this country, first in Manchester and then in London by Stanley Jevons, in the Austrian Empire by Menger, and in the French speaking Switzerland by Valcas. These three gentlemen each separately postulated an alternative universe to that of Marx. Indeed, they set up a system which was specifically the opposite of Marx's in which, far from being a victim of forces which nobody can control, the economic individual is a complete sovereign over his actions. Marginalism is based upon the idea of human decision taken in a completely free environment as being the ideal and achievable state of economic reality for each individual.

The human being, isolated from all external pressures, is assumed to be able to make choices about the value or *utility* of any pleasure or satisfaction. The person, the consumer, the decision taker, assesses the relative merits of infinitesimally small quanta of a thing that came to be called a good. A good is a physical thing, which provides utility to those who recognise it impinging upon their sovereign independent personalities.

The productive side of the capitalist economy is seen by marginalists merely as the mechanism which serves those decision taking consumers. Marginalism and Marxism have been fundamentally opposed to each other for about a hundred and twenty years. And of course they still are opposed to each other today. We see all around us evidence of the decay of those economies which have depended upon or more precisely have been dictated to by Marxists. But we also have evidence of great uncertainty about the validity of those assumptions that inform policy in the democratic economies where marginalist economics prevails in the universities and schools.

The real world has never been like the system that is described by marginalist economics. Its only claim on the citizens of a free country is the fact that it is intellectually opposed to marxism. This innately negative justification for an intellectual system has only a very limited appeal. Consequently a significant proportion of intellectuals in the free countries, for over a century, have chosen to assume that Marx must have been right.

While Marx himself had been willing, at least on rare occasions, to admit that Britain might somehow avoid a murderous revolution of the kind that was central to his prediction for the future of capitalism; once he was safely dead both his humanity and his intellectual reservations could be forgotten.

His tedious and devoted interpreter Engels cobbled together and invented new fragments of Marx's scribblings to create an extra "final volume" of *Das Kapital* in which the dead author was made to say that financial instruments were "mere phenomena" without any concrete substance or permanent value.

Any Financial Services trade makes nonsense of the Marxists' Labour Theory of Value, so Marxists have had to assume that financial products are themselves nonsense. But the economists who set up the marginalist theory in opposition to Marxism could not accommodate financial services in their basic model either. Neither marxism nor marginalism has ever explained insurance products or prices.

The majority of people in this room will have been required to study Economics to some level at some time. The syllabus they studied can in almost every instance be stripped down to four separate things:

(1) mere jargon, whose function is to give shorthand ways of describing objects such as "equities" or situations like "economies of scale".

(2) description of economic realities (e.g. the consolidation of the European Communities) which never relate directly to the theoretical aspects of the course;

(3) marginalist microeconomics, which shows how a widget-maker operating under perfect competition with perfect foresight and complete knowledge would be compelled to sell that number of units of output where income equals the marginal cost of production of the final unit sold;

(4) macroeconomics: this is the part of the subject that gave rise to the famous dialogue, when a professor of economics was accused of setting the same examination questions every year. He replied "of course, I do: the answers change every year".

As an undergraduate, I was taught a macroeconomics that assumed that Keynesianism was an exact science. Keynes himself, in a phrase that most here will recall, had commented that most politicians were, in making policy, in thrall to the ideas of some dead economist.

Ironically, then Britain in the nineteen fifties, sixties and seventies was fed its economic policy by a generation of professors who openly claimed to be the interpreters of the dead Keynes and the politicians acted as the professors dictated.

This Keynesianism asserted that the government must spend itself, and encourage others to spend, enough total National Income to provide a market for each widget maker whose activities were necessary to create full employment. Implementation of this policy regularly created inflation, and endangered credit to support both a speculative boom (often in property) and an excess of imports that caused a balance of payments crisis.

This payments problem recurringly turned the government's and the Bank of England's attention to realities, facts of life that neither textbook macroeconomics nor microeconomics provided for. The authorities regularly stopped (or dramatically reduced) the inflationary process, to preserve the balance of payments and with it the value of the pound.

Then, as soon as possible, the macroeconomic dogma was reinstated and inflation was set free again. Each "stop" was followed by a "go" and then another crisis, and a stop.

By the middle seventies, the sheer silliness of this iterative process was clear. A few politicians therefore took up the claim of some economists that they had an alternative macroeconomic theory to offer. This was called first just monetarism, then it split into factions such as "international monetarism" and "new classical economics" as the original policy prescriptions proved to be ineffective.

High interest rates do not permanently change the expectations of human beings. The Monetarists use the same general categories as Keynesians, differently. They argue against inflation, rather than for it, but the evidence of this country over the past decade shows virtually uncontrolled monetary and credit expansion, and incomes rising at a rate (on average) of two per cent more than price inflation in each year. Secondary picketing is in suspension, but the unions retain their loyalists and their latent power.

The policy of high interest rates has led to a dramatic decline in industrial capacity and a horrifying abstention from industrial investment. It was, is, and will remain a disaster. Fortunately its days are numbered.

The Single European Act, and the entry of the U.K. to the European Monetary System, will smash the sham of economic policy that has done this country so much harm for the past decade.

If this country is more lucky than it deserves to be, and I still believe in that luck, we will get into the EMS in time to save the London Market. We may recover our reputation by getting located here in London the central bank of the new Europe.

The sublime stupidity of Nigel Lawson's attempt to placate Mrs Thatcher with his competitive currencies scheme is now behind us.

We have the chance of London being the capital of a single currency.

With that step, the problems that have dominated the British economy since 1871 will disappear.

The value of sterling will be irrelevant, because the ecu will have superseded it.

The British balance of payments, within the EC, will be of no more importance than the balance of payments of the State of Maine within the U.S.A.

The London Insurance Market will be a successful business centre within the E.C., *for itself.*

The role of insurance in supporting the British balance of payments, not just since the second world war, *or* even the Napoleonic War, but the war of Jenkins'Ear (if not before then) has been used by the industry as part of its very weak self promotion: but envy and ignorance are still common.

European integration will make it obsolete for the London market to think in British terms at all, except in the marketing of products to the British public by those portions of the industry who engage in that activity.

Like all entrants to the insurance industry, I have been amazed at the excessive modesty of British insurers and brokers about their business.

Almost everybody seems to have come into insurance by accident or default, or even in despair at not getting another job in a superficially more glamorous sector of the economy.

Almost everybody feels a need to explain that it really is interesting to be in insurance.

I mention this set of facts at this point in my talk because I think it is the nub of the argument that I want to begin to build up in the few minutes that remain to me.

I believe that a key reason for the insurance industry having such a low key approach to itself in this country is because Marxism (and its marginalist antipodes) have together generated an intellectual environment that simply does not comprehend the financial services.

Britain has only survived down to the day when (belatedly) it can slip into Europe *because of its insurance industry.*

Except when a textbook gives a list of Britain's invisible earnings, or is addressed specifically at CII students, insurance does not feature in a basic economics course at all. There are just jargon, description, absurd microeconomics and macroeconomics that don't work.

I believe that in coming to the CII, I have a new platform to make a very simple point. It is not a new point and I know that my three distinguished living predecessors have said similar things in a much more gentlemanly way.

> Economics is bunk.
> Some jargon has a use, as jargon only.

Some of the description is mere description, so it is truth that would perhaps be of more use if a sensible theory expounded on it.
But the theory is bunk.

The extent of this problem was brought home to me in a very painful way in recent weeks. The CII College has abandoned a management training programme. One of the reasons - I stress, *only* one of the reasons - was that our partner, a very well known management educator, failed to meet their promise to provide insurance examples: the widget syndrome was unacceptable to bright rising managers in our industry (quite rightly) and we aborted the programme.

The impact of economics on insurance, in my view, has been as a major component of the inferiority complex for which the insurance industry is notorious in this country.

Economics, Marxist or Marginal, Keynesian or monetarist, is false doctrine that simply cannot cope with these products; because their crude models cannot cope with these products; there is a tendency to degenerate them.

Combine this fact with the Marxist political assumption that these "mere phenomena" will be swept away in the revolution that must inevitably follow the collapse of capitalism.

There has been a whole social mood against the insurance industry of which the economics input is just one component. Sociology and politics have done their bit, as well.

I think that the time has come to boot out old ideas, marxist *and* marginalist, and to have an economics that recognises the facts of life. Life as *we* know it.

The collapse in corruption of the Soviet Union and of so many territories that were well managed colonies only a generation ago is proof of the irrelevance of Marxism.

The collapse of Keynesianism in inflation, and of monetarism in continued inflation, combined with industrial decay surely proves the failure of macroeconomics.

The proportion of the economy that currently sells widgets at marginal cost is the best guide as to how much of microeconomics is worth taking seriously.

You, Ladies and Gentlemen of the British Insurance Law Association are the starting point for a real economics.

You are the people who define immaterial things that really exist, that form so much of our wealth and underpin the rest of our wealth - insurance products right across the field from life products through liability to the insurance of physical entities.

These *are* not dispensible, imaginary phenomena. They are the basis of wealth in the modern world.

Risk to that wealth must be assessed, managed and insured. But even more important is the definition of that wealth itself.

Your speciality of insurance law is not some peripheral fact, some candy floss that makes a little for the balance of payments.

The value of every home, limb or concept depends on you. You *define* the thing, your colleagues in other specialisms of the industry assess its price and the risks to the defined state in defined ownership that you establish.

An entire new Economics starts from here. In the new Europe, the central place of the London Insurance Market should not be inhibited by residual feelings of a need to apologise because the old economics was too crass to cope with financial products.

Next month, insurance has its own "1992": the free market is only a few days away.

*With* your enterprise and initiative, please take into our new country an unbounded self-confidence in your own role in life. Don't let dead economists dog your steps, neither marxists nor their absurd self-conscious opponents, the marginalists. Without that garbage in your knapsacks, there'll be all the more room for new business.