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On growing the pie, not eating it

"Former FBI Director James Comey reportedly once tried to blend into the curtains in the White House Blue Room in order to avoid being approached by President Trump.. Comey, who is 6 feet 8 inches tall, was wearing a dark blue suit and stood near the similarly colored curtains in the back of the room.."

- Report from The Hill.

Scientists may have discovered a parallel universe but anybody following the UK general election campaign will be familiar with one closer to home. It is inhabited by the less contemplative members of the electorate who assume that they can vote themselves privileges in perpetuity without consequences. It is now apparently heresy to suggest that elderly people should have to contribute towards the cost of their own social care. This is one of the key problems with welfarism – because it only runs in one, expansionist, way, it ultimately risks national bankruptcy. All must have bread, and circuses. And pies. Merryn Somerset Webb for the *Financial Times* was an almost unique voice of sweet reason in her defence of Theresa May's care proposals last weekend:

"It is a simple solution to the ongoing problem of the cost of care. It is a neat political way to marry individual responsibility and state support. It is also an exposure of the biggest lie in British politics: that national insurance is a separate levy which is set aside to pay for this kind of thing. It isn't. Anyone who starts a conversation about social care with "I've paid in all my life" needs to get this. And finally it is a happy recognition that while there aren't many problems in the UK to which high house prices are the obvious answer, there are some. Financing social care is one of them."

These proposals were met, of course, with hysteria. One expects hysteria from the mostly Marxist columnists of the *Financial Times*. And from a Marxist shadow Chancellor. But for those whose political views weren't conclusively shaped from within Che Guevara t-shirts at the age of thirteen, the backlash against the Conservatives' welfare reforms carried the same smack of unthinking entitlement that helped our national finances off the rails in the first place. Inevitably for a soundbite age, somebody quickly coined the phrase "dementia tax". But Merryn was ahead of them:

"That's clever, but also nonsense. A tax is a cash contribution to the state's coffers, taken directly from your income or tacked on to the cost of something you buy. It is money to be pooled to finance the needs of the population as a whole. This instead is simply a system that helps you pay for your own needs with your own money. Start adding "tax" to the description of everything you pay for out of your net income and life quickly gets a bit silly. You pay for your own pants rather than contributing to a hypothecated underwear fund on an annual basis. But do you feel peeved about the "knicker tax" every time you go into M&S? I suspect not."

One of the best analysts of the unintended consequences of welfarism is the US economist Thomas Sowell. Here he explains the distinction between official poverty and the real thing:

"Poverty" once had some concrete meaning — not enough food to eat or not enough clothing or shelter to protect you from the elements, for example. Today it means whatever the government bureaucrats, who set up the statistical criteria, choose to make it mean. And they have every incentive to define poverty in a way that includes enough people to justify welfare state spending. Most Americans with incomes below the official poverty level have air-conditioning, television, own a motor vehicle and, far from being hungry, are more likely than other Americans to be overweight. But an arbitrary definition of words and numbers gives them access to the taxpayers' money."

One of the most insightful observations from the otherwise mostly dismal world of economic analysis ? ***People respond to incentives***; ***everything else is detail***. Sowell again:

"Even when they have the potential to become productive members of society, the loss of welfare state benefits if they try to do so is an implicit "tax" on what they would earn that often exceeds the explicit tax on a millionaire. If increasing your income by $10,000 would cause you to lose $15,000 in government benefits, would you do it? In short, the political left's welfare state makes poverty more comfortable, while penalizing attempts to rise out of poverty."

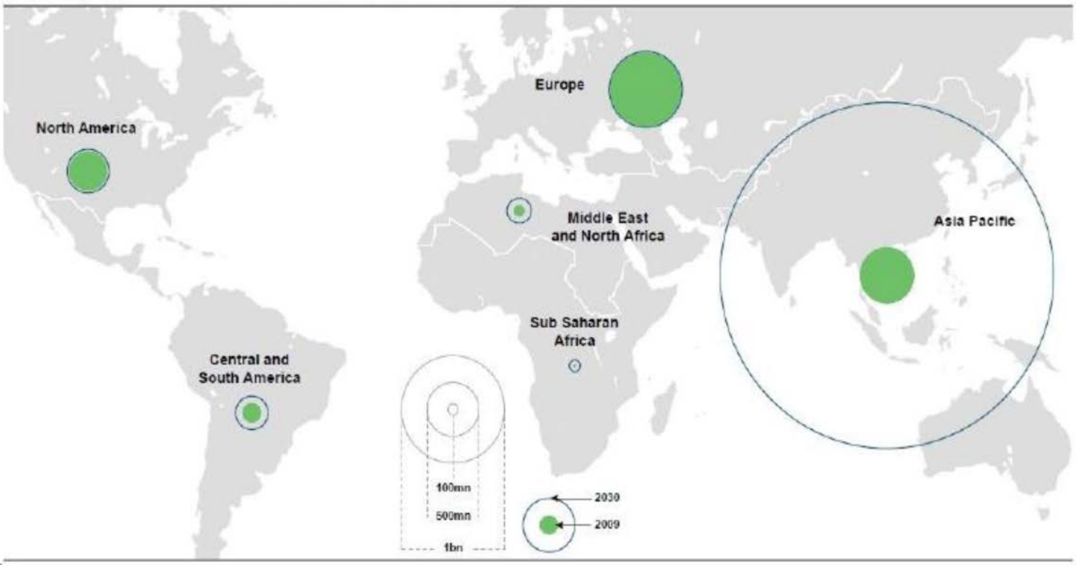
Sowell concludes with an observation about the true beneficiaries of the welfare state:

"…the left's agenda is a disservice to [the poor], as well as to society. …The agenda of the left — promoting envy and a sense of grievance, while making loud demands for "rights" to what other people have produced — is a pattern that has been widespread in countries around the world. This agenda has seldom lifted the poor out of poverty. But it has lifted the left to positions of power and self-aggrandizement, while they promote policies with socially counterproductive results."

What ***has*** lifted the poor out of poverty is the free market. Anybody looking to maximise their investment returns over the medium term would be well advised to see where it is most vigorously flourishing. (Clue: it isn't the EU.) One of these more promising regions is Asia writ large, and within it, ASEAN, the Association of Southeast Asian Nations.

One of our favourite maps is the one below, which shows OECD forecasts of middle class populations throughout the world by 2030. The solid green circle represents the size of the current middle class. Around each is a wider blue circumference, indicating the size of that middle class over the next 20 years or so. The US and Europe have a middle class that barely grows, indicative of mature (and low growth) economies. But just take a look at Asia.

Growth of the Asian 'middle class' dominates the next 20 years: 500million to 3billion



Source: OECD forecasts

As the fund manager James Hay puts it, ASEAN's consumer story "has decades to run.." – this is a region home to 670 million people, all of whom "want a house, two cars and high cholesterol just like the rest of us". The region's stock markets also have a lower valuation than those of the developed world, higher growth prospects, and markedly lower levels of debt. These people are hungry in the best sense of the word – they are willing and able to work, and work hard, to better themselves and their families. While an ageing, introspective and increasingly irrelevant West debates fussily about how to divide up and consume the pie, fast emerging Asia is working on how to grow the pie instead. There are no prizes for guessing where the majority of our equity investments are located.

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