

The David Hume Institute

**ARGUMENT AMONGST FRIENDS:
TWENTY FIVE YEARS OF SCEPTICAL ENQUIRY**

Edited by Nick Kuenssberg

The David Hume Institute
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The David Hume Institute also acknowledges with gratitude the cartoons by David Morrow which were commissioned for this publication.

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Cartoons by *David Morrow* and the late *Emilio Coia*

Editor's Foreword

Nick Kuenssberg

The Scottish Enlightenment was a remarkable phenomenon, marked by the emergence of David Hume and Adam Smith, who can justifiably be described as among the greatest minds of modern times. It was out of a deep respect for David Hume and his sceptical enquiry that the Institute was born in 1985.

The Institute, independent of government, has considered a wide range of policy issues linking economics and law during the period 1985-2010 with the overall thrust geared to the United Kingdom and its governance. While located in Edinburgh with an obvious focus on the Scottish scene, the Institute has not restricted debate to the Scottish environment, though clearly recent political devolution developments have suggested a greater emphasis on the Scottish institutional structure.

The concept of this volume is to mark the first twenty five years of contributions by the David Hume Institute and to celebrate the tercentenary of the birth of David Hume in 1711. It aims to provide food for thought, a concise record of the Institute's activities and of the individuals involved, a souvenir for past and future contributors and a platform for future development and funding.

The foundation of the Institute is recounted and the contents include a series of specially commissioned articles describing its history and development, exploring the impact of a range of issues on society at large. These range from legal theory and intellectual property to higher education and a comparison of systems of public service delivery; they include a discussion of trust in the post financial crisis world, the advantages of small states, the character of the Scottish Parliament and consideration of open borders finishing with musings on the physical heritage of David Hume. It is hoped that these essays demonstrate that the Institute fills an important space in Scottish debate, providing a relevant, rare and safe place for 'argument amongst friends'.

I recognise the support of the Chairman, Director and Trustees. In attempting such a work there is clearly a need for a wide range of contributors and I am extremely grateful indeed to all those who have responded so generously to the invitation. I acknowledge their excellent work and apologise if any feel ill-treated in terms of omission or commission. However there is inevitably a need for an editor who must bear sole responsibility for both devising the work and committing to the final text. At the same time I must stress that any views expressed in these pages are those of the author and not of the Institute which, as a charity, has no collective view.

Nick Kuenssberg OBE

Former Trustee of The David Hume Institute

Honorary Professor, University of Glasgow

Former Director, Coats Viyella, Scottish Power & Standard Life

The Chairman's View



Ian Byatt

David Hume was born in 1711. Scotland needs him as much now as it did three hundred years ago. We continue to live in interesting times and Scotland's place in the world continues to change – within the UK, within Europe and globally.

We cannot resurrect Hume, but the Institute that proudly bears his name aims to encourage the application of his empirical, and suitably sceptical, approach to the issues of public policy facing Scotland in the twenty-first century. Such policy needs to be well based, through initial analysis and discussion, and through subsequent monitoring and evaluation.

The David Hume Institute currently plans to be more a 'think-platform' than a 'think-tank'. Our aim is not to advocate particular policies but to provide a space where they can be discussed in the inquiring and sceptical style of Hume – bringing together different kinds of expertise and experience, involving practitioners as well as analysts

We continue to specialise in matters of economics and law and their public policy interactions in a free society. The Trustees readily acknowledge the importance of democratic government; efficient and effective markets are also needed to achieve good outcomes for the Scottish people.

Sir Ian Byatt

Chairman of The David Hume Institute
Chairman of Water Industry Commission for Scotland
Former Director General of Water Services (Ofwat)
Former Deputy Chief Economic Adviser, HM Treasury

A Vision of the Institute

Alan Peacock



On 30 December 1983 Alan Peacock, then Vice-Chancellor and Professor of Economics at the University of Buckingham, wrote a paper proposing the foundation of an institute of economics and law which was to become The David Hume Institute. The original document, which provided both the vision and an effective framework, is reproduced here with minor amendments in the interest of space.

1 Background

Although there has been a proliferation of research institutes in economics and related studies set up in recent years both inside and outside universities – the much publicised Centre for Economic Policy Research being the latest example – there are three good reasons for seeking to establish another one.

The first is that almost without exception these institutes are to a major extent dependent on direct government funding. This is not to take a conspiratorial view of their activities but merely to draw attention to the fact that their activities become concentrated on the immediate concerns of government departments. These concerns may require, not unreasonably, that the research findings cannot be published without the permission of the relevant government department.

The second is that their activities are concentrated in London, which is a reflection of their dependence on government sources of finance and information. The process of concentration has gone so far that more ‘libertarian’ research institutes, notably the Institute of Economic Affairs (IEA) and the Adam Smith Institute, regard it as essential to site themselves within easy reach of the sources of political power, though calling upon talent from universities and individuals widely dispersed throughout the UK and other countries.

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This concentration sometimes develops a metropolitan perspective of economic events and a tendency to pursue 'fashionable' subjects and techniques. The obverse of this situation is a belief inculcated in supporters of economic research that the rationale of support for extra-metropolitan investigation lies in the researchers' interest and expertise only in local or regional problems. There are exceptions, of course, but one hazards the guess that their survival powers depend on how long a particular personality with an established reputation is able to resist the lure of the south, and how far he or she can retain young and outstanding staff who are similarly tempted.

The third is that the growth of economic research in relation to policy problems has been notably lop-sided. It is only within recent years that young, talented economists have found it professionally respectable and profitable to concentrate on the development of micro-economics and its application to policy problems. The lines of enquiry opened up by micro-economics lead to attempts to solve very difficult problems which require much more 'roundaboutness' of production of research results, particularly if analysis is to be backed up by careful empirical enquiry into the activities of firms and other economics agents. There is also strong emotional resistance to the application of micro-economic analysis to non-profit institutions, at least in the UK. Furthermore, the policy implications frequently point towards the futility of government policies directed at controlling or influencing particular markets. Such conclusions appear to threaten the job opportunities of a large proportion of the working population as well as those of economists who play a role devising interventionist instruments. It is no wonder that until recently, young economists saw their future in the excitements and quick returns which appeared to be derived from macro-economic model building and the associated crystal-gazing.

In connection with this third point, it is to the great credit of the IEA and its supporters that policy makers have become much more mindful of the importance of market forces. At the same time, having, as it were, won the intellectual battle, the IEA has realised that it must re-assess its function. While there is never likely to be a dearth of problems for study using micro-economic analysis, the 'technique of thinking' associated with the IEA has now been applied to an important range of social problems by their Social Affairs Unit.

This perception of its own 'market position' is worth bearing in mind in seeking to promote a complementary venture which will now be described.

2 The proposed Hume Institute

The proposal put forward in this memorandum is designed to fill a gap in the market for policy research which has been identified in Section 1 above. There is a definite place for an institute of economic policy research like the IEA which is genuinely independent of government support though anxious to put forward

proposals for consideration by governments of all persuasions, which exploits talent and encourages expression of opinions on national and international economic issues which is not metropolitan-based, and which has a firm intellectual foundation in the study of the links between economics and law.

The intellectual foundation is most important and requires further explanation. The spur to the development of micro-economic analysis has been the supposed 'failure' of markets to deliver important goods and services which the community may desire and to avoid undesirable side-effects such as pollution. The conventional wisdom has been to seek solutions to these problems by the extension of government interference in markets. Apart from the obvious and important philosophical objections to such interference which are often reflected in jurisprudence, there is much evidence to show that such interference does not achieve its object. 'Market failure' is often increased and not decreased by government intervention for as legislation designed to correct market failure becomes more extensive and complicated, compliance costs may become onerous and regulators and regulated become locked in a wasteful bargaining process which absorbs the energies of intelligent and able people who might be better engaged on more profitable pursuits. The challenge to both lawyers and economists faced with the realities of extensive regulation is how to devise policy measures which minimise the need for complicated legislation and growth of bureaucracy, while recognising that contracts involving exchange relationships between two persons or groups do produce 'externalities' which affect the interests of other persons or groups.

The study of the links between economics and law were recognised by the German economists who opposed Nazi planning, several of whom suffered for their views. They formed the so-called ORDO-Kreis as early as 1936, which became the intellectual powerhouse of the German social market economy. Their interest lay in the devising of an economic constitution which would define and limit state intervention so that such intervention should work through and not against market forces. Latterly, US economists, under the intellectual leadership of George Stigler, Nobel Laureate in Economics, have revolutionised the approach to the development of economic legislation, closely allied with US lawyers. Such intellectual movements which have had a major influence on policy have no counterpart in the UK, although individual economists and the IEA have recognised their importance. It is noteworthy that the ORDO-Kreis was based in Freiburg-im-Breisgau and not in Berlin or Frankfurt, and the US movement emanates from Chicago and not from New York or Washington.

The way seems open, therefore, for the institution of a policy research centre which concentrates, though not exclusively, on forging links between economists and lawyers with the primary aim of improving understanding of both short and long term problems of implementing sensible economic policies.

Edinburgh chooses itself as the location of such a centre. It has a long intellectual tradition in economics and it has great potential as a focal point for promoting discussion of law and economics, being the main legal and financial centre outside London. It is proud of its international professional and artistic contacts, though it lacks centres outside the state-financed universities to promote such contacts with more independent institutions abroad. It has many of the advantages of a capital city yet, in the business and financial community at least, it can ill afford to be unreceptive to what is happening in the outside world.

The association of the proposed institute with the name of David Hume would be entirely appropriate. Although known throughout the world as an outstanding philosopher, his intellectual contributions to economics, though based on narrower foundations than his great friend Adam Smith, are becoming increasingly recognised as seminal. His essays on economics and on political philosophy and jurisprudence are the point of departure for much of the contemporary discussion of 'public choice economics' as well as of international monetary economics.

3 The Institute's activities

As the Institute's main object would be to stimulate informed discussion of issues concerning economic policy and law, it would require to reach out for an audience which will be very well aware of the opportunity cost of their time. The Institute would have much to learn from similar ventures in the metropolis where close attention is paid to reducing the 'time costs' of participation in being well-informed on economic issues.

The first activity would be publication of reports from occasional paper to book length. These would be commissioned from outside experts and the 'in-house' contribution would be largely directed towards advising contributors on how to present their ideas to the audience in view. To arrest the attention of busy professional people as well as students and scholars is not easy, particularly in a town such as Edinburgh which (on a rough count) has 25 golf courses within its own boundaries. This has a pronounced bearing on the staff appointed.

The second activity would be complementary to the first – the arrangement of meetings at which new publications would be presented, and to which eminent speakers could be lured. Such meetings would have to be short and snappy, perhaps combined with a sandwich lunch, rather than follow the conventional Scots pattern of a (frequently) dull evening formal lecture, where a fair proportion of the audience is fighting off somnolism.

The correct milieu for audience participation is the carefully prepared short conference where escape to the golf-course is difficult and proper notice is given. The Institute might act as an 'honest broker' for conference preparation, but would hardly have a comparative advantage in the initial stages of its existence.

I believe that the Institute would be well advised from its inception to keep its name to the forefront by a regular information bulletin. This might differentiate the product of the Institute by regular commentary on recent legislation concerning economic policy, perhaps including commentary from overseas correspondents. It could also 'trade' information with like-minded institutes. It must attract an international clientèle.

An interesting feature of the activities of departments of law and economics in US universities has been running of courses on economics for judges, magistrates and legal officials with a bias towards legal economics. Courses on legal economics are rare enough in the UK and are designed for law and economics students, and there might be intense sales resistance from the practising lawyers. Some experimentation seems called for and the Institute might test the market.

In sum, the activities of the Institute must be designed to achieve a bed-rock of local support, attracting such support by the entrée it gives to economic ideas of relevance to both national and international problems and not merely to understanding of issues of a short-term and parochial nature. Above all, it must seek to generate activities which attract an international clientèle through its concentration on the links between economic and legal analysis.

4 Finance and Organisation

The extent of the Institute's activities clearly depends on the input of resources available. The stance of its founders must surely be that of highly efficient use of limited resources. For example, it would be unwise to set up an elaborate 'in-house' research effort. Even if resources were available it would not be desirable to do so because a major purpose of the Institute would be to 'put out' projects to young professional accountants, economists and lawyers who wish to report how their research results have a bearing on policy. At the same time, the Institute would need the advice to know what kind of projects to encourage and must have a skeleton editorial and administrative staff with the requisite experience.

Initially at least, I believe that the Institute might be organised as follows:

- (i) It would be an educational charity registered with the Charity Commissioners. (In an imperfect world a private institution cannot forgo tax advantages!) It would therefore need a small board of trustees.
- (ii) It would have a small Governing Body chosen from its international Advisory Council who would approve the budget and its allocation to Institute activities.
- (iii) The Advisory Council would consist of perhaps twenty-five persons of national and international standing, including several lawyers with an interest in economic matters.
- (iv) The Institute would have a Director who would be an ex officio member of the Governing Body and initially might only be part-time.

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- (v) It would have an Administration Officer working to the Director who might also undertake some of the editorial functions.

The ultimate aim should be to make the Institute self-financing.

Sir Alan Peacock DSC FBA FRSE

Director 1985-1991 and Honorary Trustee of The David Hume Institute

Former Professor of Economics, Principal and Vice-Chancellor, University of Buckingham

A Consummation Devoutly to be Wished

Gerald Elliot



It would be good practice if, where legislation was required to deal with current but not necessarily permanent issues of government, it contained a sunset clause providing for it to lapse after a pre-set period of time, unless specifically renewed.

Private institutions have a different existence. Some are framed to be self-liquidating when their single purpose is fulfilled; others are more durable and established in the confidence that their purpose will continue far into the future. The David Hume Institute is firmly in this second category. It continues to find many political, economic and legal issues calling for research, discussion, publication and even agitation.

The Institute raises funds for its work from personal and corporate membership subscriptions, sponsorship and grants from research councils, businesses, universities and charities. I am glad that I have available to help with its annual costs monies from the Binks Trust; this is a charitable trust founded some forty years ago and named after my family's marginal farm in the Scottish Borders where Scots know lumpy hills as binks.

The Institute's founding director Professor Sir Alan Peacock remains in unabated vigour as do his succeeding directors. Its board of trustees, renewed as the years pass, continues to carry out its important work with enthusiasm. The field of activity has inevitable changed somewhat over the years becoming more, though not exclusively, concerned with those Scottish issues that are in the remit of the Edinburgh-based Scottish government. Let us hope that The David Hume Institute thrives and gives value to society for many years to come.

Sir Gerald Elliot FRSE

Chairman of The David Hume Institute 1985-1995

Law and Economics, David Hume and Intellectual Property

Hector MacQueen



My first introduction to The David Hume Institute came about as a result of meetings I had in the University of Edinburgh with Professor Gordon Hughes around 1987-88. Gordon was the Professor of Economics; I was the Associate Dean of the Faculty of Law and the subject of our discussion was the joint degrees in law and economics.¹ We were exploring how to move the degrees on from being ones that were 50% law and 50% economics into something at least in part genuinely law-and-economics, with the economic analysis of law its central intellectual focus. That exploration ultimately ended in failure; but within a few weeks I had instead been introduced to Alan Peacock and his then-fledgling Institute, housed in what was still the Heriot-Watt building in Chambers Street.

There I received a commission to write something for the Institute on intellectual property. A year or so later, *Copyright, Competition and Industrial Design* hit the bookstalls: a lawyer's attempt to analyse a technical bit of law with perspectives from history, economics and a policy point of view.

And within another couple of years I found myself Alan Peacock's successor as Director of the Institute, trying to find other people willing to discuss the law and legal system in a similar way and to fulfil the objective stated in Alan's visionary proposal of 1983: 'a policy research centre which concentrates, though not exclusively, on forging links between economists and law with the primary aim of improving understanding of both short and long term problems of implementing sensible economic policies.'²

¹ An LLB in Law and Economics and an MA in Economics and Law; the degrees are still available today in the University of Edinburgh.

² The proposal was reprinted in N Kuenssberg and G Lomas (eds), *The David Hume Institute: The First Decade* (1996). The quotation is at para 2.4.

It must be for others to judge the success or otherwise of those efforts through the 1990s. Certainly we touched upon a wide range of subjects: for example, the economics of the court system itself, regulation, privatisation and competition law, corporate governance, the development of the constitution, electronic commerce, insider dealing, sex equality, divorce, and international criminal law on money laundering, drug trafficking and the regulation of the chemical industry. I certainly think we looked into the future in ways that few others were doing at the time. So, for example, back in 1994 we were discussing, not only the place of Scotland in the United Kingdom constitution long before the 1997 General Election brought New Labour to power at Westminster, but also law on the electronic frontier, when the word 'internet' was only just beginning to enter popular consciousness and was thought to be essentially the computer geek's playground, not a place for serious people, business, politics or law. Naturally that was the first of our publications to appear on the internet at much the same time as it came out in book-form. Coincidentally or not, it was also the first (and, I fear, the only) publication during my directorship to sell out completely!

Looking back from my present vantage point as a Scottish Law Commissioner and professor of private law, I think my main regret is not to have dealt more with issues of private law; that is, with topics like property, contract and what Scots lawyers call delict and English ones tort, affecting the relationships of private individuals with one another rather than with the state. After all, David Hume himself had seen these subjects – or as he described them in the *Treatise of Human Nature*³, the stability of possession, its transference by consent, and the performance of promises – as the core of a system of justice. Could we have been more Humean in our approach, more systematic in our inquiry into the basics of law and legal systems? We did not lack for modern exemplars: the writings of such luminaries as Ronald Coase, Richard Posner, William Landes and Anthony Ogus are well-known and have opened up many shafts of light in what remains a rich seam of possibilities.

Take my own field of copyright, for example (appropriately enough since 2010 is the tercentenary of the coming into force of the very first Copyright Act). This remains as hotly contested an area of public policy as it was in 1710, as seen most recently in the United Kingdom in the debate over the Digital Economy Bill, finally passed into law in the Parliamentary wash-up after the general election was called in April 2010.

Battle rages in the worlds of recorded music, films and printed matter on how to deal with the internet consumer who prefers downloading or streaming the product to her computer or mobile device over the traditional methods of distribution.

³ Book III, Part II, Section VI, 1740

The rhetoric of property is frequently used: the creators of the material are legally and morally its owners, it is said, and use of that property by others without the owners' consent is theft. Seeking payment before consenting to others' use is the only way in which creative people can make a return from their creativity, and without that return the wells of creativity will dry up and society will be deprived of the benefits that have long flowed from them. And from this perception springs the potentially draconian solution of the new legislation, under which the repeat unlicensed user will not merely be liable to the copyright owner for the wrongs he commits but will also be subject to the sanction of disconnection from the internet as the instrument of his wrongdoing.

As I pointed out in *Copyright, Competition and Industrial Design*, in Hume's writings there is nothing specific about copyright, even although it was (as ever) a fiercely controverted subject in his own lifetime and one in which, as a published author, he had a direct personal interest.⁴ But something can perhaps be inferred from what he did say on the subject of property. For Hume, justice was an artificial rather than a natural virtue, the product of man's experience of and preference for social living, albeit driven by self-interest as a 'more artful and more refined way of satisfying' individual passions. Property and its transference by consent alone was likewise an artificial creation, designed by man to ensure that society held together and was not destroyed by the individual's tendency towards entirely selfish action and appropriation.

So far so good for the arguments in support of copyright as a form of property: indeed, the invention of copyright at the beginning of the eighteenth century can illustrate precisely Hume's point about the artificial nature of property as a device for the betterment of society and the 'artful' promotion of self-interest, in this case that of the authors and other creators protected by the new right and so encouraged to produce social benefit because that will bring them reward. But Hume's subsequent discussion of the nature of property begins to raise questions about the notion of property in new creations.

For him *stability of possession* was the key element in establishing the existence of property; and this was further developed by ideas of *occupation* (what constitutes taking possession), *prescription* (the right-affirming effect of the passage of time without challenge to the possession), *accession* (the addition of matter to the original object such as the fruits of our garden or the offspring of our cattle which become our property even without possession), and *succession* (the transfer of a deceased" property to the next generation).

⁴ It may be that the *Treatise of Human Nature* was published too early (1739-40) for Hume to take account of the copyright "battle of the booksellers", which only became intense from the mid-1740s on.

Hume however rejected the justification of property commonly used in relation to copyright and other forms of intellectual property, a theory most often associated with Hume's philosophical predecessor, John Locke; that is, the labour theory by which I own what is produced by my labour.

Hume wrote: 'Some philosophers account for the right of occupation, by saying, that everyone has a property in his own labour; and when he joins that labour to anything it gives him the property of the whole. But, (1) there are several kinds of occupation, where we cannot be said to join our labour to the object we acquire; as when we possess a meadow by grazing our cattle upon it. (2) This accounts for the matter by means of *accession*; which is taking a needless circuit. (3) We cannot be said to join our labour in anything but in a figurative sense. Properly speaking, we only make an alteration on it by our labour. This forms a relation betwixt us and the object; and thence arises the property, according to the preceding principles.'⁵

At best, then, the creative person began to gain property in the medium on which the creation was first expressed. The idea of ownership of what had been created, as distinct from the material on which it had been composed, was simply outside Hume's conception of property.

As I will show elsewhere in a forthcoming article,⁶ this difficulty for Hume in the notion of *intellectual* property was expressed more directly by some of his Scottish Enlightenment contemporaries such as Adam Smith and Lord Kames. They preferred to see copyright (and patents) as grants of particular (or 'exclusive') privileges by the state to individual subjects which created markets that otherwise would not exist, because it was in the public interest that they should. But the grants were carefully limited – for example, to specific periods of time – to avoid or minimise the possible ill-effects of the private monopolies to which they gave rise. As Kames put it: 'the profit made in that period is a spur to invention: people are not hurt by such a monopoly, being deprived of no privilege enjoyed by them before the monopoly took place; and after expiry of the time limited, all are benefited without distinction.'⁷

There were analogies with property, but the analogy should not mislead one into attributing all the absolute effects of property to the rights created by the privileges. These were granted for the public good, and in the same name could be – and were – much more restricted in scope than outright property.

⁵ *Treatise of Human Nature*, Book III, Part II, Section III note.

⁶ 'Intellectual Property and the Common Law in Scotland c.1700-c.1850', in L Bently, G D'Agostino and C Ng (eds), *The Common Law of Intellectual Property: Essays in Honour of David Vaver* (Hart Publishing, Oxford, 2010).

⁷ *Principles of Equity*, 3rd edn, 1778, vol 2, 99

Today we have travelled a long way from the eighteenth century and Enlightenment debates about the nature of property and intellectual property; but there are still important insights in that discussion from which we can draw lessons for today's policy-makers.

Above all, perhaps, it is vital not to be taken in by use of property rhetoric when we consider what is to be done to address the problem of file-sharing or other copyright issues. Hume's scepticism about the *natural-ness of property*, somehow or other antecedent to any other interest, and his identification of it as merely an artifice designed for the benefit of society, must be taken on board. In particular, his rejection of the idea that property claims flow from labour (or creativity) remains wholly convincing, and is confirmed with only a moment's thought from our general experience in everyday life. If that is right, then we must also accept that the creator as such has no claim beyond that given by the legislation in force at the time of the creation, and that that claim was and remains shaped by consideration of the public rather than the individual interest.

None of this is to say that the file-sharer should after all be given the green light to continue on his merry and copyright-infringing way; but it may suggest that the hasty passage of punitive legislation to support the claims of copyright holders was unduly influenced by ideas of property and theft rather than by consideration of more mundane questions about the extent to which the flow of creative production is in fact threatened by unlicensed file-sharing. As the late Neil MacCormick pointed out in his Hume Lecture in 2006, Hume shared his view that 'the idea that you can make your laws without long and careful deliberation is, I think, a dangerous one.'⁸ Neither man would have applauded the ludicrous wash up procedure which inflicted upon us the Digital Economy Act 2010. There was instead - and there still is - a need for thorough investigation and analysis of the evidence about what is really happening in the music recording industry and its marketplaces, set against a considered view of the basic policy requirements underpinning the existence and content of copyright law. There is, in other words, the kind of project for which the work of The David Hume Institute has provided rigorous parameters in the past and should carry on doing so in the future.

⁸ Neil MacCormick, *The European Union and the Idea of a Perfect Commonwealth* (Hume Occasional Paper No 68, 2006), p 17.

And the insights of our eponym with which Immanuel Kant's dogmatic slumbers were so fruitfully interrupted (*Prolegomena to Any Future Metaphysics*, 1783) can continue to develop our policy thinking in fields which Hume himself could scarcely have envisioned.

Hector MacQueen FRSE

Director 1991-98 and Trustee of The David Hume Institute
Scottish Law Commissioner
Professor of Private Law, University of Edinburgh

A Chairman's Reflections on the first twenty five years

John Shaw



Sir Alan Peacock defined the objectives of The David Hume Institute as being to provide independent policy research and comment. The focus was economics, recognising the importance of linkages with law orientated towards the relevance of market approaches and market solutions in determining economic well-being. A Scottish base was seen as importantly escaping the distractions of being in the midst of hectic, sometimes frenetic, political, financial and commercial activity associated with a metropolitan centre. The Edinburgh location exploited the internationally recognised academic, professional and artistic institutional resources of that city.

This volume happily illustrates the continuity of the Institute's aspiration to achieve these ambitions and the dedicated involvement of those committed to its work. As evidenced in the appendices, the Institute has throughout its first quarter century maintained a substantial programme of publications and public meetings on an extensive range of relevant topics.

Publications have ranged widely over its economic/legal landscape. Lacking the financial resources to undertake major research projects on its own initiative, the Institute's publications derive in the main from reports of its meetings, conferences, seminars, Hume lectures and Presidential addresses, but also report the results of work stimulated by or offered to and approved by its Director. That initial activity as a publishing house for contributed work ceased in 1992 as the academic source dried up under the pressures of Research Assessment Exercise. Following the demise of the Hume Papers there was an attempt to establish a public policy Quarterly Journal but this attracted insufficient subscribers and disappeared in 2000. The twenty five year old series of Hume Occasional Papers has however continued vigorously as can be seen in the summary at the back of this volume.

Meetings began with a conference in 1985 and a more or less annual series continued until 2001, sometimes with an academic or institutional partner and largely financed by specific donation or institutional sponsor. The successful 2001 event would have been topical today, posing the question *'Tulip mania to Dot Com hysteria: what can we learn from past financial cycles?'*

Subsequent events suggest that the correct answer was 'Not much'! Meetings included the annual Hume lectures and triennial Presidential addresses and a regular evening symposium series was established early. The frequency of these events grew steadily, as did the range of topics, and by the dying days of the conferences a thematically linked spring and autumn series had become firmly established. In the early years various locations, often associated with Edinburgh University, were used but latterly events have enjoyed the facilities of the Royal Society of Edinburgh whose more accessible central location in the heart of Edinburgh's New Town has contributed to increased attendance and growing support. These seminars have become the most widely recognised public activities of the Institute.

The emphasis of all these activities has obviously been influenced by the overall political and economic background. The Institute's birth had followed shortly after the 'big bang' of financial deregulation. It was also a period of widespread concern, particularly keenly felt in Scotland, about the social and economic consequences of changes in the control of corporations. Privatisations of former publicly owned utilities and the growth of a 'regulatory industry' prompted similar anxieties. These influences stimulated extensive work on issues of corporate governance, institutional investor behaviour and the balance between self-regulation and external institutional regulation while there emerged various voluntary 'codes' for directors, for accountants and auditors – for virtually everyone! The development of European Monetary Union and the emergence of the Euro were also given attention along with the apparently ambivalent relationship of the UK with the EU. Initially the prospect and then ten years ago the delivery of a Scottish Parliament has provided another enduring and clear context and focus for the Institute's activities. Although this may have strengthened its Scottish 'accent', it has certainly not been reflected in any parochial introversion of its activities which retain the Institute's broad national and international perspective.

The record of the Institute's activities demonstrates the important contribution it has made to informing and stimulating debate about socio-economic issues under the leadership of the small band of inspirational individuals who have been its Director. Their intellectual quality, evidenced by their acknowledged academic authority and their relationships with colleagues and contacts over wide areas of geography, experience and knowledge, are among the major strengths of the Institute.

Its Trustees, who individually can lay claim to some eminence, expertise and authority, devote also enthusiastic commitment to the Institute's aims and activities. Together they have astutely identified emerging issues for exploration, current topics for debate and past events for reflection.

The Institute's reputation rests largely on the distinction and reputations of those who have been attracted to prepare its papers and lead its lectures and seminars. Its demonstrable independence from any narrow political or commercial interest underpins the reputation earned as a source of analytical thought and opinion through those whom it has brought within its ambit.

But over the years the trustees have not escaped two recurrent concerns – finance and impact. These have continued to be the issues that require constant attention from the Board of Trustees on an ongoing basis.

A determination to be nobody's proxy and a truly free agent obviously denies acceptance of substantial finance from one or a very limited number of sources and requires a wide constituency of financial contributors. While there have always been a small number of generous personal and corporate donors, the Institute has not been able to attract an extensive membership of regular subscribers. However, while periodic attempts at fund raising and recruiting a wider membership have yielded only limited and temporary results, encouraging progress has been made recently in securing modest sponsorship of seminars. The Institute's resources have always been carefully husbanded and even in present economic uncertainty it can be reasonably confident of its future.

The Institute was conceived as a source of research and its activities have been tailored to that end within the constraints of its budget. There has never been any question about the excellent quality or relevance of its output. It is, therefore, a matter of concern that its work does not attract as much attention from policy activists and commentators and hence the press or public as it might merit.

Despite these concerns the Institute's first successful twenty five years and its community of dedicated part-time staff, its Trustees and all who contribute and engage in its activities underpin the future of the Institute such that it can look forward to continuing to offer ideas, analysis, reflections and debate worthy of David Hume himself.

Sir John Shaw CBE FRSE

Chairman of The David Hume Institute 1995-2001

Former Governor, Bank of Scotland

Former Senior Partner, Deloitte Haskins & Sells

The Second Decade



Brian Main

The well known saying, usually claimed to be of Chinese origins, ‘May you live in interesting times’ is generally interpreted in a negative sense. But during my time as Director of the Institute we lived through what can only be called interesting times, an exhilarating and immensely rewarding experience. Between 1995 and 2005 the economic and political landscape of the UK was transformed. The dot-com bubble expanded and resoundingly burst, economic regulation of privatised industries came of age, reform of legal procedure became an unexpectedly topical policy issue and devolution in Scotland and in Wales brought major constitutional reform.

In all of these areas, the Institute made significant contributions and grew to become a major focus of evidence-based debate and policy-oriented research. For me, it all started in January 1995 with an interview over lunch in the University Staff Club with the Institute’s founding figures, Professor Sir Alan Peacock and Sir Gerald Elliot. I formally came on board in the subsequent March. At this time, I was joining a newly founded triumvirate managerial structure formed by the existing Director, Hector MacQueen (a lawyer), myself (an economist) and an Administrative Director, Gillian Lomas. Jack Shaw had recently taken over as Chairman and the Institute was in the process of celebrating its first decade.

I had already benefited from the Institute’s activities, having been encouraged by Hector MacQueen to publish through the Institute the results of my research projects on remuneration committees and sex discrimination. This productive overlap of interests continued with subsequent research projects on aspects of civil litigation and on executive pay and corporate governance feeding into the Institute’s activities.

In those earlier years, our activities centred on the regulated industries and legal procedure. The latter being given a considerable boost when Rachel Wadia, a lawyer, took over the Administrative Directorship.

Her close connection with Lord Penrose and the reforming efforts on civil procedure added considerably to our research in this area, and in mid 1998 much of this work was summarised in the Institute's *Reform of Civil Justice* conference – one of several Institute conferences on law and economics mounted around that time – conferences which also included *Fraud on the European Budget*, *Intellectual property law and policy*, and *Settlement of legal disputes*.

By this time much of our attention was switching to the prospect of devolution. The systematic and considered manner in which the Institute approached this important topic can be seen in the carefully structured series of seminars, discussion and research activities that emerged over this period. The insistence of our Chairs, first Jack Shaw and then Eileen Mackay, that seminar series should be branded under organising themes proved immensely helpful. To this end, between 1997 and 2002, we delivered seminar series that included the following titles: *Working with a Scottish Parliament*, *Agenda for the Scottish Parliament*, *Programme for the Scottish Parliament*, *Assessment of the Scottish Parliament* and *Has Devolution Delivered?*

In our usual way, attached to these seminar series were publications and research output. One particular report in this research programme stands out – *Economic Aspects of Political Independence*. Launched around the time of the 1999 elections for the Scottish Parliament and involving several key members of the Institute, the report was widely discussed – at one point being used by a leading politician to fend off Jeremy Paxman during a heated interchange on the BBC's *Newsnight* program.

In early 1999 Catriona Laing took over what had become the post of Development Director and brought a new sense of commercial vigour to the Institute's affairs. This eased the transition process that was necessary when Hector MacQueen left the Institute to concentrate on his role of Dean of the Faculty of Law. We continued to benefit from Hector's advice as a Trustee but, for a while at least, our activities took on a more economic flavour with seminar series on *Regulation*, *Economic Monetary Union*, and *Fund management: 21st century challenges*, reflecting the issues of the day.

Throughout this time, the Institute benefited not only from the invaluable input of an active Board of Trustees but also enjoyed the support of our Honorary Presidents. During my directorship these included Sir Samuel Brittan, Lord Mackay of Clashfern, and Sir Alan Peacock. Each made his own contribution to the Institute, their published Presidential addresses being only a small part of their overall contribution.

I was once asked by a journalist whether, in running an enterprise such as The David Hume Institute, I ever found it difficult to attract interest or support for our activities. My answer was a resounding ‘never’, as I was always delighted by the enthusiasm with which people supported and engaged with our activities – whether research projects, seminars or conferences. But the recent period of financial turmoil did cause me to recall the cancellation in spring 2002 of a conference *Regulating the risks and opportunities of financial services*. In retrospect it is no small irony that we were forced to cancel this event owing to lack interest.

Most of the time our engagement with the financial sector was both timely and successful. We were fortunate in offering the first public seminar by Lord George Penrose on his *Equitable Life Report*. Our series on fund management attracted considerable attention. Another success was the establishment in 2002 of a relationship with the ESRC to provide dissemination of policy relevant research – a relationship that continues to this day.

We did, however, have occasional setbacks. During this period we ceased publication of our house journal, *Hume Papers on Public Policy*. This had been set up as an outlet for academics who found themselves constrained when it came to discussing the policy aspects of their research when they used academic journals. Unfortunately, the imperatives of the Research Assessment Exercise (now Research Excellence Framework) meant that contributors were increasingly difficult to attract. Our Hume Occasional Papers series, however, continues to thrive. Our efforts to run events in Glasgow stuttered and fell silent. And our one foray into organising an event in the Edinburgh Book Festival was a great success but has not been repeated.

The final large research project undertaken during my tenure was my investigation into the location of Scotland’s airports. Published as the *Central Scotland Airport Study*, the evidence pointed to there being no need to construct a new airport, Edinburgh Airport being likely to assume many of the desired attributes with the passing of time – as is now proving to be the case.

When asked what I enjoyed most about my time as Director of the Institute I invariably found myself identifying the opportunity to meet people I would never have the chance to meet in my normal academic existence. These included not only Trustees, Presidents, Honorary Presidents and our speakers but also the host of people who came from all walks of life to participate in our events. It was a real pleasure. After ten years, it was, however, time for a change and I was delighted in July 2005 to be able to hand over to Jeremy Peat.

Brian Main FRSE

Director of The David Hume Institute 1995-2005
Professor of Economics, University of Edinburgh

The Dawn of a New Era



Eileen Mackay

The period commencing in 2002 saw the Institute shift its position gradually from the world of the academic towards that of the practitioner, while retaining a foot in both camps and continuing to seek to provide an objective and research-based perspective on issues of policy relevance, notably in the economic sphere.

This shift had been instigated by Trustees in 2000 when they decided to reduce the Institute's publishing role and raise the profile of its seminars and events among members. It was confirmed in a strategy review in 2002, partly in response to changed incentives in academia (where the pressure on academics was increasingly to write for academic journals) and partly to a growing appetite among business and policy practitioners for evidence-based debate on issues of concern to a newly devolved Scotland. Strong links to academic research continued to be valued as one of the Institute's distinguishing features and were strengthened when ESRC funding was secured for a seminar series in 2003, the first in a lasting and valued relationship.

Brian Main, who had combined the role of Institute Director with his full time duties as Business Economics Professor at the University of Edinburgh, decided to step down in 2005 in response to the academic pressures noted above. Brian's much regretted departure caused the Trustees to have a further rethink about the Institute's future role and the kind of Director that called for. One clear requirement was for the Institute to have a higher public profile in the business, media and public policy communities.

There had been frustration in the past when some excellent Institute events had not achieved their full potential for lack of sufficient profile. A striking example was a one day conference entitled *Regulating the risks and opportunities of globalisation in financial markets* with an international cast of speakers which had had to be cancelled in early 2002 for lack of sufficient take up. One suspects that six or seven years later it would have been a sell out.

The Trustees were delighted when Jeremy Peat, then about to retire as Group Chief Economist at RBS Group, accepted the post of Director from mid 2005. Prior to his arrival the Trustees also implemented a rationalisation of the Institute's administrative arrangements and it is a tribute to directors and staff, both old and new, that these changes were achieved so smoothly. This was followed by a move of the offices from the basement in Buccleuch Place to more modern premises in Forth Street.

The increase in profile that had been planned by the Trustees was achieved and this led to new sponsorship relationships and innovative events such as the sponsored post-seminar dinners with experts and opinion formers as invited guests. These dinners have proved to be a most valuable and important facet of our programme. The missing element, which our new Director was eager to remedy, was the capacity to produce research reports with a deeper exploration of lessons for policy than could be achieved in an evening's discussion. The Trustees backed this ambition with approval for the recruitment of a research consultant in 2006 and a deputy director in 2008 and the fruits of this work under Jeremy's energetic leadership with the Institute firing on all cylinders are detailed elsewhere in these pages. The Trustees can have every confidence for future years with the Institute in the right hands.

Eileen Mackay CB FRSE

Chair of The David Hume Institute 2002-2008

Former Non Executive Director, RBS

Former Principal Finance Officer, Scottish Office

Five Years of Relevant Business



Jeremy A Peat

In early 2005 I was planning the next stage of my existence, knowing that I was retiring from the Royal Bank of Scotland after 12 years as Group Chief Economist. I had already acquired two new roles and there was scope, I felt, for at most one more, preferably Scotland-based and preferably related to the Scottish economy.

That was when Eileen Mackay made contact. I knew that she was associated with the David Hume Institute and I had indeed already spoken previously at a DHI event. But then Eileen invited me for lunch, told me that Brian Main as Director was leaving and asked whether I would consider joining. Over the next few weeks I found out more about the Institute and the Trustees reflected as to whether they really wanted me. I took over from Brian in mid-summer 2005, inheriting a full autumn programme and a well organised and securely financed institution with a strongly impartial, non-political and positive reputation.

The next five years have passed remarkably smoothly and enjoyably. I was very fortunate to receive the wisdom of Eileen's advice during my first three years and then from Sir Ian Byatt – a very eminent economist and my boss from a brief spell at the Treasury in the early 1980s. Both Eileen and Ian have added real value and been wise enough to know when to intervene and exercise oversight and when to leave matters to their Director and team.

One constant on the team throughout my tenure has been our Development Director, Catriona Laing, whose knowledge and support have been crucial in the search for members, sponsors and other forms of income. An early addition was Lesley Sutton, whom I knew as a highly capable and highly flexible researcher. Joan Orr now supports Catriona in the office – and she maintains our finances in impeccable order while also managing relationships with our members and willingly helping out in a host of other ways.

We have seen some significant changes in our Board of Trustees during my tenure, but each Trustee has added value in his or her own way and I am able to call upon a wide range of expertise and contacts. We are never short of sources of assistance and the Trustees are crucial to the continuing success of the Institute.

Lord Sutherland was the Honorary President when I arrived and delivered a splendid presidential address. His replacement was Sir Neil MacCormick, long associated with the Institute but who very sadly died in 2009. It is wholly fitting that his contribution is remembered in this volume. We are delighted that Lord David Steel agreed to follow Neil.

I have tried to focus our activities on policy issues with a Scottish slant but without descending to parochialism. The remarkable reputation and brand of the Institute mean that the vast majority of those whom we ask to speak or write for us do in fact accept the invitation. It is a challenge to come up with the triumvirate of topic, speaker and sponsor – and to do so for four of five seminars each spring and again each autumn.

On the finance front we continue to enjoy the vital support of the Binks Trust and are always delighted to see Sir Gerald Elliot at seminars and dinners while Jo Elliot remains a valued Trustee. We are always working to encourage corporate and personal membership and to widen and diversify our range of sponsors. We have largely succeeded in this although there was an immensely difficult period during 2008 and 2009 in particular when finance from the private sector effectively dried up. Thank goodness for the continuing support of our good friends at the Economic and Social Research Council, without whom we would have been in dire straits. With their support and that of a number of others such as Scottish Enterprise, Scottish Financial Enterprise and SIRE, we have worked our way through the credit crunch period and retained our financially robust position. But it remains difficult to find funders for seminars, while the demand for our product remains robust.

For our events over the past five years we have generally attracted an excellent turnout in terms of quality as well as quantity. We draw in participants from the business and finance sectors as well as academia and policy makers. The post-event dinners continue to be a key part of our programme with Chatham House Rules discussion among an informed and interested group. Wherever possible we publish – at the least on our website – either a paper based on the talk with any slides used or a minute prepared by one of our Trustees. Further we encourage the media to attend and report and I will often refer to the most interesting of our sessions in one of my own press contributions. The website is now an important asset with a full record of our activities and a genuinely useful accessible archive.

One particularly intensive piece of work was the *View from 2050*, a collection of essays by a knowledgeable and diverse group, all based upon the assumption that Scotland had that year reached the Scottish Government's target for reducing carbon emissions.

Each paper set out the author's thoughts as to how this might have been achieved and with what wider effects. The media latched on to one contributor's suggestion that the Old Course at St Andrews would disappear under water, but the depth of thought in all essays was remarkable, as was the post-publication seminar. People will refer to this publication for many years to come.

This year we are picking up two more big topics for publications and seminars. One, on which we are working with the Scottish Policy Innovation Forum, revolves around Scotland's public finances while the other focuses on the question of Scotland in Europe. In addition we have targeted most of the key economic issues of the past few years. We have had top speakers on pensions, migration, the ageing population, the economics of happiness, employment and unemployment, Scottish competitiveness, competition policy, the funding of higher education and – last but by no means least – the banking crisis. On this front we have had the benefit of the wisdom of Martin Wolf, the insights of John Kay and the rather scary thoughts of Willem Buiter and Danny Blanchflower (twice!) – as well as looking for lessons to be learned from the experience of the Airdrie Savings Bank and the co-operative movement more widely.

One innovation was our involvement with politicians. Jim Murphy, as Secretary of State for Scotland, sought a platform for a careful and full presentation on the Scottish economy. We agreed, but at the same time made an offer to provide a similar platform for John Swinney of the Scottish Government. Both talks proved to be genuine contributions to the debate and as a follow up we arranged four sector seminars with the support of the Scotland Office, each attended by Jim Murphy and involving the key players from across key sectors of the Scottish economy.

Another of our research projects was on how to apply the lessons from improved productivity in Scottish Water to other elements of the Scottish public sector. Our report included three careful case studies which I see as unfinished business, with major relevance to the tight financial climate of the years to come.

The common theme of our activities is encouraging informed and evidence-based debate, while remaining wholly objective and at all times retaining an appropriate degree of scepticism. Being self-critical, I would suggest that we have not engaged sufficiently in the follow-up of major themes that have emerged. Further we have still to engage with MSPs and policy makers more generally, both achievable, albeit probably requiring more resource. One issue is that there are always new topics to cover.

We could have focused more on the link between economics and the law and have neglected aspects of education. Each seminar demonstrates how many different avenues could be opened up for fruitful debate.

There remains a clear need in Scotland for organisations like the DHI. I look forward to the years ahead for the Institute and see no reason why the DHI should not continue as an important stimulator and facilitator of informed debate, a safe place for an argument amongst friends for at least another twenty five years.

Jeremy Peat FRSE

Director of The David Hume Institute 2005- present
Honorary Professor, Heriot-Watt University
National BBC Trustee for Scotland
Member, Competition Commission
Former Group Chief Economist, RBS

The Legal and Political Philosophy of David Hume

‘The neglect of Hume as a legal and political philosopher is not a peculiarly Continental affair. Even in England where it is now at least generally recognized that he is not merely the founder of the modern theory of knowledge but also one of the founders of economic theory, his political and still more his legal philosophy is curiously neglected. In works on jurisprudence we will look in vain for his name.’

Friedrich Hayek

Nobel Prize for Economics

It is hoped that the essays by Leonard Hoffmann, Neil MacCormick and Hector MacQueen in this volume will help to correct this view as described by Hayek.

Legal Reasoning and Legal Theory

Neil MacCormick

The idea that reason has a part to play in the ordering of human affairs has a long history. It is associated with the view that some things are ‘by nature’ right for human beings; others so, merely by convention or by enactment. Whether or not there were enforced laws prohibiting murder, it would be wrong for human beings wantonly to take each others’ lives. On the other hand, it seems strange to suppose that parking a car in a particular street could be considered a wrongful act in the absence of some consciously adopted scheme of regulations.

If there are some actions which are always wrong simply in virtue of the nature of human beings – or, more generally, the ‘nature of things’ – it may be thought to follow that the exercise of reason should suffice to disclose which actions are by nature right or wrong. And even in case of more apparently arbitrary matters such as parking regulations, or regulations concerning weights and measures, it can be argued that reason discloses to us the need to have some rule as a common standard.

If there are numerous private cars, lorries, etc., there will be grievous congestion if parking is quite unrestricted, and no amount of attempts at intelligent self-denial by individuals will resolve the problem: let there then be some public enactment of parking regulations aimed at securing over-all public convenience by balancing the inconvenience of restraints on parking against the inconvenience of excessive congestion of the streets. If there is a market in commodities, let there be some established common system of weights and measurements reasonably suited to the measurement of the range of quantities most commonly marketed.

The idea, expressed in one form by Lord Stair in the terms that ‘Law is the dictate of reason determining every rational being to that which is congruous and convenient for the nature thereof’⁹, is at least as old as the writings of Plato and Aristotle, and has of course exercised a profound influence upon the development of western legal thought, in which it has been stated and restated many times and in many forms. Whether or not it is well founded, it is a belief which has profoundly influenced the form and the substance of the legal systems (in their various ‘families’) which have developed in Europe and been carried therefrom to the ends of the earth.

⁹ James, 1st Viscount Stair, *Institutions of the Law of Scotland* (2nd ed., Edinburgh, 1893, or subsequent edns., also Edinburgh) I.i.1

It is not, however, a belief which has gone unchallenged, nor has the challenge in its turn failed to be influential. To David Hume, above all others perhaps, belongs the credit for the most fundamental scepticism about the limits of reason in practical affairs¹⁰. Reduced to its essentials, his argument is that our faculty of reasoning can operate only upon given premises; assuming certain premises, we can by reason ascertain the conclusions which follow from them. And indeed reason can guide us in seeking to verify or falsify assertions concerning matters of fact or existential propositions generally. In the latter case, however, reasoning has a secondary role, since it can work only with evidence already given in our various sense impressions.

So too in relation to practical affairs: if I have an appointment which I ought to keep on Wednesday, then if today is Wednesday, today is the day on which I ought to keep my appointment. The necessity of that conclusion is indeed a matter determined by reasoning. But the conclusion has *practical* force for me (*am* I going to keep my appointment?) only so far as the premises have: that I ought to keep appointments is in effect one of these premises, no doubt in its turn derived or derivable from 'Everyone ought to keep appointments' but wherein consists the rational demonstration of that proposition?

Perhaps it can be shown that the use of various forms of speech whereby people can 'make appointments' with each other makes possible great convenience for people in ordering their affairs, provided only that people do treat as binding their appointments made (or other types of promise). But is it a matter of 'reason' to prefer that general convenience to the alternative, the inconvenience of leaving it to chance to determine when we shall meet even those with whom we have business to do? Is it not rather a matter of a disposition of the will founded upon some simple sentiment of preference or approbation which we feel toward the former state of affairs, a sentiment which indeed we express in calling it 'convenient'?

And so too in the simpler cases; why say that reason tells us we ought not to kill each other? Is it not rather the case that we have in ordinary circumstances a simple and direct sentiment of revulsion from acts of violence perpetrated by human beings upon human beings? And indeed, if that were not so, is it conceivable that we would ever *do* anything about it? Conceivable that we would actually make a point of keeping appointments, or of reining in our more violent reactions towards our fellows?

¹⁰ See especially David Hume, *A Treatise of Human Nature* (many edns.) Book II, Part III § III; and Book III, Part 1, § § I and II, and Part III, § § I and II; for a clarification and partial retraction see Hume, *Enquiry Concerning the Principles of Morals* (many edns.), Appendix I.

Or that we would take steps to censure others for breaking appointments or to restrain them from violence toward others? Such, in summary, are the arguments whereby Hume sought to justify his well-known remarks about ‘reason’ being ‘the slave of the passions’,¹¹ and about the underivability of an ‘ought-statement’ from an ‘is-statement’.¹²

To Hume’s arguments there has been only one effective reply, first advanced by his younger contemporary Thomas Reid¹³ (successor to Adam Smith in the Chair of Moral Philosophy at Glasgow University). What Reid said was that Hume was correct in asserting that reasons cannot be given for ultimate moral premises; there are no statements of ‘pure fact’ which we can give to back up whatever we set forth as our ultimate premises in moral arguments. Moreover, it is the case that these ultimate moral premises are necessarily associated with dispositions of the affections and of the will. But it is not true that they are not also apprehended by reason and in that sense rational. Our adherence to general principles – e.g. that no acts of violence ought to be perpetrated on human beings save in certain justifying or excusing circumstances – is a manifestation of our rationality, by contrast with our merely impulsive and animal reactions to circumstances. Reason for Reid is not and certainly ought not to be the slave of the passions.

It deserves to be added that the works of thinkers such as Adam Smith¹⁴, Adam Ferguson¹⁵, John Millar¹⁶, and Karl Marx¹⁷ have pretty convincingly demonstrated a strong correlation between the moral opinions and legal norms actually subscribed to by human beings, and the changing forms of social and economic life. That people ought to be left as far as possible free to conduct their own affairs by means of voluntary contracts which ought, once made, to be rigorously and impartially enforced by public authorities is, for example, an opinion both characteristic of and indeed peculiar to that mode of social organisation which Smith called ‘commercial’ and Marx ‘bourgeois’.

¹¹ Hume, *Treatise* Book II, Part III § III, 5th paragraph.

¹² Hume, *Treatise* Book III, Part I § I, final paragraph.

¹³ See Thomas Reid, *Essays on the Powers of the Human Mind* (Edinburgh, 1819, vol. iii, Essay V, esp. ch. VII (i.e. Essay V of the *Essays on the Active Powers*); on ‘is/ought’, see p.578 of vol. iii of the 1819 edition of the *Essays*).

¹⁴ Adam Smith, *Lectures on Justice, Police, Revenue and Arms*, ed. E. Cannan (Oxford, 1896); see Andrew Skinner, ‘Adam Smith: Society and Government’, in *Perspectives in Jurisprudence*, ed. Alspeth Attwooll (Glasgow, 1977).

¹⁵ Adam Ferguson, *Essay on the History of Civil Society* (1st edn., Edinburgh, 1767; a new edition by Duncan Forbes, Edinburgh, 1966).

¹⁶ John Millar, *The Origin of the Distinction of Ranks* (Edinburgh, 1806); reprinted, with selections from other works in W.C. Lehmann, *John Millar of Glasgow* (Cambridge, 1960).

¹⁷ See E. Kamenka, *Marxism and Ethics* (London, 1969).

Whether this should be interpreted along Humean lines as implying that the dispositions of our sentiments and wills are simply and inevitably shaped by the social environment in which we find ourselves, or along lines more favourable to Reid (or Smith, or Marx) as implying that only in certain circumstances can reason achieve its full development, is a question which need not for the moment detain us. Suffice it that we have sketched the essentials of our problem: the problem how far the determination of order in human affairs is a matter of reason. There are, as we see, substantial arguments on either side; and both sets of arguments have been in important ways influential.

In the ensuing chapters of this work, I shall follow the point in assuming that any mode of evaluative argument must involve, depend on, or presuppose, some ultimate premises which are not themselves provable, demonstrable, or confirmable in terms of further or ulterior reasons. In that sense, our ultimate normative premises are not reasoned or the product of a chain of logical reasoning.

As we shall see, that does not mean the same as saying that no reasons at all can be given for adhering to such ultimate normative premises – ‘principles’ as grounds for action and judgement. But the reasons which can be given are not in their nature conclusive, nor equally convincing to everyone. Honest and reasonable people can and do differ even upon ultimate matters of principle, each having reasons which seem to him or her good for the view to which he or she adheres.

To that extent I go along with Hume in supposing that a determinant factor in our assent so some or another normative principle lies in our affective nature, in our sentiments, passions, predispositions of will - whatever be the proper term. That people have different affective natures, differences of sentiment, passion, predisposition can then be advanced in explanation of fundamental moral disagreements. Moreover, that our affective natures are in important ways socially moulded, if not entirely socially determined, so that our individual attitudes contain much that is rather a reflection of than a reflection upon the material conditions set by the economic forms of the society to which we belong seems also to be true.

Hume has too passive a view of reason. Reason imposes an order and structure on the phenomenal world of our experience – whether there is in it a real order answering to that which our reasoning makes for us in the phenomenal world is in the nature of the case a question of faith, not knowledge. But equally it is possible for us to order the world of our activity: to shape it in accordance with rules and principles of action and to secure that the rules and principles of our action are mutually consistent and form a coherent set. To the extent that we have in a nation an ordered legal system, and indeed to the extent that any of us has as an individual an ordered system of morality, we owe it to our capacity of reasoning, our gift for imposing an order of universals on a world of particulars.

The irrationalist is blind to this. The irrationalist has failed to see that not merely does reasoning enable us to deduce consequences from norms to which we adhere, it enables us also to check that the norms from which we reason belong to a consistent and coherent order. Reason may not determine but it does strictly limit the sets of norms we can have all together – whether by that we mean the set we can have all together, all of us together in a state; or the set each of us can have all together as the moral position of an individual, which may differ from the equally rational moral position of some other individual.

The irrationalist may reply that he is an irrationalist not merely in theory but in practice; that he sets no store by having a consistent and coherent morality or legal system or political creed. So be it. Let us ask him whether and why he sets store by having a consistent and coherent set of beliefs about the natural universe, about the world of science. Either he does set store by that or he does not.

If he does not, we are entitled to ignore his irrationalist legal or ethical theory for it will be a matter of sheer chance whether it makes sense. If he does, we can press the question why. One way or the other his answer must come down to the proposition that he values reason, or that he has some kind of irresistible propensity to set his thoughts in order and try to make sense of the world.

But here we touch on the truth which Hume was probably the first philosopher fully to grasp, the truth which ethical and legal irrationalism as theories distort. My belief that I ought to strive to be rational is not a belief which I can justify by reasoning. Of course, it can be explained why somebody with the kind of social and familial background which I have, brought up in a ‘professional’ family in twentieth-century Scotland, is likely to hold such a belief. Of course it can be conjectured that all human beings have a biological nature of which the propensity to favour rationality is an essential part however occluded by misfortune or adverse circumstance¹⁸. But these are explanations, not justifications.

If challenged as to why I think I ought to strive to be rational, or indeed why I think that every human being ought to strive to be rational – to avoid inconsistency and incoherence in thought – I really could only repeat Socrates’ remark that, to me, an unexamined life is not worth living. I can, really, only express my revulsion from the prospect of a life without reasoned discourse.

¹⁸ Cf. Franz Neumann. *The Democratic and the Authoritarian State* (New York and London, The Free Press, 1957), pp.3-4: ‘Man...is an organism endowed with reason, although frequently not capable, of, or prevented from acting rationally.’

Consistency and coherence, the treating of like cases alike and different cases differently, are *possibilities* for us in our practical acting, reasoning, and deciding, just as consistency and coherence of thought, and the seeking of similar explanations for similar phenomena and different explanations for different phenomena are *possibilities* for us in our attempts to understand explain and describe the natural universe. ‘Shall we pursue rationality? Shall we strive for consistency and coherence?’ – these are open questions for us in matters both of practice and of speculation.

For my part I cannot see why I should give different answers in relation to action and to reflection. If I were told that the idea of being rational in action as distinct from in speculation is meaningless, I would reply that this work demonstrates the falsity of that assertion. We have a choice, to be rational or not, and it is an ever-present choice in relation to all aspects of our life, whether as theorists or scientists working on explanations of the nature of things, or as practical agents going about the business of life inter-acting with other animate beings within some set of legal, moral, and social relationships.

The irrationalist fallacy lies in the assumption that moral and legal relations cannot be shaped into a rational order. The ultra-rationalist fallacy lies in the assumption that there is some way of establishing by reasoning and reflection an objectively valid moral or legal order.

But any attempt to establish and justify such a theoretical order would simply lead one into an infinite regress of justifications, which is not just like, but the self same as, the road of infinite regress of theories to which Dworkin’s Hercules is all unrealisingly consigned.

For although Hume is wrong about the passivity of reason, he is not wrong in contending that our affectively valuing anything belongs to the realm of our attitudes and pre-dispositions; even in the case of reason, it is not *reason* which is expressed if we set value on rationality. If we set value on it, we shall follow it in trying to secure consistency and coherence at a given time and over time in our general attitudes to our own and others’ conduct. But it is because we have affective attitudes (including, maybe, a favouring of reason and rationality) that we *care* about what happens to ourselves and other people, or that we care about anyone’s acting reasonably or rationally. It is grossly overstating that to say that ‘reason is and ought to be the slave of the passions’. But the arresting overstatement has its place even in philosophy.

So although reason is our guide in securing the consistency or coherence of a system of norms, it is an affective commitment to rationality in action which makes us follow that guide, if we do, or so far as we do.

And, what is more, we would have no call for norms about conduct at all if we did not *care* about how to live with other people, or about how other people live with us. Shaping these attitudes of ‘caring’ into norms – rules and principles of action – involves the exercise of reason in framing the ‘universal’ formulation of a guide to action. But *testing* it to see whether we can live with it; engaging in consequentialist argument – here, what is at stake is how we are to live, how we are to satisfy our long-run propensities (what Hume called ‘calm passions’).

This also shows why the study of ‘processes of justification’ can also be relevant to the explanation of actual actions. It is of course possible that judges always or sometimes have subjective reasons motivating them to decide cases as they do which are quite other than the justifying reasons they give. But this work shows that it is also possible that judges could commit themselves to trying always to give the best justified decision *because it is* the best justified decision. In that sense, it is *possible* that we can, and that judges do, consciously model our actions upon rules, principles, and other relevant standards. It is a vitally interesting sociological question how, for particular judges, in particular legal systems, at particular times and in particular circumstances, this possibility is actualized.

Thus an examination of the modes of legal reasoning both confirms and reveals the meaning of saying that reason can play, and in law appears to play an indispensable role in the governance of practical affairs, but that there are limits to practical reason. Arguments from consistency and coherence reveal the former, the evaluative element of consequentialist arguments reveal the latter.

Thus it is that we can have rationally structured but not rationally determined legal systems, and indeed ‘systems’ or ‘theories’ of morality (as distinct from theories *about* morality).

Professor Sir Neil MacCormick FRSE FBA

Late Honorary President of The David Hume Institute 2008-09

Former Vice-Principal & Regius Professor of Public Law, University of Edinburgh

David Hume and the possibility of an Enlightened Society

Stewart Sutherland

This lecture addressed one central issue about the legacy of David Hume: are there insights in his thinking and writing which could help us understand the nature and possibility of an enlightened society in the twenty-first century?

The most obvious starting point is his account of the nature of religion – once again, and perhaps improbably as it would have seemed, at the centre of the shape of many cultures and societies in our contemporary world, whether seen in the role of conservative and fundamentalist Christianity in the USA or the Heinz variety of forms of Islam in our own country and elsewhere.

Hume's own life is an illustration of the tensions in a society which was in the process of redefining the place of religion in personal and social terms. He might well have said, 'Some of my best friends are clergymen' for that was true and at points he relied upon their help and support to ward off the attacks of their more conservative ecclesiastical colleagues. On one occasion this help was critical in preventing an attack by the 'unco guid' on him via a motion at the General Assembly of the Church of Scotland to excommunicate him. In mid eighteenth century Edinburgh this was equivalent to social ostracism – black-balling on a national scale. His friends then were successful.

In matters of career however, Hume's supporters failed to carry the day, or even days. Twice his case was advanced for a chair of philosophy, once in the University of Edinburgh and once in the University of Glasgow. Yet such was the poisonous mix of outcry, scheming, and low political crafts that Hume, the supreme representative of philosophical genius in these islands, was denied the chairs of philosophy in Scotland's two premier universities.

He could be acerbic in his writings about religion and used the word 'superstition' in ways that would inevitably offend. Equally his posthumous *Dialogues Concerning Natural Religion* contained the most devastating critiques of the current orthodoxies in religion, and these views must inevitably have laced his conversations on these topics. However, it is true that amongst his best friends were to be found the cream of the Church 'moderates'.

His good nature – the Parisian intellectual establishment referred to him as ‘Le bon David’ – was legendary, but the public picture of him was as sceptic and hard-line atheist. In fact I regard that description of him as the eighteenth century equivalent of a tabloid headline rather than as a piece of careful analysis of his attitudes and thoughts, but that is a story for another day.

He knew much then about the intellectual brutalities of unreflective religious dogmatism and suffered from the persecutions of those in thrall to all of that. Yet despite his scepticism in this and other fields of thought he had significant and fertile contributions to make to our thinking about the nature of society and man’s place in it.

As with all Enlightenment philosophers, he was dazzled by the genius of Isaac Newton and the ways in which Newton had dominated and helped steer the course of our understanding of the natural world. His project was a comparable change in the ways in which we think about human beings as individuals and as members of society. His grand project was to create an equivalent science of human nature which would be the basis of a revolution in our understanding of human thinking, believing and acting and the expression of these in moral, political, and social contexts.

My proposal is that there is an identifiable shape to Hume’s writing in these matters and that it derives from the work of Hume the historian as well as from Hume the philosopher. In summary, there are three key terms and ideas which lie at the heart of Hume’s thinking and these are each undervalued in our own society.

Scepticism. Hume’s method was to test ideas, conclusions and prejudices to their intellectual limits. This could be unnerving for those less courageous in their thinking. Thus he wrote on one occasion: ‘Tis not contrary to reason to prefer the destruction of the whole world to the scratching of one’s little finger’. His point, perhaps naively, was not to inflame the tabloids, but to point out that in doing what they did, Hitler, Stalin and Pol Pot, or their eighteenth century equivalents, were not simply guilty of being unreasonable, of drawing the wrong moral conclusions from established moral premises. Moral distinctions and human actions have different sources. Scepticism – testing assumptions and conclusions on the basis of facts and experience – about moral ‘certainties’ was as important as scepticism about the place of the earth at the centre of the universe.

Moderation. Yet Hume’s scepticism was a ‘moderate scepticism’. His was not the drive of one in search of the alternative set of right and definitive answers. He did not set out to replace one set of all encompassing dogmas with another. It is not a matter of a search for what Albert Camus, following Simone Weil, referred to as ‘scientism’. He would not have wanted to be caught in the crossfire in the contemporary ideological war of Religion versus Science.

The scepticism he practised was not a stepping stone to an alternative all-encompassing system of thought. Moderation in this as in other matters was an acceptance of the need to eschew the delusive search for an alternative set of ultimate and unchanging verities/dogmas. Muscular atheism, secularism or any other 'ism' was no better than the untested certainties of traditional dogma.

Pragmatism. This word is not widely used in the interpretation of Hume, but that is in part because we underestimate the importance of his historical writings. It is there that we see in action his attempt to understand and characterise empirically 'a science of human nature'. Let me conclude this summary with one final example of this in practice.

The status of the American Colonies was a major political issue of the time. A number of British intellectuals, including Hume, favoured the cause of the American settlers over the claims of the Royalists. Republicanism was in the air. Yet Hume did not follow uncritically the radical path from Republicanism for America to Republicanism for Britain. This was not a moment for absolute judgements. Let pragmatism reign: 'In our time it may now be affirmed of civilised monarchies what was formally said of republics alone; that they are a government of laws not of men. Now it is no longer monarch as kingpin who decides everything, but in civilised monarchies the laws of men apply as much as the rule of the monarch'.

Thus are scepticism, moderation and pragmatism at work!

Lord Sutherland of Houndwood FRSE FBA

Former Honorary President of The David Hume Institute

Former Principal and Vice-Chancellor, University of Edinburgh



David Hume and Medicine¹⁹

In 1776 David Hume was in his last illness and made his way to Bath to seek vainly for health from its waters. His fellow Scot, Adam Smith, gravely disapproved. Mineral water, he wrote, ‘was as much a drug as any that comes out of the apothecary’s shop’ and must therefore be an unnatural remedy, occasioning itself a ‘transitory disease’ and ‘weakening the power of nature to expel the disease.’ In this belief that stimulants must upset the self-balancing power of nature he was out of tune with fashionable medicine but very much in accord with the current thinking about the world and society. For it was generally believed that there was a natural order and harmony in human society, a pattern as clear as that of the bee-hive and as little subject to reconstitution by the exertion of human will-power.

John Stephen Watson

Historian and Fellow, Christ Church, Oxford University

¹⁹ From *The Reign of George III*

Intellectual Property

Leonard Hoffmann

My subject is intellectual property and the patent system in particular.²⁰ The principal forms of intellectual property are patents, copyrights and trademarks, but I shall say very little about copyright and nothing at all about trademarks. For the most part, I want to talk about patents. I imagine that this might be thought a rather technical subject to be presented in a lecture to a general audience in honour of David Hume, but I will say little about the technicalities. I shall instead concentrate upon the economic and moral questions raised by intellectual property, which are very much matters of general concern.

Even the Pope recently weighed with his opinion on intellectual property, in his encyclical *Caritas in veritate* published last year, when he said (in Latin): “On the part of rich countries there is excessive zeal for protecting knowledge through an unduly rigid assertion of the right to intellectual property, especially in the field of health care.”

I shall come back later to this question raised by the Pope, which is indeed very important. But since this is a Hume Lecture, I want to start with a more general question of moral philosophy and economics. In the *Enquiry Concerning the Principles of Morals*, Hume pointed out that no rights of property were required in things which were so abundant that everyone could enjoy them in common: the air, water in countries where there was plenty of it, the sea for the purposes of navigation. It is only if people are competing for resources that a law of property is needed. Hume says that this is required as a matter of morality and justice, because it is morally right that people should enjoy what they have created or earned and should be able to pass it on to their children. Otherwise scarce resources would be taken by whoever was the strongest. It is also economically efficient, because those who can make the most profitable use of scarce resources will bid the most to acquire them.

The case of intellectual property, however, is different because there seems no inherent reason why the ideas which form the subject of intellectual property – inventions which form the subject of patents and literary and artistic works which form the subject of copyrights – should be scarce resources.

²⁰ This is an extract from the Hume Lecture given by Lord Hoffmann on 13.4.10 in the Royal Society of Edinburgh.

Thomas Jefferson put the point eloquently in a letter which he wrote in 1813: “If nature has made any one thing less susceptible than all others of exclusive property, it is the action of the thinking power called an idea, which an individual may exclusively possess as long as he keeps it to himself; but the moment it is divulged, it forces itself into the possession of every one, and the receiver cannot dispossess himself of it.

Its peculiar character, too, is that no one possesses the less, because every other possesses the whole of it. He who receives an idea from me, receives instruction himself without lessening mine; as he who lights his taper at mine, receives light without darkening me. That ideas should freely spread from one to another over the globe, for the moral and mutual instruction of man, and improvement of his condition, seems to have been peculiarly and benevolently designed by nature, when she made them, like fire, expansible over all space, without lessening their density in any point, and like the air in which we breathe, move, and have our physical being, incapable of confinement or exclusive appropriation.”

This characteristic of the nature of ideas led Sir Arnold Plant, a professor of economics at LSE and the University of Cape Town, to write a well known article in 1934 in which he said that intellectual property did not fit Hume’s explanation for the existence of property. Intellectual property was not a scarce resource; the law artificially created scarcity by giving the patentee or the copyright owner exclusive rights, so that they could limit the use of the patented idea or the literary creation and thereby earn a rent, as a economists say, by charging a higher price than they would have got if everyone had been free to use their invention or creation.

I am not sure that this is right. If the purpose of having a law of property is, so far as possible, to secure a fair and efficient use of resources, then intellectual property serves that purpose as well as any other. The resources which have to be expended on making inventions or literary or artistic works – principally in human time, are scarce. They could be spent on doing other things. So the creation of intellectual property – to give the inventor a monopoly in the exploitation of his invention, or the writer a monopoly in the exploitation of his literary work – is a system of allocating scarce resources. Instead of allowing the owner of the field the exclusive enjoyment of the harvest he has sown, it allows the inventor to enjoy the fruit of his invention. In the case of the land owner, very little adaptation of property rights is necessary to achieve this effect. All you need is a rule that the corn grown in the fields belongs to the owner of the land. In the case of an invention, you need a new, highly abstract form of property: the exclusive right to the exploitation of the invention, which you grant to the inventor. That right is intellectual property. But the justification for creating this form of property is much the same as the rule that the corn belongs to the owner of the land. Where you have sown, you should be entitled to reap.

The question remains, however, whether the grant of rights of intellectual property is the most efficient way of ensuring that the resources put into innovation and creativity are most effectively used. In the agricultural analogy, it is easy to see that no one would plant the corn unless he was reasonably confident that no one else would be entitled to come and reap the harvest. But that is a relatively simple situation: first, unless the weather is bad, there is a reasonable expectation that sowing the seed will produce a marketable crop which will sell for a more or less foreseeable amount in money.

Secondly, apart from the prospect of selling the crop, there is little incentive to plant it. But with intellectual property, the position is much more complicated. First, an inventor who puts time and resources into some project may or may not obtain a patent. There are several possible slips between the cup and the lip. Quite apart from the notorious technicalities of patent law, there is always the possibility that someone else may sneak in first. You only get a patent if what you have invented is new.

And then, even if you were first and have got your patent, there is no guarantee that you will make any money out of it. Many patents are never commercially exploited and some of the most famous inventions like the jet engine were ignored for many years after the patent was taken out. So the inventor, far from having a reasonable expectation of harvesting the crop, is really being rewarded with a lottery ticket at fairly long odds. Secondly, many people make inventions or do creative work for reasons other than the hope of being able to make money out of intellectual property rights. Milton sold the rights to *Paradise Lost* to his publisher for a down payment of £5 and the promise of another £5 when the first edition had been sold. We have the contract, dated 27 April 1667. There was no author's copyright in those days but the Stationers' Company had a monopoly of the printing of books, which meant that stationers were willing to pay authors for books likely to sell. Still, I think Milton is likely to have written *Paradise Lost* whether or not his publisher had a monopoly. People write books to achieve fame, win Nobel, Booker and other prizes, obtain tenure and grants at universities, satisfy obsessions. As for inventors, most original work cannot be the subject of patents at all. You cannot patent a principle, like $e=mc^2$, or a discovery about nature, like the double helix structure of DNA. You can patent only a method of doing something practical, like putting bits of DNA into cells which can express useful proteins in vitro. Although the whole of biotechnology is based upon what Crick and Watson discovered about DNA, their discovery was not patentable. They did it for fame and advancement in their profession. Sometimes invention can be encouraged by offering prizes, such as the prize offered by the British government for the invention of a chronometer which would enable ships to establish their latitude. It is therefore far from clear that, in the absence of intellectual property, creativity and innovation would come to an end.

Nevertheless, I think that intellectual property is not a counter-example to Hume's thesis that property is a method for regulating the distribution and use of scarce resources. It regulates the use of the resources which are put into creativity and innovation, into research and development. The real question is whether it is an efficient method of doing this or whether the advantages are outweighed by deleterious side effects.

Lord Hoffmann QC

Former Lord of Appeal in Ordinary

The 'utility maximising' government adviser

Alan Peacock

One of the striking contributions of public choice analysis has been the analytical transformation of the government bureaucrat from being a guardian of the public weal into a common-or-garden rent seeker, or at least, a mean sensual maximiser like everyone else.²¹ Economists are employed by governments in many different grades and capacities. In the literature written by economists on the provision of economic advice to government there is copious information supplied on the process of advice-giving but little is made of the motivation of those who give it. I have tried elsewhere, albeit tentatively, to fill this gap by raising the following question: 'If the economist firmly believes in the robustness of utility theory, then presumable (s)he accepts that utility maximisation is as much a characteristic of an economist as of other human beings. Why should economists analyse the behaviour of bureaucrats, often concluding that they are 'rent seekers' rather than dispassionate guardians of the public interest, without recognizing that 'the pot may be calling the kettle black?'

My short answer, admittedly based on introspection and casual empiricism, is that economists are 'utility maximisers' like everyone else. Career prospects embodying long-term income opportunities are therefore an important argument in their utility functions. Like other professional cadres they trade off material wealth against job satisfaction and reputation with their peer group. Of course, investment by an economist in reputation may not be at the cost of income if promotion prospects, as in reputable university institutions, are based on peer group assessment.

The position may be less clear-cut in the case of economists employed in government. Take the position, as in the UK, where there has been a career structure for an economist within government. In the more junior posts, technical competence is likely to be the most important criterion for promotion and income improvement will depend on assessment carried out by senior economists. At more senior levels however, where economists are directly involved in giving advice on the effects of policies and come into contact with senior administrators and with politicians who form the government in power, there are two differences. Communication and management skills as well as technical competence will be an important element in the job specification.

²¹ This is an extract from an article which appeared in *Public Choice* 80, 1994 under the imprint of Kluwer Academic Publishers, Netherlands.

Promotion will be governed by the decisions of the most senior administrators, endorsed by the political head of the relevant department; and posts may sometimes be filled by 'lateral' transfer from outside government.

For positions with the equivalent of Permanent Secretary rank, the approval of the Prime Minister may be required. In short, any economist in the higher echelons faces important constraints if he wishes to maximise professional reputation.

I reject the proposition that it is in the interests of our senior advisers to 'trim' their advice for the following reasons:

(i) While a minister will prefer advice which goes with the grain of policy proposals, it is merely inconvenient if it does not. Official policy advice can be ignored, given the choice of alternative sources. Even then, the advice given by a senior economic adviser which is rejected may be worth studying carefully because it may marshal the arguments to be deployed against the minister's position by his political rivals and in the public debate of his proposals. The problem for the adviser is not that of being forced into 'slavery' but the effect on job satisfaction if advice is repeatedly ignored.

(ii) The trimming of advice to suite the predilections of a minister can be a high-risk strategy for an economist employed in a technical capacity. The 'customer', that is the occupant of a ministerial post, may change, and frequently does in the longer run, and so may the complexion of the government in power. A reputation for doctoring advice to suite a change in taste reduces its credibility, even when that advice is congenial to the new political incumbent. Were such an adviser to run an economic service as part of the task of executing policies and reviewing how existing policy instruments work, his administrative counterparts would be less inclined to trust the technical results and any associated recommendations for changes in bureaucratic procedures and practice. The consequences could be more serious than a loss of job satisfaction if senior administrators are consulted on his promotion or continuation of appointment.

(iii) An economist interested in long-term prospects and job satisfaction will wish to keep options open about the pursuit of a career solely within government service. That being so, he will be particularly mindful of their professional reputation. While experience gained in government may enhance that reputation, it will be discounted if that reputation has been sullied by trimming. It may be granted that the experience of those who admit to doctoring their advice to suit their political masters may have an anthropological interest, but the memoirs of rogues, however divertingly presented, usually have to be taken with large pinches of salt.

Nothing in what I have said is meant to question the analysis of the dangers which beset economists who attempt to derive policy recommendations from a set of normative propositions and then enter the business of selling their ideas to policy-makers. What I question is their conclusion that government economic advisers must necessarily become politicians' slaves. If they do so, then they cease to be economists.

Sir Alan Peacock DSC FBA FRSE

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Paying for Universities

Frances Cairncross

The night before the publication of the recommendations of Lord Browne's Review of Higher Education Funding and Student Finance in England, the David Hume Institute held a public debate on the subject in the extraordinarily grand Playfair Library of Edinburgh University. Around the walls stood the marble busts of the great academic names of Edinburgh's past. I recalled, as I admired them, that university professors in David Hume's Edinburgh made their living in a way that Lord Browne has failed to suggest: by collecting a fee from each student.

Today's Scottish politicians, none of whom came to the DHI debate, tend to talk of a 'tradition' of free university education in Scotland. It is a tradition of very recent birth – for the simple reason that it is a business model that works only as long as the taxpayer is willing to pour money into it. Indeed, in the eighteenth century, as the historian J B Morrell recounts,²² 'An Edinburgh professor derived his emolument, out of which he met the expenses associated with mounting his class, mainly from class fees...at the beginning of an academic session each professor received a salutary reminder about a basic source of his livelihood when he collected two or three guineas, depending on the class, from every prospective member.'

This version of higher education funding had its advantages. As Morrell says, 'It contrasted sharply with the comfortable situation at the universities of Oxford and Cambridge, where professors gladly received fixed and adequate salaries irrespective of the number of their students. As professors were so dependent on student fees for their livelihood, their own classes were likely to be their chief interest.' Hume's near contemporary, Adam Smith, famously found the teaching at Glasgow University vastly better than that at Oxford. There he recounts 'The greater part of the public professors have, for these many years, given up altogether even the pretence of teaching.'²³ College endowments, he noticed, paid them whatever they did with their time.

The system of fees advocated by Lord Browne will also profoundly change the way universities relate to their students. The change will not be as immediate, or as dramatic, as the contrast with the Edinburgh system might suggest. But what we are seeing is an unprecedented shift of budgetary control from government to students. Tuition fees, charged south of the Border, are to be replaced by deferred fees – and deferred fees will carry the bulk of the cost of an undergraduate degree.

²² The University of Edinburgh in the Late Eighteenth Century: Its Scientific Eminence and Academic Structure, *Isis* Vol. 62, No. 2 (Summer, 1971), pp. 158-171

²³ Adam Smith *The Wealth of Nations* 1776

The teaching grant from government, worth roughly £4,000 per student (depending on the subject) will shrivel and will effectively disappear in the case of most subjects other than science, technology, engineering and mathematics.

What might this mean for Scotland where higher education is about to come under serious challenge? Scottish universities have survived without tuition fees for over a decade. In spite of this handicap, Scotland still has some excellent universities. Indeed, no other country as small as Scotland has as many, per head of population, in the world's top rankings. Moreover, it is not clear that English universities have hit the jackpot with Browne's changes. Tuition fees above £6,000 will attract a rapidly rising tax rate, so that were a university to raise fees to, say, £10,000 a year, it would receive only £8,100. In addition, even a £6,000 rise in fees will not wholly offset the foreseen rapid reduction of the government subsidy to teaching.

But the cut in teaching subsidy will inevitably hit Scotland too. As a result, it will be almost impossible for Scottish universities to survive without accepting some system of deferred fees – and indeed, by the time this is published, or at least as soon as the May 2011 elections are out of the way, the Government may have accepted as much. So students, who in Scotland have been financially powerless compared with the government, will increasingly be the paymasters in Scotland too.

The impact of such a revolutionary change in the sources of university funding has received relatively little attention in all the debate about paying for university education. More discussion has revolved around the idea of a graduate tax and the consequences of saddling students with large debts.

A graduate tax was never a good idea, especially for a government desperate to cut public spending: its revenues would come in only slowly, as graduates began to earn more, and it would have continued long after most former students had effectively paid off the cost of their education. But the differences between deferred fees and a graduate tax are in some respects quite small: both collect funds after rather than during a student's education; both kick in only once earnings hit a certain threshold; and both are sensitive to changes in a graduate's level of earnings.

The debate about student debt also misses the point. Deferred fees is a gentle way of treating debt compared with any other form of repayment. No mortgage lender, after all, sets an earnings floor before repayments can begin, or automatically defers payments for anyone whose employment ceases or whose income drops. Certainly, American students might well envy what English students will probably face.

In America not only do repayments start straight after college but defaulting on a student loan damages the graduate's credit rating more than defaulting on almost any other kind of loan.

Of course deferred fees will bring difficulties of their own. Graduates will still, in effect, face higher rates of marginal tax than non-graduates – and given their youth, young workers will face higher marginal rates on the same income than older ones. In this sense, the switch is yet another blow against inter-generational equity: older taxpayers will no longer contribute to the cost of educating the young. And it is not clear what happens to repayments if graduates work overseas.

But the biggest consequences of this revolution will be that students regain the power of the purse. This will have some drawbacks. One is clear from eighteenth century Edinburgh where professors were keen to avoid conducting examinations: students will not want to pay a university to give them bad marks for coursework. The grade inflation in American universities shows what can happen under the influence of student power.

In addition, students and universities will both care a great deal more about the employment benefits of a degree. That will undoubtedly have an impact on the subjects that thrive and those that do not. In the United States, 22% of college graduates now major in business and only 2% in history and 4% in English.²⁴ It is easy for the young to assume that there are more jobs, and better-paid ones, in business studies than in the humanities.

But on balance the switch will probably do good. It will, with luck, allow universities to go back to making money from teaching. In recent years many universities have found it easier to make money from research, leaving students to be taught by recent graduates and doctoral students. It will encourage universities to think even more entrepreneurially than they do already, about the courses they offer, the costs they incur and the way they package their degrees. And if all this seems a ruthless and unscholarly way to think about these temples to learning and civilisation, remember that there is no reason to think that universities will become less interested in scholarship under student paymasters than they have been with the government mostly calling the tune. After all, Nobel prizes accrue disproportionately to the Western country whose universities depend most closely on student fees, the United States.

²⁴ Louis Menand. *The Marketplace of Ideas: Reform and Resistance in the American University*. Norton

And if David Hume and Adam Smith could praise a system where students paid their teachers on the spot, then surely scholarship can survive the advent of deferred fees.

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Back to (first) Principles

Sandy Crombie

The invitation to submit this article on the future of governance was received when banks were the focus of attention and apparently the cause of all ills. By the time ink had been committed to paper in summer 2010, it had become clear that the piece should take account of a broader set of examples. In the first half of 2010, it had become evident that the finances of certain countries had been run in a less than prudent manner and a major energy company had exposed itself to a catastrophe so large that its ability to survive had been called into question. So the temptation to write a narrow piece on the changes that might be necessary in response to a crisis in one particular industry had to be resisted in favour of writing a broader recommendation with more general application.

The financial crisis that unfolded from 2007 onwards will be the subject of analysis and debate for years, if not for decades. In time, it will come to be accepted that it took more than just the failures of management in banks to bring about the crisis. If it is not already the case, it will, I believe, come to be accepted that there were failures of governance at all levels in those institutions as well as failures up through the various levels of regulation and government. Wide-ranging reforms will no doubt be proposed after due consideration, to address some of the weaknesses exposed by the crisis. The same will no doubt apply in relation to the oil extraction industry given the events in the Gulf of Mexico in the second quarter of 2010.

Governance codes and regulations can achieve only so much. They seek to reduce the risk of failure by having governing bodies work to a pattern, and, through disclosure, to inform stakeholders of the residual risks being run. However, such codified approaches cannot eliminate the risk of failure and do not necessarily alter the human dynamics in the boardroom. Considerable scope is left for those in governing roles to apply their judgement and reach conclusions as to the best way to direct their particular company towards success. Without such freedom of action, enterprise and competition are stifled. Thus each company will have the freedom to set itself up in a different way to benefit from the circumstances that they expect to emerge, and to survive should adverse conditions apply. It is perfectly normal that such freedom will position some companies at the extremities of the pack, and that in any given set of circumstances such outliers will be seen either to have derived benefit or to have lost more than others as a consequence of their decisions. It is when things go so badly wrong that businesses are overwhelmed by circumstances and large scale effects are felt, that we hear called into question the behaviours and capability of the governors involved and the strength of the governance codes to which they were subject.

I have already expressed my view on the limitations of governance codes. I believe they are necessary and beneficial and can always be improved upon through experience. But, ultimately, it is humans who run companies, not codes, and it is the decisions humans make within the boundaries of the codes that create different outcomes.

Humans have their limitations too, but we should not start from the assumption that those who presided over failure either behaved badly or were lacking in capability. Those who determined that particular people should have governing roles in their institutions must have believed they had the appropriate character and capacities to bring about success. I will leave it to others to consider whether and how we can get better at selecting and preparing people for their roles as governors. What I find of more immediate interest is to consider what influences, had they been applied, might have caused the same people to make different decisions and bring about different outcomes.

Whether we think of a particular country, bank or oil company, we can presume that those in control made their decisions expecting to preside over success. That it turned to failure they might each say was a consequence of a set of circumstances emerging that they could not control. That may be true, but the circumstances were not beyond imagination. What these leaders did was to accept, either knowingly or unknowingly, that they would have an extreme problem in an extreme set of circumstances. Had they defined success using different criteria, or had a different appetite for risk, and consequentially made different decisions, the outcome for the country, bank or oil company under their charge might have been very different.

Is the issue merely the attitude to taking risk? Personally, I think that is not the best way to view the problem. We have all become used to the risk statements produced by companies. Such statements are important to the stakeholders in a business and can be quite voluminous, even when they stop short of including every imaginable situation. However, producing lists of risks does not necessarily alter the propensity to take them, or bring about a determination to manage them. To make a real difference, the ability to withstand adverse situations must be built in to every aspect of a company's operations.

At the governing level, the definition of success must therefore incorporate ultimate sustainability. I believe that running organisations for long term sustainability, rather than short term shareholder value, should be the dominant corporate ethic. For some, the word 'sustainability' conjures up thoughts of a narrower agenda. However, I believe the sustainability agenda should be all-encompassing and not just defined in the narrower context. It should be about every aspect of how a business operates and govern every activity across every stakeholder group.

To function at a practical level, it requires a framework to be established that will ensure everyone in the business knows how they can contribute to, and do nothing to undermine, long term sustainable success. This requires that such a framework is part of the way of working and not additional to it. The framework must be built around the operating principles by which the organisation will be run.

These principles have to be broadly drawn, because otherwise they tend to look like detailed rules, and we cannot afford the excuse 'there was no rule against it'. It is true that the broader the principles are, the more debate they will prompt. That is not a bad thing, since debate produces a deeper understanding than can be brought about through mere repetition of words. And the principles have to be encompassing so that they will get in the way of any activities that could be damaging. These principles must be applied consistently and be taken just as seriously at every level.

The framework therefore requires policies, which tell how the organisation's principles will be applied in given circumstances, processes (with controls embedded) that bring about consistency of practice, and management information that will be the basis of reporting and assurance.

When this principles-driven framework is installed alongside a value system, and communicated effectively throughout an organisation, it will lead over time to a deeply engrained culture and a value proposition that is attractive to all the stakeholders in an organisation. It will give us institutions that manage risks rather than take them, and, rather than stoop for the fast buck, stand tall with a determination to bring about long term success.

Sir Sandy Crombie

Senior Independent Director, RBS
Chairman, Creative Scotland
Former Chief Executive, Standard Life

**Exchange of letters between Adam Smith and David Hume
two days before Hume's death**

'You have, in a declining state of health, under an exhausting disease, for more than two years together, now looked at the approach of, or what you at least believed to be the approach of death with a steady cheerfulness such as very few men have been able to maintain for a few hours, tho otherwise in the most perfect of health...AS.'

'My dearest friend,
I go very fast to decline, and last night had a small fever, which I hoped might put a quicker period to this tedious illness, but unluckily it has in a great measure gone of(f). I cannot submit to your coming over here on my account as it is possible for me to see you so small a part of the day but Dr Black can better inform you concerning the degree of strength which may from time to time remain with me. Adieu my dearest friend. DH.'

Is any trust left?

Donald Brydon

We have been through some extraordinary times which have tested many of the assumptions on which our professional lives have been based.²⁵ Trust in many of the aspects of our lives has been badly damaged and yet it is important that trust is restored if we are to live in a fully functioning and cohesive society. This is not just a question for our professions – you only have to read about cricket, politicians' expenses and perceived failures by social workers to know that this is a much wider issue. Nevertheless I believe the professions have a very important role in the restoration of trust. Indeed the whole concept of a profession is that it can work with its clients in an atmosphere trust. Once that trust is broken it is hard to restore.

In the course of my reading about Tacitus, the Roman senator and historian, I found this remarkable sentence in his writings: 'A shocking crime was committed on the unscrupulous initiative of few individuals, with the blessing of more, and amid the passive acquiescence of all'. You might have thought these were the words of the inestimable Gillian Tett or of that prescient chronicler Philip Augur. But no, they were written in reference to ancient Rome rather than our modern economy.

These are words however that many would recognise as a fair description of the events now increasingly characterised as the Great Financial Crisis – which may well not be over yet. This crisis was indeed the greatest shock to public equanimity that has occurred in a generation.

Dislocations of the sort we have just experienced to our reasonable expectations of the future provide a breeding ground for suspicions and, by a process that is difficult to understand, evidence to support these suspicions that would have been ignored in more stable times, appears plausible now. Just as when you learn a new word, it pops up everywhere as though each page was an alphabetic breeding ground, so evidence for suspicion crops up now all over the place.

I am nonetheless not yet convinced that we have a full-blown crisis of trust, but we are edging closer and closer. I do accept that we are all acquiescent in this process. There is a growing need to respond to the increasingly hostile attitude to the professions, not by restating mantras that insist there is no problem, but by opening ourselves to new levels of candour and personal behaviour that will demonstrate that we 'get it' and are not just arrogantly defensive.

²⁵ An extract of a paper presented to The CA Conference 2010, Institute of Chartered Accountants of Scotland on 10.9.10.

Trust comes from the subjective probability that expectations will be fulfilled. It implies a thoughtful confidence in the behaviour of others. It requires an atmosphere consisting of a natural, widely recognised fairness – that is why remuneration appears to be a disproportionate target for blame.

In speaking today of a fracturing of trust I would like to consider this issue with three groups of professionals in mind: company board members, institutional investors and accountants. I will argue that, in parallel with decreasing levels of trust, there has been a journey into a world of increasingly unrealistic expectations. This combination is dangerous because it can create a feedback loop in which as a result of a lack of trust ever increasing levels of assurance are required; but because the objectives of this assurance consist of increasingly unrealisable outcomes, they themselves cause further decreases in trust. Recent events at BP make this only too plain.

There is a view, widely held, that trust is not a survivable concept in freely competitive markets. For those sufficiently interested there are good academic papers which argue that transaction cost economics cast substantial doubt on the survivability of trust using the argument that under competition firms are under pressure to utilise and indeed exploit any opportunity for profit. Others have concluded that reliable knowledge on trustworthiness is impossible leading to a view that decisions must be based on opportunism. Then the only way to identify loyalty is to infer it from observed behaviour. This is not a trivial point and Professor Onora O’Neill, in her Reith Lecture 2002, drew a most important distinction between statements about trust and behaviour from which trust can be inferred. Think of this in the context of driving on the motorway. If you were asked if you trust your fellow drivers, you would give one answer, but your driving would reveal your true view of the other drivers on the road.

In our worlds there are many very clear statements about the standards expected of our professions. Let me use one excellent example of a statement about trust from the core principles of the Worshipful Company of International Bankers:

- ‘To act honestly and fairly at all times when dealing with clients, customers and counter-parties and to be a good steward to their interests, taking into account the business relationship with each of them, the nature of the service to be provided to them and the individual mandates given by them.
- To act with integrity when fulfilling the responsibilities of your appointment and seek to avoid any act or omissions or business practices which damage the reputation of your organization or which are deceitful, oppressive or improper and to promote high standards of conduct throughout your organization.
- To observe applicable law, regulations and professional conduct standards when carrying out financial service activities and to interpret and apply them according to principles rooted in trust, honesty and integrity.

- When executing transactions or engaging in any form of market dealings, to observe the standards of market integrity, good practice and conduct required or expected of participants in that market.
- To manage fairly and effectively and to the best of your ability any relevant conflict of interest, including making any disclosure of its existence where disclosure is required by law or by your employing organization.'

Who could argue that that is not an excellent set of principles? But can any of you here today who has read *Barbarians at the Gate*, *The Big Short*, *Fool's Gold*, *Chasing Alpha* or *The Predators' Ball* fail to pause just for a moment when you think that all the perpetrators of the abuse of trust laid out in these chronicles worked for companies that would happily have said that these principles absolutely applied to them.

There is here such a gulf, such a disconnect, between statements of trust and behaviour from which trust can be inferred that it is wholly understandable why so many place less and less trust in the professions. It as though the professions are disciples of Jean Brodie. 'Please try to do as I say and not as I do'.

Is there a problem with such statements in themselves? We all know members of our professions who view the writing of these statements and the surrounding debates as fine for those who want to be involved, but they believe real men and women get on with making money. Do we do enough to ensure that these become true living principles rather than archived gospels to be brought out as evidence when under attack? Do we do enough to reach the refuseniks?

Proof of how bad society's view of bankers has become is seen as politicians have so successfully deflected their share of the blame for our recent economic woes to evil bankers that the new UK Government is struggling to convince people that the current expenditure cuts are the consequence of the actions of the previous government's expenditure rather than the fault of the City and, worst of all, the bankers. This would not be possible if there was not such fertile ground into which to cast the seeds of distrust. No sets of principles have proved an adequate defence because they have been seen to be hollow and out of touch with reality. At this somewhat simplistic level, trust in bankers (and many in authority) is worryingly damaged.

Governor Subbarao of the Indian Reserve Bank: 'What the crisis has done is to cause a massive breakdown of trust: trust in the financial system, in bankers, in business, business leaders, investment advisors, credit rating agencies, politicians, media and in globalisation.' But rather than rhetoric, what about some facts?

Ipsos Mori said that only 13% generally trust politicians to tell the truth, a proportion that has fallen since 2008 by 8%. And for other authority figures the results are not encouraging: trade union officials and business leaders are down at 38% and 25% respectively; government ministers at 16% and journalists, up from recent years, at 22%. Business leaders registered their worst net score (that is, the proportion who trust them to tell the truth minus those who do not) since the survey began 27 years ago. And yet we business leaders communicate to our workforces expecting to be believed. The facts do not support this.

But for all that this is discouraging, the survey concludes that there is little evidence that ‘as a society Britain has become less likely to trust others to tell the truth. Average levels of trust across all surveyed professions have been relatively stable over the decade – although net trust has fallen somewhat’.

Furthermore the incidence of trust does not follow a symmetric pattern. Increasing trust, once given, occurs incrementally but decreases in trust may occur both incrementally and in discontinuities. As the saying goes, ‘trust comes on foot but leaves by express train’. Roderick Kramer has pointed out in the *Harvard Business Review* recently, all this trust is natural. We enter the world ‘hard-wired’ to trust, we are born to trust our mothers, ‘to be engaged and to engage others. The tendency to trust made sense in our evolutionary history’. Kramer quotes research that shows we over estimate our ability to assess others; we underestimate the chance that bad things will happen to us.

Does this apply to board members, institutional investors and accountants? Are we all overoptimistic? And is this the source of what others perceive to be arrogance in the face of events going wrong? Or have we become so constrained by rules and expectations that our defensiveness appears to others as complacency?

At the Auditing Practices Board there was a considerable disconnect between what we lay members felt to be the usefulness of auditors’ reports and the view of the accountants. Driven by a fear of liability the accountants argued for rules based, boiler plate language whilst the laymen wanted discursive reports that gave the readers the feel of the company’s behaviour. We are not much further forward today. The profession’s behaviour was driven by a perceived narrow self interest and not its usefulness to its clients.

When the debate over international accounting standards manifests itself in the justification for off balance sheet companies founded on the arbitrage between different national accounting standards and accountants are happy to justify their audits based on those narrow national criteria the profession shows itself more interested in its own role than in the usefulness of the accounts to their users.

Remembering that I defined trust as the subjective probability that expectations will be fulfilled, can anyone maintain that expectations of the accounting profession are fulfilled in these circumstances? This could only be true on the basis of the lowest possible expectations.

On what basis has the profession of investment management earned the right to trust? And yet far from there being a gathering disaffection with investment managers generally regulators seek to put even more responsibilities onto them to act as an extra layer of governance and assurance in the corporate sector. On what basis does this happen? Is it just *faute de mieux*?

Here rising expectations of this governance role will continue to be unfulfilled. No institutional investor will (or should) ever know enough of the heartbeat of the companies in which they invest that they can act as effective governance. Yes, they can focus on some simple fact-based variables such as pay for executive directors, how many meetings directors have attended and obedience to a code of behaviour, but inevitably when corporate failure happens (as it should and must if our economy is to regenerate itself) expectations will not be met and trust will be further damaged as a result.

Indeed the accountancy profession is bedevilled with this problem at its heart. There is no unique measure of the profits of a company and yet, perhaps through complacency or arrogance, we have all allowed the world to believe there is. And what is more no one wants to hear the truth anymore.

The same is particularly true in the field of risk. For investment products there is a great desire on the part of regulators to find simple ways of describing risk. Suggestions of simple traffic light labelling abound. Consider for a moment government fixed income investments: safe or risky? Green or red? Before even thinking about the current difficulties with public sector financing and sovereign debt crises, the answer would be different depending on whether there is incipient inflation or price stability. Overlay that with the new doubts in the markets about sovereign prudence and a fund invested in sovereign European bonds might be considered by different calibrators as red, green, orange or even black.

Given that no one can forecast tomorrow's price levels there is no simple categorisation of risk possible that will stand up in extreme circumstances. The expectations created by this attempt will come to be disappointed one day and then, once again, there will be a further downward step in a spiral of distrust. It will be a self inflicted wound.

This escalation of expectations – this escalation of unrealistic expectations – which ought to be confined to the optimism of the football supporter at the start of each season – now infects the boardroom also.

The increasing emphasis on risk management and reporting of satisfactory oversight of processes underlying this management is storing up a similar opportunity for disappointment. No one can argue, I hope, that most of the underlying management requirements of the Sarbanes-Oxley Act of 2002 represent other than common sense and attributes of good management. However when this is turned into the need for clear, simple statements of adherence by boards we create the opportunity for new and rising expectations. So what happens? A cascade of reporting has been developed so that, if (or when) something goes wrong the members of each layer can say that they relied on the processes of someone else, and that they had external endorsement of that process too. And in this reporting a level of assurance accumulates to imply less risk than truly exists. Perhaps there is a law: that underlying risk embeds itself in an organisation in proportion to the layers of assurance that it is under control!

Just watch as the BP story unfolds and the performance of the Board's grandly named Safety, Ethics and Environment Assurance Committee is brought under the spotlight. What I am concerned by is the atmosphere of assurance that Boards generally now find themselves obliged to exude. BP gives an opportune example of this. What are we to make of this? We could find similar statements in many companies' reports. Are we supposed to conclude, "Well that's alright then" or should we really be told that, no matter how well this committee carries out these admirable tasks, which it will and does diligently, the elimination of risk is impossible and that sometimes things will go wrong. Why have we all become so afraid to speak in this simple language?

I know that life is not so simple but unless we find ways to increase the level of candour in our communication then we will continue to foster rising and unrealistic expectations and trust in business and the professions will continue to erode. That banks' boards should have been fully alert to the risks of ever increasing leverage in the run up to the Great Financial Crisis is clear but think for a moment about Chuck Prince's statement in 2007. He said 'As long as the music is playing, you've got to get up and dance.'

The former Citigroup chief executive's explanation seemed to boil down to this: it was a race to keep up with competitors who kept loosening lending standards and Citi could not afford to drop out. I am sure he saw himself as doing the best for his stockholders. But how does this square with those grand sounding bankers' principles referred to at the beginning. How could 'continuing to dance' be compatible with being a good steward of your clients' interests?

He can of course be commended for his candour. It would be helpful if that candour were offered ex ante but at least now we know. For if he is right, that when the money supply is far too loose, banks in normal cycles must keep lending, then our expectations of banks need to be recalibrated.

Attempts to persuade us through all sorts of new regulation that it will never happen again simply add to the bonfire of unrealistic expectations.

There is one other factor we need to consider – the effect of increasing transparency. I think, although recent events suggest some growth in untrustworthiness, what we are witnessing is a growth in suspicion. In the information age through which we are now all living the spread of suspicion is more efficient and rapid than ever before and, given that in the transmission of information by citizens there is no obligation not to deceive, there is also no check on its veracity. Indeed some have asserted that the drive for transparency has marginalised the obligation not to deceive.

But as Alexis de Tocqueville argued the French Revolution happened long before it happened. The moralist, Parker Palmer, has further argued that the eruption that was the reign of terror in France was the direct result of ‘small seismic shifts’ that had been accumulating deep underground in French society for decades. If people had paid attention to the tectonic instabilities caused by greed and injustice and had responded wisely to these warning signs, the explosion may have been avoided.

There are some little warning signs around today, insufficient to be wrapped under the clichéd banner of a ‘crisis of trust’, but there nonetheless. The ratio between top and bottom pay has become dangerously large – this is not a question of jealousy, rather it is a question of inherent fairness. How do you trust someone whom you regard as unfairly rewarded? Behaviour cannot be regulated; it all boils down to personal choice.

In our world today transparency is here to stay and so the information on which suspicion breeds will also affect us all. Inevitably all professions will have to learn new ways to build trust to avoid having information asymmetry about failings drowning out the vast majority of good outcomes experienced by customers and stakeholders. Perhaps we could learn to communicate more simply and effectively about quality of service in new ways and develop other measures of success in a balanced way.

Of course much does rest on personal responsibility and Roderick Kramer’s timely paper *Rethinking Trust* suggests some ways in which each of us can improve our ability to trust wisely. Amongst other things he proposes that we should make an effort to know ourselves – after all our calibration of others’ trustworthiness starts with our calibration of our own. We should not place immediate, full trust but learn as we go. We should understand how we can disengage early from a relationship before placing too much trust in it. We should send strong signals of what we value and our willingness to support these values.

We should understand others' pressures and perspectives and, perhaps most importantly, we should always be questioning and vigilant. I would add that we should also do the right thing and this will affect those around us.

So to sum up;

Can we ourselves learn to trust wisely?

Can we communicate with greater candour?

Can we find ways to link statements of principles to individual behaviour?

Can we be sure we put our clients' interests ahead of our own?

Can we honestly say that we are not part of 'the passive acquiescence of all' in a 'shocking crime' perpetrated by a few and blessed by more?

Can we mount an effective barrier to the ever rising tide of unrealistic expectations?

If the answers are yes, then I am sure that the trust that is left in our professions can be improved. If not, either de Tocquville is right or we will have to rely on the new field of neuroeconomics that has found that oxytocin, a natural chemical in our bodies, can boost both trust and trustworthiness. I hope sincerely that we can do better.

Donald Brydon CBE

Chairman, Royal Mail & Smiths Group

Former chairman, Amersham

Former Independent Director, AXA UK, LSE, Allied Domeq, Scottish Power

The world after the Financial Crisis

Martin Wolf

“Simply stated, the bright new financial system – for all its talented participants, for all its rich rewards – failed the test of the market place.” Paul Volcker.²⁶

Where has the financial crisis left the world and British economies? That is the question to be addressed here²⁷. To answer the big question, the article will address four narrower ones: first, how did we manage to fall into such a mess? Second, how do we return to stability? Third, what are the lessons of the crisis for macroeconomics? Finally, what are the lessons for finance?

So let me start with my first question: how did the world get into this mess – a mess that very few expected? The view of most professional economists and market participants was that our contemporary financial system had exceptionally sophisticated risk-management and would prove robust, in the face of shocks. All this proved to be a delusion. Instead, the world economy suffered what may well be the most severe crisis in the core of the financial system there has ever been.

This massive crisis had its roots in four interconnected places: ideas; economics; finance; and policy.

First, we have ideas. The most important ideas were the belief in efficient markets, inflation targeting and the ‘great moderation’. In essence, economists came to the view that with monetary stability ensured by inflation targeting and financial stability ensured by decentralised markets, the world had entered a period of overall stability. This proved false in precisely the way that Hyman Minsky warned it would: success bred excess and excess bred collapse. In other words, as perceived risk fell, financial markets generated more risk, by increasing leverage and shrinking spreads for risk.

Second, we have economics. The biggest economic forces were the financial surpluses of the corporate sectors of the advanced countries and the emergence of the global imbalances. As I have argued in a recent book, *Fixing Global Finance*²⁸, after the Asian financial crisis, emerging countries moved into current account surplus and recycled the private capital inflow.

²⁶ From a speech delivered at the Economic Club of New York on 8.4.10

²⁷ Based on the David Hume Institute lecture on 29.11.09 with a focus on the longer-term implications of the crisis.

²⁸ Martin Wolf, *Fixing Global Finance*, 2nd ed. Baltimore and London: Johns Hopkins University Press, 2010

This was not just the result of private decisions. It was the result of deliberate exchange rate intervention, the accumulation of foreign currency reserves and sterilisation of the monetary consequences. China was far and away the most important player, emerging as the world's largest surplus country in the middle of the last decade.

There are three main surplus regions: emerging countries (especially China); old industrial countries (particularly, Germany and Japan); and oil exporters. Their aggregate surplus exploded upwards from 0.3 per cent of world gross product in 1996 to 2.7 per cent in 2007. In the latter year, the surplus of China and other emerging surplus countries was 1 per cent of world output, the surplus of the oil exporters was 0.9 per cent of world output and that of Germany and Japan was 0.8 per cent of world output. Meanwhile, the US deficit peaked at 1.7 per cent of world product in 2005.

Again, between January 1999 and July 2008, just before the worst of the financial crisis, global foreign currency reserves soared from \$1,620bn to \$7,150bn. They then fell, modestly, to \$6,650bn in March 2009, as they were used to protect their owners from the crisis, before restarting their rise. By November 2009, reserves had reached \$7,770bn. Thus, we have the spectacle of a massive capital outflow from relatively poor countries into the liabilities of rich countries and, in particular, of the US government.

Third, we have finance. The emergence of the global savings glut led to an environment of low nominal and real interest rates, particularly on the safe assets that foreign governments wanted to hold. This led to exceptional leverage among borrowers and a reach for yield among such investors as pension funds and endowments. Confronted with exceptional demand for safe assets, the financial sector did not merely accept the high prices and low yields: it fabricated new assets on a vast scale, through so-called 'structured finance' – a process superbly described in a study by Anton Brender and Florence Pisani.²⁹ According to Lloyd Bentsen, chairman and chief executive officer of Goldman Sachs, in January 2008, 'there were 12 triple A-rated companies in the world. At the same time, there were 64,000 structured finance instruments, such as collateralised debt obligations, rated triple A.'³⁰

²⁹ Anton Brender and Florence Pisani, *Global imbalances and the collapse of globalised finance*, Centre for European Studies, 2010.

³⁰ The financial crisis, Letter to the Editor, Financial Times, <http://www2.goldmansachs.com/ourfirm/on-the-issues/viewpoint/archive/lcd-financial-crisis.html>.

Finally, we have policy. In regulation, we have two errors: one of commission and one of omission. The biggest error of commission was the active support given to home ownership in many countries, particularly the US, which led to unsound lending to people with poor credit. The biggest errors of omission were to allow increases in financial sector leverage, huge extensions of bank balance sheets, unchecked financial innovation, conflicts of interest in ratings and, particularly in the US, fraudulent lending. In monetary policy, we see undue reliance on inflation-targeting in an era of disinflationary shocks. This, in turn, created exceptionally easy monetary conditions worldwide, which further greatly exacerbated the leverage cycle.

This then was a complex cycle. But its key feature – as in all such cycles – was asset price inflation and an explosion in leverage: a huge house-price boom that spread across large parts of the developed world, particularly the US, UK, Spain and Ireland; a huge increase in household indebtedness, again particularly in the UK and US; and a huge expansion in leverage across economies, particularly in the financial sector itself.

By 2007, according to the Organisation for Economic Co-operation and Development, the ratio of household indebtedness to disposable income had reached 186 per cent in the UK, the highest among the group of seven leading high-income countries, up from only 107 per cent a decade earlier. In the US, it had reached 141 per cent in 2007, up from 96 per cent a decade before. In the US, the gross debt of the financial sector doubled, from 61 per cent of GDP in 1996 to a peak of 120 per cent in 2009.³¹ In the UK, at the dawn of the financial crisis, the gross debt of the financial sector had reached 250 per cent of gross domestic product.³² According to Andrew Haldane of the Bank of England, the aggregate assets of UK banks rose from 200 per cent of GDP to well over 500 per cent of GDP over the last 15 years.³³

In retrospect, this looks like a disaster waiting to happen. And so it was. Whether such a traumatic financial and economic collapse as occurred in the autumn of 2008 and the first few months of 2009, in the aftermath of Lehman's bankruptcy, was inevitable must remain an open question. We cannot rerun history. But some break in these trends was surely inevitable: the current account imbalances, house price booms and debt accumulations could not continue.

³¹ Data from the Federal Reserve's Flow of Funds Accounts of USA Z.1, <http://www.federalreserve.gov/releases/z1/default.htm>.

³² The Turner Review, A regulatory response to the banking crisis, exhibit 1.10, http://www.fsa.gov.uk/pubs/other/turner_review.pdf

³³ Banking on the State, Chart 1, <http://www.bis.org/review/r091111e.pdf>.

As Herbert Stein, chairman of President Richard Nixon's council of economic advisers, famously said: "If something cannot go on forever, it will stop."³⁴ The only question was how and when. Now we know.

Now let us turn to the second big question: how do we return to stability? By dint of historically unprecedented monetary and fiscal policies, in time of peace, and socialisation of the liabilities of the core financial sector, the financial system and the economy have been stabilised. It has been a 'great recession' not a 'great depression'. But has the rescue created the conditions for a sustainable recovery? This remains unclear.

The scale of the rescue is startling. According to the Bank of England, total support for the UK banking sector (via money creation and collateral swaps from the central bank and guarantees, insurance and capital injections by the government) amounted to a total of 74 per cent of GDP. The US interventions were of the same size, though those of the Eurozone were only 18 per cent of GDP. Central bank intervention rates were brought close to zero, where they have remained. Finally, fiscal deficits in the most affected countries reached levels previously only seen in world wars. These, then, are not normal policy conditions.

In my analyses of the crisis, I have focused on what has happened to the financial balances of the foreign, private and government sectors, which must sum to zero, by definition. This is just double-entry book-keeping.

The big feature of this crisis has been the massive swing of the private sector into a surplus of savings over investment (or income over spending). Between 2006 and 2009, according to the International Monetary Fund, the swing of the private sectors towards surplus amounted to a spectacular 17 per cent of GDP in Spain and Ireland, 14 per cent in the UK and 10 per cent in the UK.

These shifts in private sector financial balances are not merely the counterparts of the huge fiscal deficits these countries are running. They are the direct cause of those fiscal deficits. Of course, it would have been possible to eliminate the deficits in the government accounts, but only by creating a huge depression that would have eliminated the surpluses of the private sector by destroying its incomes. That would have been worse than a crime; it would have been a grotesque blunder.

Inevitably, with fiscal deficits running at close to, or even over, 10 per cent of GDP in a number of countries, including the UK, anxiety about sustainability is rising. Such anxiety was exacerbated by the fiscal crises in peripheral members of the Eurozone in late 2009 and 2010.

³⁴ Herbert Stein, "Herb Stein's unfamiliar quotations: on money, madness and making mistakes", Slate, May 16, 1997, www.slate.com.

As happened in the 1930s, the anxiety of conventional wisdom overwhelmed common sense, with a growing attachment to the idea of fiscal consolidation, despite the scale of the recession and the need for the private sector to embark upon a lengthy period of de-leveraging and higher savings.

Yet, by definition, if highly indebted private sectors are to run substantial surpluses over a lengthy period, as seems both plausible and desirable, governments and foreign sectors must run offsetting deficits. (Note that a foreign sector financial deficit means a current account surplus). Yet it is far from clear which countries are going to run counterpart current account deficits if the US, UK and Spain run large current account surpluses.

What does this mean, more specifically, for the UK? How is it to return to fiscal sustainability, while also attaining relatively high levels of output. On the assumption that the private sector is likely to run at least modest financial surpluses for a lengthy period, the economy must move into a sustained current account surplus. This is why the fall in the exchange rate – a real depreciation of about 20 per cent – should prove helpful, in the medium to longer term, provided the depreciation is not eroded through inflation. There is no doubt that the assumptions underlying the coalition government's sharp fiscal tightening, namely, that this private sector and external adjustment can take place in one parliament is heroic.

Now, let me turn to the third big question: what are the macroeconomic lessons of this crisis? Broadly, two stand out: first modern macroeconomic thinking turns out not to work very well and huge global imbalances create large problems.

On the first of these lessons, I would elaborate as follows. Real business cycle theory – the dominant school of macroeconomic thinking over the past three decades – is a joke, unless one wishes to argue that, quite suddenly, in the autumn of 2008, precisely when the financial system imploded, millions of workers decided to take a holiday or, quite suddenly, productivity had collapsed. Some argue that the shock was the rise in real commodity prices, prior to the crisis, but this was not a reason for such a sudden collapse in world trade and output.

In addition, the monetarist view that it is the collapse in the supply of money, or a huge increase in demand, which explains the downturn, is also unpersuasive. The collapse in credit matters, as well. Furthermore, the crisis has also reminded us that the financial system has the capacity to generate huge errors via a mixture of asset price bubbles and increased leverage, particularly when intermediaries themselves become undercapitalised, as is itself likely in a period of euphoria.

It is also evident that inflation targeting is insufficient for stability. While Alan Greenspan is right to argue that it is hard to assess bubbles while one is living through them, it is also dangerous to ignore the possibility, particularly when a large expansion in credit coincides with a rise in asset prices. So central banks should ‘lean against the wind’ in monetary policy, on the principle that it is better to be roughly right than precisely wrong. They also need ‘macro-prudential’ tools, to curb lending. Finally, in the context of credit booms and asset price bubbles, fiscal policy should move aggressively into surplus.

Finally, what is to be done about the instability generated by global imbalances? To address this, one has to understand why so many emerging countries have become capital exporters rather than, as one might expect, capital importers. The answer is that they have been badly scarred by past crises, with their attendant ‘sudden stops’ in capital availability and then economic collapses. So these countries have insured themselves, by keeping exchange rates down, relying on export-led growth and accumulating foreign currency reserves. The difficulty is that the advanced countries have proved unable to use the capital they have received productively.

What is needed is rebalancing of global demand, with emerging countries absorbing excess saving elsewhere, not generating it. That will require a big change in the global monetary system: larger insurance mechanisms for countries hit by crises, via central bank swap lines and easy access to funds from the International Monetary Fund, including larger allocations of special drawing rights (SDRs).

Now let me turn to my last big question: what, broadly speaking, needs to be done to reduce the likelihood of a breakdown of the financial system? The broad answer is: control people better or frighten them more. But, since we have rescued all the systemically significant institutions and so their creditors, we have removed much of the fear. Yes, those who worked at, or lent to the ‘sacrificial Lehman’ lost a great deal of money. But almost everybody else is still alive and very much kicking.

The big lesson bankers should learn is to get into trouble with all the other bankers. As Keynes famously said, ‘A sound banker is one who, when he is ruined, is ruined in a conventional and orthodox way, so that no one can really blame him.’³⁵ You can then be sure of being saved, particularly if yours is a big and interconnected bank. This, of course, creates a dangerous moral hazard. It can only be dealt with by making bankruptcy of such institutions more credible. Efforts are being made in that direction, via ‘living wills’ and ‘resolution régimes’. Whether they will work in a crisis is an open question.

³⁵ John Maynard Keynes, *The consequences to the banks of the collapse of money values*, 1931.

So can we then at least curb the excesses of the financial system? This is what we would probably have to do: raise capital requirements dramatically, with a strong bias against large ‘too big to fail’ institutions; ensure institutions are adequately liquid or possess assets that central banks can easily and readily discount; and put much of the trading onto exchanges, to reduce the uncertainty created by the risks of failure of counterparties. I see this as an exercise in trying to make the ‘nodes’ of the financial system and the ‘network’ safer.

Some propose much more radical solutions. John Kay, for example, a fellow columnist on the FT, has proposed narrow banking, with separation of deposit taking from credit creation.³⁶ Would this work? The advantage would be that such banks would become safe, on the assumption that their assets (presumably government liabilities) would be absolutely safe. The disadvantage is that the entire credit system would be outside the banking system. It is highly likely that the government would still respond to a collapse, as the US government responded to the collapse of its so-called ‘shadow banking system’.

A still more radical proposal is ‘Limited Purpose Banking’, in which all financial institutions, except partnerships, become mutual funds, with all risk borne by the suppliers of the funds. This would eliminate the pretence that thinly capitalised institutions can finance risky long-term assets with riskless and often short-term liabilities. This is essentially a fraud. Limited Purpose Banking, proposed by Larry Kotlikoff of Boston University, would end it and, with it, the financial system as we know it.³⁷ It makes a great deal of sense, but seems too radical for most people to contemplate.

At the least we can try to make our economy safer, by discouraging banks from engaging in risky trading, by greatly increasing the capital required against trading positions, and eliminating the fiscal incentives for borrowing throughout the economy. The former suggestion seems simpler than reintroducing a distinction between commercial banking and investment banking that is now extremely hard to draw and was, in any case, unique to the US, via the Glass-Steagall Act of 1932.

The overall conclusion I draw is that we have experienced a comprehensive and shattering economic breakdown, from which it may well take us years to recover. We need to draw big lessons from what has gone wrong. We need also to recognise that some of the background conditions of the collapse – particularly, the global imbalances – still exist.

³⁶ John Kay, *Narrow Banking: The reform of banking regulation*, 2009.

³⁷ Larry Kotlikoff, *Jimmy Steward is dead: ending the world's ongoing financial plague with limited purposes banking* (Hoboken, New Jersey: John Wiley & Sons, 2010).

Perhaps the biggest concern is that we seem to be on a treadmill, with ever more aggressive fiscal and, above all, monetary policy, used in response to each previous crisis. We now seem to have exhausted the tool box. So what happens next time?

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Hume as a Historian

Hugh Trevor-Roper

Like all historians Hume considered himself entirely impartial. 'I may be liable to the reproach of ignorance', he wrote, 'but I am certain of escaping that of partiality.' After all, why should he be partial? He was a foreigner, a Scotsman, happily outside the factious party politics of England for which he always expressed the greatest contempt. He was also a social philosopher, with a new point of view: a point of view from which politics receded into the interstices left by social and economic laws. And in religion he was a sceptic – 'that notorious infidel' as Johnson and Boswell called him – for whom religion too receded into its social context. For all these reasons he felt himself outside and above the stale and vulgar battles of Whig and Tory, Church and Dissent. He was a 'philosophical historian', and having written a philosophic history of the reigns of the first two Stuart kings, he sat back and awaited the applause.

It did not come.

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The Economics of Small States

John Kay

In the nineteenth century, states became larger. The dominant political events were the expansion of empires, the unification of Germany and Italy, the emergence of the United States of America.

In the twentieth century, states became smaller. The century began with the collapse of the weakest and most decayed empires, Turkey and Austria-Hungary. In the second half of the century the membership of the United Nations grew from fifty to two hundred. A majority of the current members of the European Union have only recently become independent states.

The nineteenth-century belief that economic prosperity was founded on securing political control over natural resources was mistaken. It massively overestimated the importance of resources in economic development, and failed to recognise that market access was not inevitably bound up with political union. Nor does it recognise that the military costs of controlling territory without the consent of the local population would come greatly to exceed any economic benefits.

The twentieth century gave small states the opportunity to achieve prosperity on the basis of narrow specialisation in a global economy. Such states would also benefit from the greater capacity of homogenous communities to reconcile economic dynamism with social cohesion. As a result some of the small states of Western Europe would, in the course of the twentieth century, move from being among the poorest countries in the world to be among the richest.

Economic forces were conducive to political integration in the nineteenth century and favoured political fragmentation in the twentieth century. These changes were attributable to changes in the nature of government and government activities, to changes in the global economic environment, and to changes in the nature of economic development.

Max Weber famously defined government as the body which sustains a monopoly of coercion within a defined geographical area.³⁸ Nineteenth-century government followed that definition. The largest component of government spending was military expenditure, followed by debt interest which represented the costs of past wars.

³⁸ In his 1919 lecture 'Politics as a vocation'.

But modern Europeans rarely want their governments to kick ass. Nor do they want to spend much on preparations for that activity. The notion of government as a hostile, coercive force, still widely encountered in the United States, has very little resonance in Western Europe.

What modern Europeans expect their government to do is to provide schools and hospitals and to assure their physical and economic security. The dominant items in government budgets today are not war and its aftermath but social security, education and health.

European government is an economic agent, like Tesco. The ideological content is steadily draining from European politics: European leaders proclaim their competence rather than their convictions. As with Tesco, we judge government mainly by the quality of its output and the perceived competence of its management. And in general, we judge it less favourably than we judge Tesco.

These changes in the role of the state were associated with changes in the global economic environment. In that economic environment, economic success depends not on scale but competitive advantage. Such competitive advantage may be held by individual firms like Disney and Coca-Cola. More commonly in Europe, groups of related firms exploit local competitive advantages. In the twentieth century, it became possible to build a prosperous economy based on mobile phones, on speciality chemicals, precision engineering – even to build an economy based on fish. If that narrow range of goods is your source of competitive advantage, then as an autarchic state you are poor, but as a state in a global trading environment you are rich. On this central truth of international economics have been built some of the greatest economic success stories of the twentieth century.

Modern prosperity changes the nature of both private and public consumption. We require that more and more of our expenditure goes on the environment, in its broadest sense: on making the country we inhabit a nicer place to live. Our demands are increasingly for services rather than for goods and differentiated products tailored to our individual needs. That is why in the richest economies such niche firms have won sales from global mass producers. Their global success is a reminder that niche does not necessarily mean local. But it frequently does, especially in services. And services, to repeat, are what we now seek from government. Welfare, health, education: and then we find defence, followed by transport, internet security, environmental services.

With privately produced goods and services, of course, the organisation of production adapts to the nature of the market. Boeing and Airbus assemble aeroplanes for the world from single facilities at Seattle and Toulouse: haircuts are, and always will be, locally produced and delivered.

The adaptation of the location of production to the needs of the customer is equally relevant to public consumption. The level of organisation appropriate for elementary education is lower than the level of organisation appropriate for higher education; most environmental issues are best dealt with at very local levels, but some at very aggregate levels. And so on.

Trade policy needs to be handled at high level. And so does monetary policy. In an era of global finance small states need to be part of a trade bloc and an actual or de facto monetary union.

That matching of service delivery to efficient scale changes what we mean by sovereignty. Weber's definition emphasised the coercive role of the state: along with coercion went monopoly. But if coercion is no longer the defining characteristic of state action, the requirement of monopoly falls away also. We can envisage multiple layers of government operating within a single local area, each delivering the services in which they have a competitive advantage. And that is what, increasingly, we observe.³⁹

The focus of the post-modern state has switched from internal and external coercion to service provision: and about the subtleties of determining the level at which service provision should be matched to citizen – and customer – needs. That emphasis on the customer reasserts the degree to which government is now an economic actor, rather than a political one. The quality of government is judged by management and consumerist criteria rather than ideological and citizen criteria. Questions about the efficiency of service delivery have replaced questions of legitimacy of the exercise of coercive authority as the questions that define the boundaries of state action.

In the future efficiency, as well as legitimacy, will be defined by responsiveness to local and individual needs. It is in these terms that we must address Scotland's role in the world and its relations with Europe, the UK and the international community.

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³⁹ Alesina and Spolaore (2003) is the best source on the relationship between government function and size.

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Foreign Takeovers and the National Interest

Geoffrey Owen

In 2005 there were reports in the French press that PepsiCo, the American soft drinks and convenience foods group, was planning to take over Danone, one of the leading French companies in the same field. This prompted furious protests from French politicians, appalled at the prospect of one of the jewels of French industry passing into American control. Whether in response to this opposition or for other reasons, PepsiCo did not go ahead with an offer. However, the episode reinforced the view that France's attitude towards foreign takeovers was much less liberal than that of the UK. British commentators mocked France's 'strategic yoghurt policy' and pointed to the benefits derived from UK greater openness to inward investment.

Four years later there were signs that Britain's commitment to open markets and free capital flows was beginning to weaken. The precipitating event was a takeover bid from Kraft Foods of the US for Cadbury, the confectionery manufacturer. Founded by a Quaker family in the nineteenth century, Cadbury was well known, not just for its much-loved brand of chocolate, but also for its paternalism and its humane treatment of employees. The Kraft bid was bitterly opposed by the company's trade unions and by Labour politicians. Abandoning their previous stance of neutrality in takeover situations, senior ministers made it clear that they were unhappy. As they saw it, Cadbury was a successful company that did not need to be taken over, and there was a risk that the change of ownership could be detrimental to the UK.

The government had no powers to intervene directly; it could not refer the acquisition to the Competition Commission, since it did not affect competition in the confectionery market. After the deal had gone through, however, the government put forward proposals which, while not specifically targeted at foreign bidders, would give British companies stronger defences against unwelcome takeovers. One of the suggestions was to enhance the voting strength of long-term shareholders in a company and thus to prevent takeover contests being decided by 'fast buck predators' such as hedge funds.

Given that this was happening just before a general election, these pronouncements may have been designed mainly for political impact. But the reaction to the Cadbury/Kraft affair did reflect a growing anxiety, not confined to the Labour Party, about the ease with which large, long-established British companies could be taken over by foreign firms. Had the UK's embrace of free markets gone too far? Was there something to be said for France's policy of retaining national control?

For those with long memories, these questions harked back to the 1960s and 1970s, when industrial policy was more interventionist and more nationalistic. Those were the days of government-induced mergers such as those that created British Leyland in cars and ICL in computers, aimed at producing British-owned companies that could hold their own against the likes of General Motors and IBM. Foreign takeovers were regarded with suspicion, especially in what were deemed to be strategic industries. In May 1968 Britain's biggest ball bearings producer, Ransome & Marles, decided to throw in its lot with its much bigger competitor, SKF of Sweden. When news of this reached the Industrial Reorganisation Corporation, set up by Labour to promote rationalisation in British industry, the reaction was immediate and forceful. This industry, the IRC believed, was too important to be handed over to a foreign owner, even a country such as Sweden. A British solution had to be found, and the IRC engineered a three way merger between Ransome and two others to create Ransome Hoffman Pollard (RHP).

Intervention of this kind was anathema to Margaret Thatcher. When she took office in 1979, she was determined, not only to reduce the role of government in industry, but also to make the UK as attractive as possible to foreign investors – and that applied whether the investment took the form of investment or acquiring British companies. Nissan, Toyota and Honda were encouraged to build factories in the UK, and when another Japanese company, NSK, bought RHP in 1990, the government raised no objection. Four years later Rover, the remnant of the old British Leyland, was bought by BMW of Germany. (Jaguar had earlier been sold to Ford, and the truck side of the group had gone to DAF of the Netherlands). Another national champion, ICL, was bought by Fujitsu of Japan in 1990.

Mrs Thatcher believed that these acquisitions were good for the UK, and the country seemed to agree with her. After Labour entered office in 1997 there was no thought of returning to the national champion policies of the past. On the contrary, foreign takeover activity accelerated under Labour. To take just a few examples, Courtaulds was bought by Akzo Nobel of the Netherlands in 1998, Racal by Thales of France in 2000, BOC International (formerly British Oxygen) by Linde of Germany in 2006, and Pilkington by NSG of Japan in the same year. Labour ministers appeared entirely relaxed about these deals and this reflected a general consensus that UK gained far more than it lost from takeovers of this sort.

Are there any sound reasons for questioning this consensus? Even though not all acquisitions turn out well, there is no evidence that foreign takeovers in general are bad for employment, exports or productivity; academic research points in precisely the opposite direction. It is certainly true that most British listed companies are more vulnerable to takeover than French or German counterparts because share ownership in UK is more widely diffused and companies rarely have committed, long-term investors who can be relied upon to side with management in the event of an unwelcome takeover bid.

But the takeover threat acts as a stimulus for companies to make better use of their assets, and an active market for corporate control is a valuable source of flexibility. If other countries prefer to shield their big companies from such pressure, that is not a good reason for the UK to imitate them.

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Thoughts on the Scottish Parliament

David Edward

When Winnie Ewing opened the first sitting of the Scottish Parliament on 12th May 1999, she said: “The Scottish Parliament, adjourned on the 25th day of March, 1707, is hereby reconvened.”

The notion that the Scottish Parliament of 1707 was a sleeping beauty, revived by the kiss of the Scotland Act 1998, would greatly have surprised David Hume. He would probably have classed it as yet another of the ‘imperfect, or rather fabulous annals which are obtruded upon us by the Scottish historians’. He was no admirer of the old Parliament, and there is not much point in speculating as to what he would have thought of the new one. One can be pretty certain that he would have been sceptical. His view was, after all, that “All plans of government which presuppose great reformation in the manners of mankind are plainly imaginary”. In the years leading up to the final devolution settlement, many and varied voices were raised against the project. Following Dicey, it was argued that home rule was, not only undesirable, but constitutionally impossible: the creation of a Scottish Parliament would be the first step down the slippery slope to separation. So far, at any rate, events have proved them wrong. Ten years on, in spite of the troubles connected with the design and cost of the new building, the Calman Commission was able to report, on the basis of the evidence submitted: *‘The last ten years have shown that not only is it possible to have a Scottish Parliament inside the UK, but that it works well in practice. Having a Scottish Parliament is in general popular with the people of Scotland, and they welcome the scope to have Scottish issues debated and decided in Scotland. The Scottish Parliament has embedded itself in both the constitution of the United Kingdom and the consciousness of the Scottish people. It is here to stay.’*

Perhaps ten years is too short a time in which to judge the success of the Parliament. (It may or may not be an omen that it is almost the same age as the Euro!) Its legislative output has been relatively low compared with Westminster but that, for some at least, will be a matter for satisfaction rather than criticism. A number of overdue reforms of the Scottish legal system have been implemented. Before devolution, they were delayed (sometimes for decades) for lack of parliamentary time and all too often were lumped together in a single Law Reform (Miscellaneous Provisions) (Scotland) Act.

What is perhaps more important in the long run is that it can no longer seriously be argued that the British constitution cannot accommodate the parallel existence of Parliaments at two levels.

It is true that no satisfactory answer has been found to the West Lothian Question – to which, indeed, there is no completely satisfactory answer. Most federal constitutions tolerate some degree of ‘variable geometry’ as a condition of securing the unity of the State and it is inherent in the idea of devolution that there will be some difference in outcomes.

Recent electoral results show that devolution is not an inevitable slippery slope to separation and indeed opinion polls continue to suggest a substantial Unionist majority unaffected by an SNP-led administration.

The Scottish experience has also shown that both coalition government and minority government are workable over quite long periods, and this experience was drawn upon in the negotiations for the Westminster coalition of May 2010. The committee system has been praised by the Auditor General as producing a level of scrutiny that is “much more extensive and robust than that which existed before devolution”. As much as possible of the Parliament’s work is conducted in public; the arrangements for public access and information are infinitely more user-friendly than at Westminster; and the procedure for hearing public petitions is being studied as a model by other parliamentary assemblies.

In terms, therefore, of constitutional innovation, the verdict on the first ten years of the Scottish Parliament must be positive. What is more questionable is whether the institution is temperamentally fitted to cope with a shrinking budget and the hard choices that will have to be made. Can it overcome the twin Scottish vices of victimhood and entitlement? Are existing party attitudes well adapted to the different type of politics that seems to be emerging in Westminster and which, on any view, an assembly elected by proportional representation requires?

At a more technical level, the question is whether the Parliament is sufficiently well organised and staffed to exercise effective scrutiny, both of the actions of the executive and of the quality of legislation. Calling the executive to account requires strong committees and scrutiny of legislation is not solely a political matter. Even if a statute appears to fulfil its political intention, it must be workable and technically fit for purpose. The willingness of the Parliament to address these issues will be a test of its maturity.

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Public service delivery in Scotland and England: thoughts on the past, present and future

Robert W Black

The new public management and public choice

In the UK, political interest in performance systems and regulatory structures for public services took off in the 1980s, with the creation of executive agencies. The need for influence and control of these agencies led to systems of performance indicators and public reporting. The Citizen's Charter initiative, for example, included performance indicators for local government, strongly influenced by auditors. The momentum increased in the 1990s. By 1997 Michael Power was talking about a decade of 'profound changes in public administration'⁴⁰ and the concept of a 'new public management' (NPM) had become the conventional wisdom in UK government and the public sector⁴¹. A handbook was to be found in Osborne and Gaebler's *Reinventing Government* published in 1992⁴². The blueprint involved decentralisation of management authority, the separation of purchasing agencies from providers within a quasi-market framework, and greater accountability to taxpayers and consumers achieved through transparency in financial and performance reporting supported by assurance from auditors and regulators.

In the second half of the 1990s, the Treasury introduced public service agreements 'with a strong orientation to performance management and vertical reporting that can be seen as essentially NPM orthodox.'⁴³ Published in March 1999, *Modernising Government* set out the Government's plans for reforming its machinery.⁴⁴ One of its five commitments was to have responsive public services that would meet needs of citizens rather than the convenience of service providers. In October 2001, Prime Minister Tony Blair declared: "The key to reform is redesigning the services around the user – the patient, the pupil, the passenger or the victim of crime."

Within the NPM model, the UK Government pursued in England an agenda of differentiation in school provision, with private, grant-maintained and new types of schools competing with comprehensives. The competition came from key-stage testing and league tables, combined with inspection régimes to assess quality.

⁴⁰ Power, M. (1997) *The Audit Society: Rituals of Verification*, OUP

⁴¹ Dunleavy, P. and Hood, C. (1994) *From Old Public Administration to New Public Management*, Public Money and Management (July-September)

⁴² Osborne, D. and Gaebler, T. (1992) *Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector*, Addison-Wesley, New York

⁴³ Ferlie, E and Fitzgerald, L (2002) *The Sustainability of the New Public Management in the UK*, in McLaughlin, K and Osborne, S.P. *New Public Management*, Routledge

⁴⁴ The Cabinet Office (1999), *Modernising Government*, Cm 4310 (March)

English health policy contained the same elements as those seen in education, namely diversity and competition mixed with a strong focus on targets and performance reporting. A purchaser-provider split in health services was enhanced by creating primary care trusts. These were given the commissioning (or purchasing) responsibility. Their creation was designed to encourage consumer choice and contestability through performance measures. Another important feature was the creation of foundation hospitals which were expected to follow a private business model, with the granting of a significant degree of independence if they met health service targets. In the early summer of 2010, the UK coalition government announced its intention to go further in designing systems around the principles of consumer sovereignty, local control of services, contestability and choice in both health and education.

The Scottish consensus on public service management

As a consequence of devolution, Scotland was able to develop its own policy initiatives. There were some high-profile areas where Scotland went its own way, including the abolition of student tuition fees, the introduction of free public services such as personal care for the elderly, concessionary travel and NHS prescriptions, a change to a proportional representation system for council elections, and a large volume of legislation on matters as diverse as housing, land reform, mental health and foxhunting.

One significant policy shift in Scotland was to diverge from the model of public management that was being developed in England. Successive political administrations in Scotland turned away from choice and contestability. Scotland abolished the internal market in health services in 2003. Health policy was centralised, with Scotland's fourteen health boards given the responsibility for local policy making and delivery of health services. The NPM model was maintained to a degree in the form of health performance targets and accountability reviews led by the health minister. There was also an emphasis on the need for partnership working between the health authorities and local authorities, but much less emphasis on choice or contestability. In education, Scotland maintained its commitment to comprehensive education and the maintenance of local authority control over schools, with a line of accountability from the head teacher through to the local authority.

The government levers of control and the role of audit, inspection and regulation

In England, a consequence of the reforms was the emergence of what Rod Rhodes termed the 'hollowing out of the state.'⁴⁵

⁴⁵ Rhodes, RAW (2005) The hollowing out of the state: the changing nature of the public service in Britain *The Political Quarterly* (August)

By creating a system of arms length and independent organisations for key public services, the government had to redesign the control systems available to it.

Although the Scottish Parliament had control of major services, and of course legislative powers, it also had features of a hollowed out system. About 85% of the resources the Parliament received from Westminster passed out of the Scottish budget to be spent by local authorities, health boards and other public agencies at arms-length from the Scottish Government.

The delivery of public services through arms-length and independent bodies required governments to address what economists call the 'principal-agent problem'. The principal who is paying for the service (in this case the government) has imperfect information about the performance of the agent which is supplying the service, and may not know how far poor performance is the fault of the agent. The issues in the principal-agent problem are how to motivate service providers to deliver results efficiently, how to know whether this is happening, and how to deal with the complex chains and networks of principal-agent relationships.

The principal-agent problem was evident in both the English system based on purchaser-provider splits, and also in the Scottish version of the hollowed out state. The performance targets under the NPM were designed to address this issue. However, the importance of the principal-agent problem was reinforced by the fact that it related to the proper and efficient spending and control of public funds which involve complex frameworks of accountability to central governments, parliaments, local authorities, business interests, and of course to citizens as taxpayers and users of services in myriad ways. Further levels of assurance and control were seen as necessary. In both England and Scotland, the role of auditors, regulators and inspectors was expanded to support this web of accountabilities, to assist in filling information gaps, and to help compensate for the somewhat weakened influencing capacity of the centre.

A second cause of this audit and regulatory expansion was the desire in government and in civil society for more, and more active, risk management across the public sector.

As individual human rights became legally and constitutionally embedded, as the powers and rights of individuals as consumers were strengthened, and as the risk consequences of systems failures in a complex society and economy became clearer, there was an expectation that auditors, regulators and inspectors would somehow ensure that bad things never, or hardly ever, happened. The public appetite for regulation is unlikely to reduce in future not only because bad things do happen, but also because these events are often projected into the media headlines.

There is the need to protect individuals and society (for example from failures in child protection services) and the need to provide assurance on standards of goods and services (for example in public health and safety). This poses a challenge for any government committed to deregulation.

The quest for efficiency and performance improvement: who is ahead?

Broadly speaking Scotland has remained with the model of direct provision of services by the public sector to a greater extent than in England. This particularly applies to front line service provision. It is possible to observe in England more experimentation with various delivery models and collaborations. This diversity includes new models of partnering with the not-for-profit sector, social enterprises, user-led mutual organisations, cooperatives and joint ventures as well as the private sector. Scotland's public sector has not had as rich experience as England in operating different models that might be relevant in managing the forthcoming squeeze on public finances. There have been innovative projects in Scotland, but these are often at a small scale and are fewer in number and diversity compared with England.

As we enter a period of great pressure upon the public finances an important question arises from the divergent approaches to public service design and delivery that have evolved in England and Scotland over the last decade. Does one approach promise to be more efficient than the other? It is not straightforward to conclude whether the introduction of choice and competition, with the option of delivering public services through contractual processes and innovative commissioning models by a range of public, NFP and private sector providers, delivers better quality and greater efficiency. But ten years after devolution some evidence is beginning to emerge.

Scotland continues to have somewhat higher health spending per head compared with England but the gap is narrowing. Scotland has a significantly higher mortality rate than any other part of the UK, but there remain significant gaps in knowledge about why Scotland's health profile is relatively poorer – the importance of causes such as poverty, housing, lifestyles and cultural and psychological factors, as well as an understanding of the extent to which health outcomes can be attributed to health service activity. The Office of National Statistics measure of productivity (that is, healthcare outputs divided by healthcare inputs) showed that productivity in the NHS in the UK fell over the period 1995 to 2006.

Measured health care outputs grew substantially; the quantity of health care provided was 50 per cent higher in 2006 than in 1995, before any adjustment for quality change.

However inputs rose even more rapidly. Abstracting from pay and price change, the volume of resources going into the NHS was 67 per cent higher in 2006 than in 1995.⁴⁶

Audit Scotland reports questioned the productivity of the Scottish NHS. In general, the auditors found that higher health inputs did not lead to commensurate, or greater, increases in measured outputs.

For example, although hospital activity in orthopaedic services increased by 12 per cent between 1999 and 2009, spend on orthopaedic services increased by 68 per cent in real terms.⁴⁷ But these reports frequently came with the qualification that robust and appropriate cost, activity and performance data, including quality measures, were very hard to find.

In the words of a recent report from the Centre for Public Policy for Regions, ‘...it is worrying that Scotland emerges with a higher level of resources of all kinds but with relatively low outcomes in fairly standard outcome measures like hospital admissions.’⁴⁸

In the schools sector, CPPR suggested that Scotland appeared to have higher spending per pupil than elsewhere in the UK, estimating this figure at between 23 and 82%. The range was wide because of uncertainty in the comparability of data across parts of the UK. ‘Nevertheless differences in funding per pupil are of such a scale that further work urgently needs to be done to understand better the true relative funding position.’⁴⁹ The attainment levels of pupils in England have improved but this has not been true of Scotland. International studies also show that while Scotland’s overall performance measured by attainment has been quite high, in recent years it has either stood still or declined, in relative terms.

As part of the 2007 Spending Review, the Scottish Government introduced a National Performance Framework with 9 purpose targets, 5 strategic objectives, 15 national outcomes and 45 national indicators and targets.

In his report of November 2009 *Scotland’s Public Finances; Preparing for the Future* the Auditor General for Scotland said that the national indicators and targets must be supported by good information on the cost, activity and performance of services (inputs, activities, outputs and outcomes). Whilst the national outcomes provide important long-term goals, the needs of the Scottish people must be met by

⁴⁶ Office for National Statistics (2008) Health care summary *Public Service Productivity* (January)

⁴⁷ Audit Scotland (2010) Review of orthopaedic services (March)

⁴⁸ Centre for Public Policy for Regions, KPMG (2010) Spending on health *Scottish Government Budget Options Briefing Series No 3* (June)

⁴⁹ Centre for Public Policy for Regions (2009) Spending on school education *Scottish Government Budget Options Briefing Series no 1* (October)

the continuing provision of high-quality services at an acceptable cost. For example, achieving the outcome of a longer healthy life expectancy in areas of social deprivation requires, every day from now and into the future, good health and social care services to support people with conditions such as chronic obstructive pulmonary disease, cardiovascular disease, or diabetes. In addition to a concern for monitoring progress towards long-term targets and outcomes, the Scottish Parliament must have an interest in whether essential services are delivered efficiently and effectively on a continuing basis in the shorter term.

The Auditor General called for better cost, activity and performance information across the public sector, since this was essential to support a budget process which should allow informed choices to be made between priorities and which should provide incentives for greater efficiency and productivity.⁵⁰

The generals and the particulars in politics: some thoughts drawn from David Hume

In his July 2010 assessment of the prospects for Scotland's public finances, the Chief Economic Adviser to the Scottish Government suggested that it could take until 2025/26 for the Scottish Government Budget to return to 2009/10 levels. Although this was based on a trend projection which has been the subject of criticism, it is widely accepted that the Scottish public sector is heading into an extremely challenging financial period which is likely to last for several years. A report by an Independent Budget Review group said that the public spending challenge was unmatched since the Second World War⁵¹.

The system of devolved government in Scotland has never been tested in a tough financial climate. On budgetary issues, political debate has tended to concentrate on the margins of growth in the budget and how these margins should be used to improve or expand public services. This is not an approach that fits well with the coming years of spending cuts or with the possibility that minority or coalition governments may be the norm in Scotland.

It is to be expected that the mode of politics is often adversarial because parties have different beliefs and priorities. But in Scotland, the larger political parties are not very far from each other on the political spectrum. A high value is placed upon public services, equality of provision and direct service provision by public bodies. Political engagement is often about which party can provide more services or sustain fewer cuts than its rivals, within the established systems of service delivery. This runs the risk of crowding out the opportunity to consider openly organisational or service redesign which might involve a significant move from the status quo.

⁵⁰ Audit Scotland (2009) Scotland's public finances: preparing for the future (November)

⁵¹ Independent Budget Review Panel (2010) Report (July)

There is an urgent need to exchange knowledge with England and elsewhere on the merits and risks of greater diversity in commissioning and providing public services. The unanswered questions about the productivity of the Scottish public sector must be recognised and addressed. Away from the hot political issues of the day, a space needs to be found to consider the shape of the public sector in the longer term, and to promote knowledge exchange and, where necessary, the redesign of the systems for commissioning and delivering public services.

Political differences should be about values and priorities, rather than about the means of delivery, with the pursuit of performance improvement a consensual goal. “In all matters of opinion and science...the difference between men is...oftener to be found to lie in generals than in particulars; and to be less in reality than in appearance.”⁵²

Robert W Black FRSE
Auditor General for Scotland

⁵² David Hume: *Of the Standard of Taste* 1757

A Financial Commentator's view of the Institute

Andrew Bolger

In his original proposal for the David Hume Institute, Sir Alan Peacock said Edinburgh 'chooses itself as the location for such a centre', citing the city's long intellectual tradition in economics and role as the United Kingdom's main legal and financial centre outside London.

The re-establishment of a Scottish Parliament in 1999 should have further enhanced Edinburgh's status as a policymaking centre, and devolution has certainly substantially increased the number of lobbyists and public relations professionals in Edinburgh. However, hopes that the new Parliament would develop a different style of politics have been blighted by the ongoing, atavistic struggle over Scotland's constitutional future between the Scottish National Party and Labour and the other pro-Union parties. This has become even more bitter since the SNP ended nearly half a century of Labour hegemony in Scotland at the 2007 Holyrood elections and formed a minority government.

Scotland has not lacked distinctive policy initiatives since devolution – such as providing free personal care for the elderly, abolishing university tuition fees and leading England and Wales in banning smoking in public places. There are severe doubts about the long-term affordability of both the policies on the elderly – introduced by a previous Labour/Liberal Democrat coalition – and the SNP government's decision to scrap a tax on students at graduation. However, the principal parties at Holyrood appear to be happier to squabble about the adequacy of the block grant from the UK government that pays for these policies, rather than undertake any fundamental analysis of their economic sustainability.

When Sir Alan was making the case for The David Hume Institute to be based in Edinburgh, he also wrote: 'It has many of the advantages of a capital city yet, in the business and financial community at least, it can ill afford to be unreceptive to what is happening in the outside world.' The force of this was underlined in 2008 when the global credit crisis forced Scotland's two largest and oldest financial institutions in to the arms of the UK government – Royal Bank of Scotland and Bank of Scotland (then part of HBOS but subsequently swallowed as a rescue operation by Lloyds Banking Group).

Against this background, the Institute's commitment to a sceptical, evidence-based and non-parochial approach to public policy is welcome. Although the Institute confesses an 'orientation towards the relevance of market approaches', it eschews political affiliations and is less predictable in its output than more openly ideological think tanks such as the Institute of Economic Affairs and the Adam Smith Institute.

It is typical of the Institute's iconoclastic approach that earlier this year – at a time when most of the Edinburgh financial establishment were desperate to get back to business as usual as soon as possible – John Kay was given a platform for his controversial views on how to address what he sees as the problem of banks having become a combination of a casino and a utility. His seminar has the uncompromising title *Narrow banks and all that – regulatory reform after the collapse of Scotland's banks*.

The advent of devolution and the internet means Scots can now follow policy formation much more easily than in the days when it was mostly done behind closed doors. The Scottish Government's award-winning website offers all citizens access to reams of consultations, government proposals and legislation. However, particular administrations still set the terms of debate. The current SNP government opposes nuclear power, so new nuclear power stations do not figure in its energy plans – in spite of the general expert consensus that nuclear will be a key component of low-carbon economies. The Nationalists are also pinning high hopes on carbon capture and storage, a still relatively untested technology.

The Scots are a disputatious race, and their love of argument can easily degenerate into 'flyting', the competitive abuse of opponents. Perusal of the internet shows that technology has increased the quantity but not the quality of such vitriol.

David Hume said 'A wise man proportions his belief to the evidence.' Those of us who try to follow public policy in Scotland have come to value the Institute as an eminently civilised source of empirically-grounded debate and commentary.

Andrew Bolger

Scotland Correspondent, Financial Times

The Contribution to the Political Debate

Brian Taylor

An astute observer of the human condition once noted: ‘A wise man proportions his belief to the evidence.’ But contemporary public life appears rich in confident, eager assertion. There is no shortage of politicians declaring their absolute faith in a particular policy path, that, of course, chosen by their own party.

However the body politic can sometimes seem weak on dispassionate evidence to bolster or challenge that faith. The David Hume Institute which commemorates the great thinker, who generated my opening quotation, strives, along with others, to close that gap and has done so now for twenty five years.

On glancing back through past programmes organised by The David Hume Institute, I am struck by the diversity on offer. At one event Lord Mackay of Clashfern pondered *Are lawyers parasites?* I feel sure he dealt capably with the mischievous few in the audience who were minded to offer merely a one-word affirmative answer. Then there is the historical perspective intended to provide the long view for those battling with contemporary crises. This is to be found in events such as *Tulip mania to Dot Com hysteria*, no doubt with a splash of the South Sea Bubble to lubricate consideration of economic cycles. Further, there are the titles which promise deeply blue sky thinking, such as *The future of work* or *The risk management of everything*. In every case, the objective has been to add to the sum of our knowledge in order to assist the preparation of public policy. The latter point is particularly important and has been notably germane during the past decade of devolution since the recreation of a Scottish Parliament. Indeed, it has been at the core of background discussion about the nature of contemporary governance in Scotland.

It is not thought sufficient by those in governing circles to rely upon pure, detached academic research. However governments are not engaged in finding out intriguing or fascinating or amusing things for their own intrinsic purpose. They are seeking practical mechanisms by which they might improve the lot of their citizens or the efficiency of their own operation.

In common with administrations elsewhere, the Scottish Government is often seeking to square the circle. They want detached, dispassionate advice from external, expert sources but they want it delivered according to their own, relatively rapid governmental time-scale and they want it in a form which is capable of easy translation into pragmatic policy. There is a by-product of this element in contemporary governance. The Scottish Government, for example, will frequently seek to import expertise, to bind stakeholders into forming a working party rather than merely offering guidance and comments from the sidelines.

For the outside stakeholder, this has an obvious advantage: they gain a place at the core of government, potentially influencing policy in the area where their organisation has particular interest or expertise.

However, there is also a downside. Once recruited to the working party, they may well be expected to defend its ultimate conclusions, perhaps in the face of scepticism from their own membership at the grassroots.

Pragmatic think tanks or thoughtful institutes can perhaps straddle this dilemma, particularly if they contrive to ensure that their work, however intellectually challenging, is capable of tackling real, contemporary problems or adding to the understanding of those real, contemporary problems. Sometimes political leaders and their civil servants will find it convenient to devolve particularly tough issues to external consideration. It can, if necessary, buy them time to prepare the voters for a potentially unpopular decision or, less cynically, it can bring fresh thinking to bear upon a problem where there is no obvious solution.

There is a further task which falls upon the think tanks and those providing contributions to policy debate. That is to remind us all that the truth is rarely pure and never simple, that there is a complexity in public life which is sometimes neglected in elemental, partisan argument to provide the chiaroscuro thought-bed for the hard pencil of politics. Much of what passes for political debate ignores or sidelines subtlety. In summary: everything we do is right, everything they do is wrong. Our party has a unique insight into public policy; our opponents are the living embodiment of evil. Journalists commonly want simplicity; he said, she retorted. There can be an intrinsic impatience with anything that risks sounding over-complex. Politicians respond, reducing tricky policy questions to the sound-bites which they have been led to expect will attract media attention.

Most ministers of my acquaintance are in an honourable lather of uncertainty most of the time with regard to a range of difficult policy decisions lurking in their despatch box; not because they are pusillanimous but because the issues themselves are complicated and multi-faceted. Yet, if confronted about such issues in Parliament, they still feel obliged to wrap themselves in bogus certainty while simultaneously condemning their opponents. ‘This government is quite clear as to the path it intends to follow – and I will certainly not take any lessons from...’ Politicians have learned, again from painful experience, that any sign of uncertainty will be treated as weakness by their opponents and by the media, and will be punished accordingly. When asked about a particular policy issue, the truthful answer for a Minister will frequently be: “Not a clue; have you got any ideas?” Frankly, it might be more productive if such an approach were possible, opening up the prospect of honest debate. However, electoral partisanship, reinforced by the media, means such frank replies will seldom, if ever, be heard.

Wherein lies the contribution which can be made by external thinkers. At their best, they can operate at one remove from the political/media machine while maintaining a realistic, amicable understanding of the pressures which confront those who have to take and defend decisions in public life. They can seek to highlight a path through competing complexities. Thereby truth may indeed spring from 'argument amongst friends'.

Brian Taylor

Political Editor, BBC Scotland

Reflections on the David Hume statue in the High Street of Edinburgh

Alexander Stoddart

The statue of David Hume which sits at the junction of the High Street and the Mound in Edinburgh was the work that commenced and, at the same time, almost finished my career as a sculptor of civic monuments. Hitherto I had been, with the exception of some incunabular works in the public realm, a rather private artist, working first under the influence of Friedrich Nietzsche and Burckhardt in a “Deutscher Romer” culture of south-yearning; then as a so-called collaborator with Ian Hamilton Finlay whose works were accommodated within a differently private world, of white-walled galleries, contemporary spite and every sort of misbehaviour – a sorry period.

With the statue of Hume, however, I branched into a field of artistic endeavour which made the various ‘wars’ of Finlay look like peace-time picnics. It showed me, in the full fury of its reception, that art, brought into the public, monumental realm, could excite people to the point of incontinence and serve as an index to the deepest reaches of a national ascendancy’s psychology. It showed me that there is something in the heart of man that takes (if he it is not prepared by a dominant culture) a visceral exception to certain forms appearing in the world. The Hume statue thus opened my eyes to a terrible understanding in which conditions the remainder of my career to date was forged. The Hume statue was thus my formative treatise, charting my course ahead with indications and even instructions of infallible accuracy. But it fell deadborn from the foundry.

The work was conceived *sub specii Schopenhauer*. Early in my days at the Glasgow School of Art, I had read the Sage of Frankfurt, possibly in his advice to the burghers of that city regarding their planned statue of Goethe, making certain recommendations on the proper way to present an image in statuary of an exceptionally gifted person. Schopenhauer, in his characteristic ‘crow-flying’ manner, had come immediately to the point I had often glimpsed from afar; that there is a case, in the case of genius, to relieve the subject of the statue from all sartorial trivialities. To paraphrase; ‘Show him naked, or if not naked, then throw some drapery over him’. Like many people, I thought this advice both wise, and then also silly; silly since I could in no wise imagine *myself* so exposed or attired. Still the centre of the world at that stage and inclined to follow my vanity’s advice rather than that of my knowledge, I took no action upon these wise words. Yet they might be kept for the moment of national crisis when the statue of a truly gigantic Scot might be ordered from me; drapery reserved only for the greatest of the great. The inevitability of Hume’s apparel ‘in the antique’ was thus incubated for nearly twenty years.

At the critical hour I had no doubt whatsoever of the rectitude of doing this, for in the meantime I had encountered art, in the wide reach of occidental culture, resorting without remark to this convention of exchanging costume for drapery. But in this long and lonely period of immersion in pure and unadulterated artistry of the past, I had forgotten just how departed from a knowledge of these happy conventions the world had become in the present it was then passing through. The words 'David Hume would never have worn a toga!' were actually shouted at me by a responsibly positioned academic. Where had our knowledge gone? And whence this howling ignorance?

The expedient of stripping the genius of the trash of couture is an established western idea. In the nineteenth century, when the trend towards the trouser-piece was gaining momentum, two sculptors at least made protest – John Gibson of Conway, and William Rimmer, the American. It is perhaps not insignificant that both are now obscure. Before the nineteenth century the case needed no protest, but it is still notable that James Tassie, iconographer to the Enlightenment, when he came to represent his contemporary Hume, made two likenesses. In the first Tassie depicts Hume as the chap he was, in wig, jacket, waistcoat and jabot. He preserves that fishy profile, said to resemble 'an oyster-eating alderman', and even allows a little smile to linger about the mouth. It is, as far as the suspended idiom of the profile medallion will allow, a perfectly quotidian likeness. It still sells today, and I know many devotees of the Patron Saint of Atheism who hang this image over their beds, their souls to keep. Of the second image Tassie made of Hume hardly a word is mentioned, for in this he removes the pompadour wig from the head and gathers the hair in a series of curls tutored by classical convention. He regulates and enobles the profile, stripping the near shoulder (now seen muscular), and throwing that piece of drapery over the far. The breast is quite bare. Tassie does this because, having shown Hume as a fellow, he must now depict him as a *philosopher*, and the first step in such a likeness is to remove the world-centre of all stupidity – the sartorial dimension – from the form of the genius being represented.

When are we most stupid? In youth, of course, when we are confident solipsists, technically immortal and largely loin-led. When are we positively demented with care about our clothing and on its account wear out all the mirrors in the house? In youth. Temporal costume forges a pact of steel with fungating ignorance, so it is proper that in the noble art of statuary it be entirely eradicated or at least mitigated in its outlines.

The Hume project was co-ordinated by a committee convened by the Saltire Society in the middle years of the 1990s. The outcome of a competition, my winning design, seemed to have been seen properly by the judges as an attempt, on behalf of the progenitor of Kant, to cast the man in the apparel of eternity.

Hume had said, late in his last disease, that he died ‘an old follower of Strato’, meaning Strato of Lampsacus, who was the last head of Plato’s Academy, closing the School in Athens in a profound and valedictory scepticism. The decidedly Hellenistic aspect of the work was first generated by this eschatological reference.

Two schools of eudeamology had risen to the fore, the Stoic and the Epicurean, and in consideration of the rather specific manner of representing philosophers in these related but opposed disciplines, I discovered a new way of posing the Hume statue.

I could put Hume into the detached and exaggerated recline common to the statues of Epicurus, Metrodorus and other followers of the Garden School, and avoid the more stark, upright and ‘engaged’ poses typical of statues of their rivals in the Stoa, the most famed of which sits now in the Louvre, representing Chrysippus, their third leader. He is seen counting out the stages of an argument on his fingers in the renowned Stoic manner. Epicurus, however, is always shown doing nothing.

I quickly found that this careful approach gained many enemies for me. Hume was a ‘man of the now’ many declared, who was ‘fond of his dining’, terrifically sociable and devoted to argumentation. How could I propose to arrest this man in such an artificial manner, in reference to long-overlooked and utterly ‘irrelevant’ statues of old, dead ‘and simply just wrong’ Greeks? I tried to articulate my motivations: Hume’s atheism is connoted in this posture, for the Epicureans are early humanists. They live in anxious co-existence with a theistic mob in league with successive tyrannies. Many Epicureans are exiled, if not executed, for their insights. They have a relation to modern science as outright materialists, propounding an atomic theory handed down from Leusippos the Obscure and Democritus of Abdera. Their “good life”, so often traduced as simple gluttony by modern gourmands looking for an intellectual backing to pure obesity, is actually a retired moderation. Their greatest poet, Lucretius, gains fond mention by Hume himself and is invoked in his moving testament when the question of fearing death arises at his end. With these and further more detailed explanations I pressed on. But the rage of the Trouser Unrepresented is not so easily calmed. It is important to credit the committee in charge for its fortitude, so often was it assailed by those who wanted, ideally, a photograph of the philosopher ‘as he was’, blustering upon the pavement, a plate of oysters half in his mouth, a bucket of claret to the side, deep in mouth-full conversation with *them themselves*. Enthusiasm for a subject is the single greatest threat to the achievement of a statue of any taste or sensibility.

During the modelling, one very genial but enthusiastic gentleman took it upon himself to visit me in my studio to “inspect” the progress of the statue (there is a superior, even peremptory reflex that afflicts certain visitors to artists’ studios) and during his advice to me he insisted that I “really *capture* that Dr. Johnson likeness of Hume’s.

You need to show that sceptical curmudgeonliness (he wrinkled his brows and clenched his fists before him) so typical of him,” as if he had been commonly in the philosopher’s company. Truly, two more contrary countenances could hardly be opposed; Johnson’s betraying that spleen and misanthropy which made such an ill impression on Adam Smith when he found him, in the Saracen’s Head in Glasgow, arguing merely to win; and Hume’s an ovoid ellipsis – a tiny face indeed, suspended within the moon, with sickened lips and an eye so dead as might turn a funeral.

(Beauty seldom reclines with intelligence, and this is Nature’s iron purpose; to weed out as far as possible all those who display a modicum of circumspection in order that the roaring festival of the world’s cruelty might proceed unimpeded.)

The mention of Johnson served to show me how much of ‘Humeanism’ was couched in an entirely misdirected and even sentimental belief that obnoxious, opinionated belligerence of manner and appearance was the behavioural essence of the Scottish Enlightenment. In this case (no matter what the perceptual facts) the concept that ‘Johnson’ must be projected somehow over the percept ‘Hume’s actual face.’ When this happens in societies – when something is just so in theory but very different in fact (as Kant discussed) – then we observe a twin result of the most regrettable compound effect. In theory, all men are equal. In theory, health and safety culture is good for us. In theory, Hume looks like Johnson. In fact...? There are some devotees of Hume, if the reader will believe me, who make it their daily business to present facial expressions of positively caricatured malignity, sustaining this labour throughout their lifetimes.

To conclude, I can enumerate some facts about the statue. The facial likeness is derived from Tassie’s second medallion (as described above) for the profile, from various prints contemporary and posthumous, but most importantly from Ramsey’s first portrait of the philosopher, in which he wears a turban. The turban is a piece of drapery set upon the head, so to relieve the cranium from the stupefying influence of the wig, which is a concentrate of costume *entire*. The turban is the garb of the thinker and enters common parlance as a ‘thinking cap’. But a wig is best described as a ‘blundering cap’, and this these men of genius knew, as they retired to their cabinets throwing the damned thing to the wall.

The statue shows Hume bearing a tablet, uninscribed. This is not a book, as one recent biographer of Hume has asserted, but a Mosaic reference; a slab upon which the words of God can never appear. The throne is adorned with two dogs’ heads to signify the confusion, common in the modern world, of scepticism with cynicism, and the “Helio-Medusa” at its rear appears, as a new emblem, to articulate the often stultifying effects of Enlightenment upon the organs of taste and discernment.

Scotland's aesthetic heart has been turned to stone through the twin influences of Reformationist iconophobia on the one hand, and Enlightenment deconstruction on the other. The nation's recent dive into Modernism was taken from this very plywood springboard.

Finally, the toe. As in the little figure of Saint Peter (adapted from antiquity) to be found in the Basilica of that saint in Rome, the toe of Hume is in the process of being kissed away by a billion pilgrim lips. At first only students of philosophy at the University in Edinburgh would rub it for luck in their exams. Then it became a tourist 'must'. Within the last decade however, there has been an increase in local attention to the extremity. Parents now lift their children to rub it in the ardent hope that by this means their infants' intelligences might be improved.

But as we all know, the accrual of cleverness is entirely the business of the genes, and this explains the parents' confidence in the performance of such an unlikely endeavour; sweet, harmless and even decorative as it might be. Perhaps they do something more profound than we can tell.

Alexander Stoddart

HM Sculptor in Ordinary in Scotland

Honorary Professor, University of the West of Scotland

Musings on the Hume mausoleum

Iain Gordon Brown

Twenty years ago I published an article on the David Hume mausoleum in the Old Calton Burying Ground in Edinburgh, a structure designed by his friend Robert Adam.⁵³ This constituted a significant analysis and interpretation of a monument praised by the late Sir Howard Colvin for the boldness of its scale and the economy of its architectural vocabulary.⁵⁴ Reading the piece again, I am reminded that it addresses many topics of general interest to Hume scholars and admirers of Hume the man and the philosopher. The article deals with Hume's death and burial and with his place in Edinburgh social and intellectual life; it considers the first impressions made by the monument on contemporary observers, and includes early descriptions and illustrations; and it discusses pagan elements in the design as originally built, and Christian ones as it was subsequently adapted.

It is neither my intention to revisit ground covered in 1991, nor to offer some sort of *réchauffé* of the information and opinion there offered. But some evidence not previously adduced may supplement the original article. The principal point is that it does not cease to amaze me that a building, for all its small size so celebrated in its day and for long thereafter as the resting-place of so great a man, should have descended into such a shameful state. Apparently disrespected by the civic authorities who should look after it, it seems to be disowned and dishonoured by its occupant's and equally its designer's countrymen. The mausoleum was early an object of notice on the Scottish picturesque tour, even if this attention was not always flattering or fitting. It was frequently included in topographical views of Edinburgh. Yet today the fate of the building is uncertain; it and its immediate, insalubrious surroundings are badly maintained and are the haunt of vice and degradation.

Why has this situation been allowed to develop? And why is little being done, until now, and that by private enterprise? If Edinburgh (which since 1997 has had the fine statue of David Hume in Roman garb) wished to commemorate Hume in his tercentenary year, the city could do worse than clean up, repair, respect and maintain this remarkable Roman monument to intellectual and artistic genius.

Concern for the state of the mausoleum has been expressed more or less continuously since the earlier 1990s. In 1993 a committee of the Saltire Society, began to consider ways of commemorating Hume.

⁵³ Iain Gordon Brown, 'David Hume's Tomb: a Roman Mausoleum by Robert Adam', *Proceedings of the Society of Antiquaries*, 121 (1991), pp391-422

⁵⁴ H.M.Colvin, *Architecture and the afterlife* (Newhaven and London 1991), p344

The now-celebrated statue by Alexander Stoddart was the principal product of this effort. But the mausoleum was simultaneously in the committee's sights and it was proposed that any surplus funds be directed to its conservation.

A droll article by Peter Clarke, published in *The Scotsman* in February 1994 made the case, archly, for public commemoration of Hume in many ways, not least by annual suppers in his honour, and dances, dinners and grand 'Hume parties' to coincide with the General Assembly of the Kirk. The mausoleum was to figure largely in this commemorative campaign, with what Clarke called 'his [Hume's] own folly' becoming a 'national shrine'. This article ended with the pleasing suggestion that 'the thinkers of Edinburgh should drink champagne at his tomb every August.' The beverage of choice at the mausoleum has, however, remained Carlsberg Special Brew and Buckfast. An article in the *Edinburgh Evening News* in 1995 took up the theme of regret at the state of the mausoleum, prompted by the concerns of an Oxford philosopher, Christopher Taylor. Vincent Hope was quoted as saying that the Saltire Society intended to repoint the masonry, secure the gate and clear out the interior, which resembled a doss-house cum rubbish tip. By this time the tomb was surrounded by a sea of wholly inappropriate white marble chips, out of keeping with everything else in the graveyard and serving merely to draw the attention of every passing drug-user or vagrant to the mausoleum as a place of refuge and concealment. Discussion during the visit of The David Hume Institute to the National Library of Scotland in 1996 to see a display of Hume letters and papers and to hear an address on the Library's Hume holdings, further aired concern for the monument.

In April 1997 Andrew Fraser and I met James Simpson, the architect, to inspect together the structure with a view to putting in hand a programme of conservation. Simpson's report concluded that, although very little work was actually or immediately necessary to ensure the continued survival of the building, on the other hand if one takes the view that the mausoleum is a major work of architecture as well as being a memorial to a potent historical figure, then there is quote a lot of work which may be thought to be desirable. James Simpson envisaged the eventual replacement of the later Hume family urn, of disproportionate and inelegant form, with one of the type originally designed by Adam; the restoration of some original features subsequently altered for the worse, notably the original wording of the simple inscription; and the removal of the nineteenth-century corbel bracket. This had been added to the masonry of the drum of the mausoleum to support an iron cross, placed out of mistaken Christian piety by a nineteenth-century Hume relative in expiation of the supposed sins of the Atheist.⁵⁵ This latter proposal would surely rob the mausoleum, as it currently stands, of some of its cultural and intellectual significance as an island of paganism in a sea of faith, and would remove evidence of changing views of Hume's place in the history of morality.

⁵⁵ Brown, 'David Hume's Tomb', pp 412-413

The mausoleum naturally features in the ‘Hume Trail’ booklet published by the Saltire Society in 2000. Nothing, however, was done to restore the building, or to secure it from further denigration and depredations, until Dr David Ashton, a Hume devotee of long standing, established his Hume Enlightenment Trust for the conservation of the monument. The first step taken has been to erect a new grille gate to protect the interior. The future of this highly significant structure should henceforth be assured if the City authorities can be persuaded to take their responsibilities seriously. The Edinburgh World Heritage Trust’s exemplary recent work on the Burns and Nelson Monuments, which form part of the entire Calton Hill *Valhalla*, offers a model to emulate. The commitment to the monument indicated by the carrying out of initial work should prompt further donations to its cause.

In tracing the Roman sources and inspiration of the mausoleum I said nothing specific about the striking Doric frieze with rosettes in the metopes. Silence is to be preferred to inaccuracy. James Stevens Curl, seeking to source more than is warrantable, derives this from the famous Republican sarcophagus of Lucius Cornelius Scipio Barbatus in the Vatican Museum.⁵⁶ However this tomb-chest was not discovered until 1780 and was not published by Francesco Piranesi until 1785. So the splendid sarcophagus cannot have been Adam’s inspiration for this most distinctive feature of the Hume mausoleum, and must be regarded as the product of Adam’s own invention, though one doubtless inspired by an amalgam of ancient sources in accordance with the usual eclecticism of his method of architectural and decorative design.

Acquisition by the National Library of Scotland of a most interesting collection of papers (Acc.10686) relating to the compilation of Henry Mackenzie’s *Account of the Life of Mr John Home* (1812) places in the public domain the autograph manuscript by Home himself of the record of the journey he made to Bath in April 1776 with his cousin David Hume in search of a health cure for the philosopher. Here Home relates how Hume had told him of his purchase of the ground ‘for a burying-place’ in Edinburgh: when John indicated he had not heard of this move, David explained that the ground in question was in ‘the New Church-yard, on the Calton-Hill’, although in fact it was not technically a kirk-yard, merely a civic cemetery newly taken into use in the expanding New Town. Here, John recorded, his cousin ‘meant to have a small monument erected, not to exceed in expence one hundred pounds: that the Inscription should be “David Hume”. I desired him to change the discourse. He did so but seemed surprised at my uneasiness, which he said was very nonsensical.

⁵⁶ James Stevens Curl, *Classical Architecture: an introduction to its Vocabulary and essentials* (London 1992), p 157, Fig 6.14.

I think he is gaining ground; but he laughs at me, and says it is impossible – that the year (1776) sooner or later he takes his departure. He is willing to go to Bath, or travel during the summer through England, and return to Scotland to die at home...'

The mausoleum was a frequently-visited monument and printed and manuscript accounts are by no means uncommon. One more, recently chanced upon, is worth quoting here by virtue of the amusing parallel its author draws between the physical characteristics of the living Hume and the appearance of his tomb. Having mentioned Gibbon's corpulence, the pseudonymous writer recalls the observation of John Hill Burton, in his *Life and Correspondence of David Hume*, that 'this great philosopher was also somewhat addicted to embonpoint. Now, whether it was in reference to this physical peculiarity, I cannot tell, but assuredly the designer of the great historian's monument in the Calton Churchyard has contrived to impart to it a potbellied, Dutchman-like configuration, which, however much it may typify the fleshly tabernacle, does slender justice to the intellectual attributes of the man. It reminds me, as seen from the Calton Hill, of nothing but the superstructure usually indicative of a lime-kiln, or one of those huge vats occasionally to be found in certain kinds of manufactories.'⁵⁷

The drawing by Francis Grose, dated 1788 and engraved for his *Antiquities of Scotland* (London 1789), is (I think) to be regarded as very probably the first publicly available image of the Hume mausoleum, albeit the monument in what Grose calls the 'Caltowne burial ground' merely occupies the background of a plate which has for its subject the Trinity College Church. The mausoleum also features in two of the twenty-four etchings forming the very rare two-part work entitled *Views in Edinburgh by an Amateur*, published in 1816 by the enterprising Daniel Macintosh of the Repository of Arts.⁵⁸ Clearly the writer of the accompanying text venerated the man commemorated and admired equally the monument which held his remains. One of these views includes the gothic pinnacles of the church. It may strike the Hume scholar and the student of his life and work as somewhat of an ironic turn of fate that the tomb of the great atheist should thus appear as the backdrop to a monument of late-mediaeval Christian piety.

⁵⁷ *Edinburgh Dissected: Including Strictures on its Institutions, Legal, Clerical, Medical, Educational, &c., to which are added, Confessions and Opinions of a Tory Country Gentleman... in a Series of Letters addressed to Roger Cutlar, Esquire, By his Nephew* (Edinburgh 1857).

⁵⁸ National Library of Scotland, FB.m.343 (1-2). On Daniel Macintosh see Iain Gordon Brown, Daniel Macintosh and the Repository of Arts, *The Book of the Old Edinburgh*.

Hume will have had the last laugh, however; Trinity Collegiate Church was destroyed in 1848 to make way for that great agent of early Victorian progress, the North British Railway – and the pagan mausoleum still survives on its rocky vantage-point overlooking Waverley Station.

Dr Iain Gordon Brown

Senior Curator, National Library of Scotland

Appendix I **Institute Events 2010-1985**

2010

Book launch: Editor Professor Nick Kuenssberg, *Argument amongst friends; twenty five years of sceptical enquiry*

Sir John Grant, *Scotland in Europe*

Carl Emmerson (IFS) with Professor David Bell, *The Public Finances and Scotland*

Professor Danny Blanchflower with Professor David Bell, *The Economics of Wishful Thinking*

Professor Neil Shephard and Sir Andrew Cubie, *Funding for Higher Education*

Professor Sir Michael Marmot, Chair of the Commission on Health Inequalities, *A fairer society and narrower health inequalities*

Professor Willem Buiters, *Is there a 'new normal' for the European economies?*

Hume Lecture: Lord Hoffman, *Intellectual Property*

Jim Lindsay, Chief Executive, Airdrie Savings Bank and Ed Mayo, Chief Executive, Co-operatives UK, *What Role for Mutuals in Scotland's Financial Services?*

Trevor Philips, Chair, Equality and Human Rights Commission, *The Future of Equality*

John Kay, *Narrow banking and all that – regulatory reform after the collapse of Scotland's banks*

2009

Martin Wolf, Financial Times, *The World after the Financial Crisis*

Professor Tim Besley, *The economics of public service delivery: competition, incentives and ownership*

Peter Freeman, Chair, Competition Commission, *We are here in a very melancholy situation*
Scottish Policy Innovation Forum in partnership with the David Hume Institute, *Scotland's constitutional future*

Sir John Gieve, Deputy Governor of the Bank of England, *Back to the drawing board - regulation and macroeconomics after the crisis*

Will Hutton, economic commentator, *China, the west and the credit crunch*

John Swinney, Cabinet Secretary for Finance and sustainable Growth, *Scotland's Financial Future*

Hume Lecture: Frances Cairncross, Rector of Exeter College, Oxford, International Aspects of Higher Education

Tony Travers, Director of the Greater London Group, LSE and Professor Alan Alexander, Strathclyde University, *Local Government in Britain: Has too much reform impeded improvement?*

2008

Fabian Zuleeg and Professor Hughes-Hallett, *Options for Scotland's Future - the Economic Dimension*

Professor John Ermisch, Essex University, with Professor Robert Wright of Strathclyde University, *The Economics of an Ageing Society*

John Kay, Financial Times, *The economics of small countries - searching for Scotland's comparative advantage*

Sir Brian Hoskins, Peter Jones, Simon Pepper and Ian Marchant, *Reducing Carbon Emissions - the view from 2050*

Professor Danny Blanchflower, member of the Monetary Policy Committee, *Inflation, Expectations, and Monetary Policy*

Professor Robert Wright, University of Strathclyde, *The Economics of New Immigration to Scotland*

Hume Lecture: Brian Taylor, Political Editor, BBC, The Unfinished Agenda of Constitutional Change

Professor John Baillie, Chair Accounts Commission for Scotland with Bernadette Malone, Chief Executive, Perth and Kinross Council, *Scottish Councils; sinking or swimming?*

2007

Jo Armstrong, independent researcher, *A fresh approach to Public Service Delivery*

Professor Nick Hanley, University of Stirling, *Reducing carbon emissions - the implications for Scottish Business*

Richard Halkett, NESTA and Charlie Woods, formerly of Scottish Enterprise, *Achieving Innovation throughout the economy*

Professor Seona Reid, Glasgow School of Art and Jonathan Mills, Edinburgh International Festival, *Unleashing the potential of the Scottish creative sector*

Profs Stephen Glaister and George Hazel, *Transport strategy – with or without road pricing*
Dame Deirdre Hutton, Deputy Chair FSA and panel: Hamish Buchan and Charles Munn on *Financial education*

Peter Freeman, Chair, Competition Commission, *A wise man proportions his beliefs to the evidence – scepticism and competition policy*

*Presidential Address: Lord Stewart Sutherland, Is an enlightened society still possible?
Hume and the rise of fundamentalist religion*

Lord Richard Layard, *Mental Health and Public Policy*

Professor Bernard King, Principal of Abertay University and Dr Diane Coyle, *Mr Gradgrind meets Jude the Obscure - what use is Higher Education to the economy?*

2006

Professors Charlie Jeffrey, Edinburgh University and Jim Gallagher, Glasgow University, *Policy Making in a Devolved Community*

Mr Jeremy Peat, BBC Governor for Scotland and Trustee-Designate, *After the Governors: the role of the BBC's new Trustees*

Dr Dieter Helm, New College Oxford, *Energy Policy for Scotland – keeping the lights on and limiting climate change*

Dr Fabian Zuleeg, DTZ Consulting and Research, Professor Brian Ashcroft, Strathclyde University, *Does Size Matter? – An investigation between post-devolution growth in public spending and Scottish economic performance*

Lionel Barber, Financial Times, Bill Jamieson, The Scotsman, Martin Gilbert, Aberdeen Asset Management, Sir Angus Grossart, Noble Grossart, *Is Britain Well Served by its Financial Press?*

Sir Ian Byatt, Scottish Water Commission, *Balancing Regulation and Competition in the Water Business in Scotland*

Lord Eddie George, former Governor Bank of England and Sandy Crombie, Standard Life, *Trust and Integrity: Principles and Practice*

Hume Lecture: Sir Neil MacCormick, University of Edinburgh, The European Union and the Idea of a Perfect Commonwealth

Lord Adair Turner, Chair of the UK Pensions Commission, *The Appropriate Role of Government in the Provision of Pensions: Some Insights Drawn from the Second Report of the Pensions Commission*

2005

Professor Robert Hazell, The Constitution Unit, *Rebalancing the Constitution*

Robert Chote, IFS, *Gordon Brown and the Public Finances: Sticking to the Rules*

Professor Donald MacKenzie, University of Edinburgh, *When Genius Failed – Revisited*

Professor David Bell, University of Stirling, *Does public sector wage setting constrain devolution?*

Professor Sir David Tweedie, *Global markets, investment, management and the role of financial reporting*

Professor Orley Ashenfelter, Princeton University, *Globalisation of labour markets and the consequences for economic policy*

Professor Michael Power, LSE and Centre for the Analysis of Risk and Regulation, *The risk management of everything. Rethinking the politics of uncertainty*

2004

Professor Stuart Ogden, UMIST, *Making Executive Pay Work: remuneration committees and their effectiveness*

Professor Peter C Smith, Centre for Health Economics, University of York, *Improving Public Services: targets, performance and other regulator arrangements*

Hume Lecture: Sir Howard Davies, LSE, *Confessions of a Regulator*

Sir Richard Sykes, Rector, Imperial College, *Restoring Trust - Investment in the 21st century*

Professor Simon Deakin, Cambridge, *The simultaneous fall and rise of mutuality*

Professor Gavin McCrone, University of Edinburgh, *The Future of the Scottish Fishing Industry*

Professor David Simpson, The David Hume Institute, *Tilting at Windmills: The economics of wind power*

The Rt.Hon. Lord Penrose PC, Court of Session, *The Equitable Life Report*

Ben Irvine, Civitas, *NHS Scotland versus NHS England. Lessons to be learned*

Professor Peter Jackson, Leicester University Business School, *The Private Finance Initiative. From the foundations up*

2003

Lilian Edwards, University of Edinburgh and Alison Di Rollo, *Regulating the Internet*

Professor Keith Ewing, King's College and Lord Robert Reed, Court of Session, *Human Rights Legislation - so far, so good?*

Frank Maguire, Solicitor-Advocate, Trinity College, Cambridge, *The Compensation Culture - Lies, Greed and Anger in the Courts*

Presidential Address: Sir Alan Peacock, *The political economy of sustainable development*

Professor Chris Baldry, University of Stirling, *The Future of Work*

Professor Jim Rollo, University of Sussex, *The Challenges and Opportunities of an Enlarged EU. One Europe or Several?*

Sir Steve Robson, Partnership UK, *PFI – the view from the horse's mouth*

Prof. Michael Parkinson, Liverpool John Moores University & Prof. Ivan Turok, University of Glasgow, *Cities: Competitiveness and Cohesion*

2002

Professor Charlie Jeffery, University of Birmingham, and Prof Peter McGregor, University of Strathclyde, *The Limits of Devolution; Some results from the ESRC Research Programme on Devolution and Constitutional Change*

Richard Kerley, University of Edinburgh, *The strange death of local government*

Professor David Heald, University of Aberdeen, *Financing devolution. What should follow Barnett?*

Dr Frederic Fransen, Liberty Fund Inc., *Jean Monnet, Britain and Kennedy's Atlantic Partnership*

Professor Kevin Woods, University of Glasgow, *The NHS in Scotland: no more repeat prescriptions*

Alastair Ross Goobey, Hermes Focus Asset Management, *Governance and fund managers*

Sandy Nairn, Chief Investment Officer, Scottish Widows and Keith Skeoch, Chief Investment Officer, Standard Life, *Fund Management and Global Equities. How should the money be managed?*

Donald Brydon, Chief Executive, AXA Investment, *The competitive pressure confronting the UK fund management industry*

Annual Lecture: Professor John Gray, LSE, *Hume, Liberty and the Market - a 21st Century Perspective*

Philip Augar, *Regulation and transparency: the case of investment banking*

2001

Marianne Neville-Rolfe, South East of England Development Agency, *Lessons to be learned from the experiences of an English Development Agency*

Larry Fish, Chairman, President and CEO, Citizens Bank, *An American perspective on the experiences of New England*

Conference: Stewart Ivory Foundation, *Tulip Mania to Dot Com Hysteria: What can we learn from past financial cycles?*

Sir Geoffrey Owen, LSE, *British Industrial Performance - An Historical Perspective*

Sir Ian Byatt, former Director-General OFWAT and Alan Sutherland, WIC for Scotland, *How Best to Regulate Water: The English and Scottish positions*

Professor John Vickers, Office of Fair Trading, *When is Trading Unfair?*

Callum McCarthy, OFGEM, *The Regulatory Agenda for Gas and Electricity*

Presidential Address: Lord Mackay of Clashfern, *Are Lawyers Parasites?*

Don Cruickshank, Scottish Media Group, *A View of Regulation*

2000

Professor David Bell, University of Stirling, *The impact of EMU on the Scottish economy*

Professor Tim Congdon, *EMU: can monetary union work without political union?*

Professor Andrew Hughes-Hallett, *EMU, the alternatives and how they all work*
Conference: The Settlement of Legal Disputes

Hume Lecture: Tommaso Padoa-Schioppa, *The European Union and the Nation State*

Professor Sir John Arbutnott, Strathclyde University, *National Review of Resource Allocation for the NHS in Scotland*

Professor Tony Atkinson, Oxford University, *Poverty in Europe: Poverty Targets and their Achievement*

Geoffrey Martin, European Commission, *The European Union and the Scottish Parliament*

1999

Professor Nick Crafts, LSE, *Transport and the Economy*

Neil McIntosh, *Local Government and the McIntosh Report*

Professor Bruno Frey, *Referendums*

Allan Massie and Professor Neil MacCormick, *The Hume Debate: The Politics of Devolution,*

Professor David Simpson, Economic Advisor to Standard Life, *Economic Aspects of Political Independence*

Professor Jeremy Rowan-Robinson, Aberdeen University, *Land Reform*

Professor Duncan MacLennan, Glasgow University, *Housing and Regeneration*

Hugh Morison, Scotch Whisky Association and Russel Griggs, Scotland The Brand
Marketing Scotland and Scottish Products

1998

Professor Lindsay Paterson, *Education and Training*
Professor Roy Goode, *Commercial Law*

Hume Lecture: Professor Vernon Bogdanor, *The Start of a New Song*

Bill Jamieson, *Business and the Economy*

Uwe Leonardy, Ministerialrat, Bonn, *Devolution, the German Experience Conference: The Reform of Civil Justice*

Mr. Tam Dalyell MP & Mr. Allan Massie, *A Survey of the Future*

Mr. Tom Riddell, NCR and Dr. George Bennett, Motorola, *The Scottish Parliament and Inward Investment*

Etienne Gutt, Cour d'Arbitrage, Luis Moreno University of Madrid, *The Experience in Europe*

Jeremy Peat, Chief Economist, The Royal Bank of Scotland and Prof. Neil Walker, *The Scotland Bill Explained*

1997

Hume Lecture: The Rt Hon Lord Hope of Craighead, *Judicial Aspects of Devolution*

Grant Baird Scottish Financial Enterprise and Nigel Smith Auld Valves, *In Business with the Scottish Parliament*

Conference: Incentive, Innovation and Reward: Intellectual Property Law and Policy

Professor John Kay, *Corporate Ownership*

Professor Stephen Littlechild, Director-General of Electricity Supply, *Consumer Protection*

Mr Justice Jacob, *Industrial Property: Industry's Enemy*

J Phillips, *Intellectual Property*

1996

Presidential Address: Sir Samuel Brittan, *Causation in Economic Affairs*

Book Launch: Ingrid Merikowski, *Well Temper'd Eloquence*

Conference on Devolution: with the Constitution Unit and Scottish Financial Enterprise

John Bridgeman, Director-General of Fair Trading, *An Historical Look at the Benefits of Competition Policy*

1995

Hume Lecture: Sir Stewart Sutherland, Principal, Edin Univ, *The Price of Ignorance*

Book Launch: Glasgow Caledonian University, *Managing Doctors*

Book Launch: *Scotland and the Union*

1994

Hume Lecture: Sir James Mellon, *A Flexible Housing System for the Global Market*

Professor Marc Steinberg, *Directors Fiduciary Duties in the USA*

Conference: *The Costs of Justice*

1993

Presidential Address: David Edward *The Role of Law in the Rule of Law*

Alastair Brown, Crown Office, John Murray QC, University of Edinburgh, Prof. Norman Barry, University of Buckingham, *Insider Dealing*

Tom Sherman, *International Efforts to Combat Money Laundering: The Role of the Financial Action Task Force*

1992

Conference: *Money Laundering*

Hume Lecture: William Brown, *Broadcasting - We are experiencing some interference*

Conference: In association with World Gold Council, Prof. Ronald MacDonald, Prof. Roy Batchelor, Terry Arthur, Roger Murphy, *Asset classes for a changing world*

1991

Conference: *Corporate Takeovers and the Public Interest*

1990

Professor Patrick Minford, University of Liverpool, *Death of Monetarism*

Conference: Professor Gordon Hughes and Dr David King, *Reform of the structure of financing of local government: Implications for business and the community*

Hume Lecture: Ian Byatt, Director Water Services, *The Regulation of the Water Industry*

1989

Presidential Address: Judge Thijmen Koopmans, European Court of Justice

Sir Martin Jacob, *Monetary Union & European Currency - A Target or a Trap?*

1988

Hume Lecture: Professor Andrew Skinner, *What Adam Smith said and meant*

Symposium: Commercial Litigation in Scotland

Conference: Financing of Health Services with the Royal College of Physicians, Edinburgh

1987

Allan Massie, *The Novelist and the Market Economy*

Conference: Small Business Policy: The Future, in association with the Anglo-German Foundation and Graham Bannock & Partners

Sir Lawrence Airey, *The Black Economy*

1986

Hume Lecture: Sir Alan Peacock, on The Politics of Investigating Broadcasting Finance

Conference: Financial Deregulation in association with Deloitte Haskins & Sells

Presidential Address: George Stigler, Nobel Laureate, on The Regularities of Regulation

Hume Lecture: Professor Bryan Carsberg, Director-General Office of Telecommunications, The Regulation of Telecommunications

1985

Conference: Pensions Policy, convened by Tony Newton, Minister for Social Security

Appendix II

Hume Publications

Hume books

<i>Financial Deregulation</i> , Richard Dale	1986
<i>Governments and Small Businesses</i> , Graham Bannock and Alan Peacock	1989
<i>Corporate Takeovers and the Public Interest</i> , Graham Bannock and Alan Peacock	1991
<i>Social Policies in Transition to a Market Economy</i> , Michael Hay and Alan Peacock	1992
<i>The First Decade: the first ten years of The David Hume Institute</i> , edited by Nick Kuenssberg and Gillian Lomas	1995
<i>Well Temper'd Eloquence</i> , Ingrid Merikowski	1996
<i>Argument amongst friends: twenty five years of sceptical enquiry</i> , edited by Nick Kuenssberg	2010

Hume reprints

<i>The politics of Investigating Broadcasting Finance</i> by Alan Peacock	1986
<i>Spontaneous Order and Rule of Law</i> by Neil MacCormick	1986
<i>Governance and Accountability: Corporate Governance</i> by John Shaw	1993

Hume monograph

<i>Quasi Markets for Water Services: Reviving the Auld Alliance?</i> John W Sawkins and Robert McMaster	1997
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Hume papers

No 1 <i>Banking Deregulation</i> by Michael Fry	1985
No 2 <i>Reviewing Industrial Aid Programmes: (1) The Invergordon Smelter Case</i> by Alex Scott and Margaret Cuthbert	1985
No 3 <i>Sex at Work: Equal Pay and the 'Comparable Worth' Controversy</i> by Peter Sloane	1985
No 4 <i>The European Communities' Common Fisheries Policy: A Critique</i> by Antony W Dnes	1986
No 5 <i>The Privatisation of Defence Supplies</i> by Gavin Kennedy	1986
No 6 <i>The Political Economy of Tax Evasion</i> by David J Pyle	1987
No 7 <i>Monopolies, Mergers and Restrictive Practices : UK Competition Policy</i> <i>1948-87</i> by E Victor Morgan	1987
No 8 <i>The Small Entrepreneurial Firm</i> by Gavin C Reid and Lowell R Jacobsen	1988
No 9 <i>How Should Health Services be Financed?</i> by Allan Massie	1988
No 10 <i>Strategies for Higher Education - The Alternative White Paper</i> by John Barnes and Nicholas Barr	1988
No 11 <i>Professional Liability: an Economic Analysis</i> by Roger Bowles and Philip Jones	1989
No 12 <i>Deregulation and the Future of Commercial Television</i> by Gordon Hughes and David Vines	1989
No 13 <i>The Morality of Business Enterprise</i> by Norman Barry	1991
No 14 <i>Copyright, Competition and Industrial Design</i> by Hector L MacQueen	1989
No 15 <i>Student Loans: The Next Steps</i> by Nicholas Barr	1989
No 16 <i>Agathotopia</i> by James Meade	1989
No 17 <i>Beyond the Welfare State</i> by Samuel Brittan and Steven Webb	1990
No 18 <i>Public Broadcasters: Accountability and Efficiency</i> by Robin Foster	1992

Appendix III

Hume Occasional Papers

1	What to do about the over-valued dollar, Ronald McKinnon	1985
2	The political economy of pension provision, Alan Peacock & Norman Barry	1986
3	The regularities of regulation, George J Stigler	1986
4	How safe is the banking system, Richard Dale	1986
5	Economic issues in merger policy, E Victor Morgan	1987
6	The regulation of the telecommunications industry, by Bryan Carsberg	1987
7	The novelist's view of the market economy, Allan Massie	1988
8	Understanding Mrs Thatcher: Conservative economic policy 1979-1987, David Simpson	1988
9	Adam Smith and economic Liberalism, Andrew Skinner	1988
10	Long-term savings in an enterprise economy: a case study of the principles and practice of UK economic policy, Jack Wiseman	1988
11	Contemporary problems in commercial litigation, David Edward, Lord Ross and Catherine Blight	1989
12	Industry, money and markets: a means to Irish unification, W Duncan Reekie	1989
13	The future of legal systems, Presidential Address 1990, Thijmen Koopmans	1990
14	Mergers and takeovers; short and long-term issues, Sir Gerald Elliot	1990
15	Takeover boom: an international and historical perspective, Graham Bannock	1990
16	The regulation of the water industry, Ian Byatt	1990
17	Corporate takeovers and the interests of regions and local communities, Brian Ashcroft and James H Love	1990
18	Evidence from the Association of British Insurers, The Association of Investment Trust Companies, The Office of Fair Trading, The Department of Trade and Industry and the Trades Union Congress	1990
19	Takeover activity and differential returns to shareholders of bidding companies, R J Limmack	1990
20	Finance and takeovers, D H Gowland	1990
21	The UK Panel on takeovers and mergers: an appraisal, W A P Manser	1990
22	Efficient markets and the rationale of takeovers, Gavin C Reid	1990
23	Corporate takeovers – the need for fundamental rethinking, Allen Sykes	1990
24	The Stock Market and mergers in the United Kingdom E Victor Morgan and Ann D Morgan	1990
25	Investment managers and takeovers: information and attitudes E Victor Morgan and Ann D Morgan	1990
26	Taxation and mergers policy, John Chown	1990
27	Evidence from The Scottish Office, the Edinburgh Centre for Theology and Public Issues, and Mr D Henry	1990
28	The building of the New Europe: national diversity versus continental uniformity, J E Meade	1991
29	The control of mergers and takeovers in the E C, Robert Pringle	1991
30	How level a playing field does company law provide? R J Jack	1991
31	The Nestlé takeover of Rowntree, Evan Davis and Graham Bannock	1991
32	The power of the lobbyist: regulation and vested interest, Michael Casey	1991
33	Takeovers and industrial policy: a defence, Graham Bannock and Alan Peacock	1992
34	The contemporary relevance of David Hume, Robert Pringle	1992

35	<i>The remuneration committee as an instrument of corporate governance</i> , Brian Main and James Johnston	1992
36	<i>Asset classes for a changing world: papers presented at a conference and sponsored by the World Gold Council</i>	1992
37	<i>Foreign investment and the law in the Russian Federation: papers presented at a colloquium in Moscow, 1991</i> , edited by Elspeth Reid	1992
38	<i>Broadcasting – we are experiencing some interference</i> , Hume Lecture, William Brown	1992
39	<i>The legal problems of economic reform in Russia</i> , B N Topornin	1993
40	<i>On the wrong tracks: the Government's proposal for franchising passenger rail</i> , Anthony W Dnes	1993
41	<i>Insider dealing: papers presented at a seminar, Edinburgh, 1993</i> edited by Hector MacQueen	1993
42	<i>The role of law in the rule of law</i> , Presidential Address, David Edward	1994
43	<i>The costs of justice: proceedings of a conference, May 1994</i> , edited by Hector MacQueen	1994
44	<i>A future for the past: the political economy of heritage</i> , British Academy Keynes Lecture, Alan Peacock	1994
45	<i>A flexible housing system for the global market</i> , Hume Lecture, Sir James Mellon	1994
46	<i>UN Peacekeeping – past lessons and future prospects</i> by Malcolm Rifkind	1994
47	<i>The price of ignorance</i> , Hume Lecture, Sir Stewart Sutherland	1995
48	<i>A historical look at the benefits of competition policy</i> , John S Bridgeman	1995
49	<i>Paying for devolution</i> edited by Hector MacQueen	1996
50	<i>The device of devolution</i> , Alan Peacock	1996
51	<i>More or less competitive? A case study of the Scottish Economy</i> , Professor Donald MacKay	1996
52	<i>Causation in economic affairs</i> , Presidential Address, October 1996, Sir Samuel Brittan	1997
53	<i>A cool look at the Euro</i> , Sir Samuel Brittan	1997
54	<i>Working with the Scottish Parliament: judicial aspects of devolution</i> , Lord Hope of Craighead	1998
55	<i>The start of a new song</i> , Vernon Bogdanor	1998
56	<i>Report on economic aspects of political independence</i> , David Simpson, Brian Main, Alan Peacock, Fabian Zuleeg	1999
57	<i>Agenda for the Scottish Parliament</i> , Hector MacQueen, Brian Main and others	1999
58	<i>The European Union and the Nation State</i> , Hume Lecture, Tommaso Padoa-Schioppa	2000
59	<i>Are lawyers parasites?</i> Presidential Address, Rt. Hon Lord Mackay of Clashfern	2001
60	<i>Hume on liberty and the market – a twenty-first century perspective</i> , Hume Lecture, Professor John Gray	2002
61	<i>Establishing competitive economic advantage in the Scottish Economy</i> Alf Young	2003
62	<i>The Central Scotland airport study</i> , Brian Main, Bill Lever and Jonathan Crook	2003
63	<i>The political economy of sustainable development</i> , Presidential Address, Professor Sir Alan Peacock	2003
64	<i>The Private Finance Initiative from the foundations up</i> , Professor Peter Jackson	2004
65	<i>Tilting at windmills: the economics of wind power</i> , Professor David Simpson	2004
66	<i>Regulations and politics: the need for a new dialogue or A letter to John Redwood</i> , Sir Howard Davies	2004

67	<i>Balancing regulation and competition in the water business in Scotland</i> , Sir Ian Byatt	2006
68	<i>The European Union and the idea of a perfect Commonwealth</i> , Hume Lecture, Sir Neil MacCormick	2006
69	<i>The Scottish public sector: does size matter?</i> Richard Marsh & Fabian Zuleeg	2006
70	<i>Rethinking central local government in Scotland: back to the future?</i> Jim Gallagher, Kenneth Gibb and Carl Mills	2007
71	<i>A wise man proportions his beliefs to the evidence: scepticism and competition</i> <i>Policy</i> , Peter Freeman	2007
72	<i>Financial fitness programme for young Scots: a report on the need to strengthen</i> <i>the provision of financial education in Scottish schools</i> , Peter Jones	2007
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