

## Preface to Economics Blog

By Richard Olsen

Today, we use technologies on a regular basis that only 20 years ago appeared impossible. If you had told anyone in the 1970s that today's world would boast an installed base of more than 1 billion of personal computers, this would have been viewed as utopia. Or who predicted ten years ago that mobile phones would exceed 3.5 billion by 2008? For that matter, nobody expected that Moore's law of doubling of computing speed every two years stipulated in 1964 would still hold true in 2009?

In technology, we have been able to exceed our wildest expectations, so why not try to achieve the same in social issues? The contributions to the economics section of the blog will span a wide range of areas that are critical for such an endeavor.

## Personal Trajectory

The ideas presented here started to germinate way back. When still at school, I distinctly remember how shaken I was to hear about the horrors of the Nazi government and how even long before the Second World War people had started to disappear in Germany without anyone crying foul. Why did this happen? How was it possible for one of the most advanced countries to have descended into an abyss of horror? What had gone wrong?

I started to search for solutions. The first time I made a significant breakthrough in my thinking was during the first oil shock in 1974. In response to the crisis, governments decided to safeguard jobs, because the hike in oil prices threatened jobs. Governments announced investment programs for building roads, trucks and other projects to protect jobs. I asked myself: why did they not state that they had bought x number of jobs at a price of Y USD each? Would this not have been more straight forward and transparent?

Today, we observe the same. Obama has launched large scale employment programs. This has lead to a debate of the cost of creating these jobs. Krugman estimates in his 25th January New York Times column that the cost of creating the 3.5 Mio jobs in the US after taking into account the economic stimulus effect is between 60,000 and 100,000 USD depending on the assumptions. If we exclude these effects and just divide the stimulus program by the number of expected jobs, then the cost is a whopping 275,000 USD per job.

If jobs have to be bought to create employment, why do we not acknowledge this development? I spent several years researching this proposal and discovered that yes, we could alleviate unemployment, if we accepted the fact that jobs had turned into financial assets.

My proposal is the following: when companies create new jobs, they should be able to sell the jobs at the going market rate thus raising capital to fund the cost of creating the jobs. In turn, employees owning the jobs would be able to sell them when they leave their job. Employees would thus have a financial stake in the success of their company.

My research showed that in the Middle Ages property rights over land had evolved in a similar way. Originally, there were employment contracts between king, the nobles and the common people. Over time the employment contracts became more long-term. As

this happened, the farmer started to take advantage of the legal title of his employment contract to utilize the location specified in his contracts for other activities, such as running a pub. It took several centuries before the farmer could sell his pub; for a long time, this was deemed impossible, because this would have meant transferring the employment contract between farmer and king. In actual fact, the employment contract had mutated into a long-term contract with an intrinsic value. After a lot of to and fro, it was acknowledged that land could be owned and bought and sold. The leasehold in the UK is a remnant of the transition of an employment contract to the property right of land. I argue that a similar development is taking place in the labor market, where jobs are turning into a financial asset. I will discuss the proposal in the blog.

Just imagine my frustration: I was a young student, who had just discovered how the labor market was undergoing a profound transition from short-term employment contracts to jobs as financial assets and that this development was causing hardship and could be overcome, if society acknowledged the changes that were occurring in employment relationships. No one was ready to listen. So still today, the public does not doubt the need of the employment programs. Governments launch public works programs and agree to salvage bankrupt companies to save jobs without contemplating a more innovative and forward looking approach.

In 1979, I came up with a new proposal of how to complement political states with a new category of so called corporate states. At the time, I was studying politics and economics at Oxford. My insight was the following: Were not the kings of the middle Ages business people? The kings had successfully leveraged their military power to establish monopoly power. Over time, the people became wary of the overriding power of the king. The development of democracy was a means to redress the imbalance of power between a monarch and his people?

Why not do the following? With economic development and the proliferation of new industries, many new types of monopolies have evolved, where a king, read CEO, has a monopoly of power over his people, read customers. Companies, such as Microsoft and Google, have (almost) monopoly power in their respective markets: why not introduce democratic processes, where customers ultimately determine corporate policy?

We, who are consumers of Google products and are the inhabitants of the Google state, why should we not fight for Google democracy? Instead of making secret surveys of customers, Google should be forced to publish the results of its surveys. The surveys would be the political votes determining the type of policies and products that Google has to adopt. People across the world, in Israel, Palestine, Europe, Asia and America all use Google products. We could learn to cooperate across national borders and find common solutions to our problems. Yes, the idea of transforming the large corporations with monopoly power in their respective markets into corporate states promises to unlock blocked resources. Today, governments are strapped for funds and have to cut back on public services. The corporate states can fill the void, more about this later.

I clearly remember, when attending the first lecture on growth models by James Mirlees in Oxford, he later received the Nobel Prize, how he explained that the growth models in economics were inadequate; they were unstable and if any tool would break, then they would be thrown off equilibrium.

If the economic models cannot satisfactorily explain growth and bust, they fail to capture key features of our economy. 20,000 years ago, humans lived in caves; today, we live in a global economy, where new products are launched at an increasing pace: economics has to be able to explain this development and provide an analytical framework. I started to search for an economic model that could explain the evolution of society, the emergence of millions of new products, the development of complex legal structures, but

# OLSEN

also other features of society, such as art and culture. Eventually I realized that the answer lies in developing a model that is truly dynamic, which does not build upon static building blocs, such as the economic man with fixed budget endowment as postulated by classical economics. Going forward I will explain the model.

The financial markets are the nervous system of the global economy and play a key role in shaping the history of society. If the stock market crashes, then this affects people across the board. We have to understand the mechanics of the financial market system. I have spent years researching the financial markets, in particular the foreign exchange market.

Over the past three years, we have made a series discoveries that have allowed us to cross a critical threshold in building financial models. Today, I would claim that we have developed financial models that are comparable to computers in 1968; this is definitely a breakthrough, but to be honest there is lots of room for improvement.

I have to thank the many people that have supported me during this long journey of discovery. It has been like a long expedition through the Himalayas, with successes, but also with many setbacks. Over the past 25 years, I have been spoilt to work with a group of excellent colleagues from whom I have learned a great deal. I am grateful for their input, advice and support in turning my plans into reality. Last but not least I want to thank my family and friends for their support.

---

Richard Olsen is founder and chief executive of Olsen Ltd and the Chairman of OANDA, a leading foreign exchange broker and market maker.

# OLSEN

Olsen Ltd is a research and development company and investment manager based in Zurich, Switzerland. Olsen has yielded practical applications and managed accounts and third-party products, investing in currencies as a separate asset class or as an overlay to an existing currency exposure.

Copyright © 2009 by Olsen Ltd

All rights reserved. No part of this work may be reproduced or transmitted in any form by any means, electronic or mechanical, including photocopying and recording, or by any information storage or retrieval system, without permission in writing from the publisher.

Olsen Ltd  
Seefeldstrasse 233  
8008 Zürich, Switzerland

Phone +41 44 386 4848  
Fax +41 44 422 2282

[www.olsen.ch](http://www.olsen.ch)