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RALPH HARRIS and ARTHUR SELDON

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IEA 1957–1977

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... must be respected for the quality, consistency and rigour of its approach to the treatment of private industry . . . I concede a consistent and honourable attempt to remove a major blemish of the free market system. David Collard, *The New Right: a critique*, 1968

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Brian Walden, *British Hospital Journal & Social Service Review*, 1969

Thank heavens for the Institute of Economic Affairs . . . It has become the leaven in the whole economic mass. The centre of useful economic activity is not to be found in the Treasury's economic section, not in the Bank of England, not presently in the Universities, certainly not at the National Institute. More and more it is at Lord North Street, the Institute's HQ. Patrick Hutber, *Sunday Telegraph*, 1975

. . . the recent change of climate has been remarkable. Ten years ago, the IEA, with its devotion to Adam Smith, free market economics and the guidance of the economy by strict control of the money supply rather than by collectivist intervention, was still regarded as a bit of a joke by most economic writers.

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The Institute of Economic Affairs...for many years could be and has been dismissed as a crank outfit . . . its ideas now have much wider currency. In large parts of the Press they are the new orthodoxy and the Labour Government is by no means immune from them.
Labour Weekly, 17 February, 1976

When an economy has sunk into a morass because the government is grabbing 60% of gnp, there is bound to be a revival of radical demands that there needs to be a restoration of choice, incentive and rewards for activities which benefit society – even if there is, yes, private profit as a result. The academy of such ideas in Britain has long been the Institute of Economic Affairs. *The Economist*, 21 February, 1976

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20 YEARS OF ECONOMIC DISSENT

Ralph Harris

Arthur Seldon

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Preface

To commemorate the first 20 years of the Institute we have compiled, at some pressure in the occasional hours we could spare from its day-to-day work, an account of its output of ideas expounded by 250 authors. This is our interpretation of their thinking against the background of post-war economic developments. We have tried to identify the main themes and to illustrate them by summary and quotation. But the authors made individual contributions mostly unconnected with others, and some may not share the emphasis we have put on what seem to us the underlying essentials.

In the time we could not write a full history of the Institute over two decades of economic policy and some three million words of often closely-argued writing. The task of assessing its impact on thought must remain for other hands, perhaps more detached than ours. We are conscious that, in our selection of themes, we have not done even-handed justice to the authors and their works, and we apologise in advance to those whose *Papers* we could not reach in time, or which did not fit into our major themes. As an interim roll of honour we add a series of extracts in which each author speaks to the world of 1977 in a sentence that epitomises a main message. Here again the choice is ours and some authors might have chosen differently.

The authors were drawn from a wide range of schools of thought, but we were more interested in their methodology than in their ideology. In the late 1950s it seemed to us that 'Keynesian' (not necessarily Keynes's) macro-economic analysis had dominated economics long enough and that it was time to correct the imbalance because macro-economics could not offer solutions to problems that required micro-economic analysis and micro-economic treatment. 'The economic system' has no impulse of its own apart from the personal impulses of the individuals who comprise it. For some purposes men act in concert, the domain of public goods, but they remain individuals reacting to the immediate circumstances of their small worlds, which they know better than anyone else.

This approach and flavour explains some early criticism of the Institute for its preoccupation with 'the market'. And the fortuitous selection of the subjects for early treatment – pensions, advertising, hire-purchase – drew condemnation from sociologists and moralists who could see nothing more in market analysis than a defence of commercial interests. This antipathy has subsided in recent years although it lingers in some journals and journalists. Since the Institute is an educational charity we were sensitive in the early years that, if our integrity and repute could be discredited, the work of the Institute might suffer. To protect IEA authors we reluctantly took and won four legal actions for libel against papers and politicians who mistook the findings of disinterested scholarship for the partisan promotion of interests. We are now content to let the quality of IEA work speak for itself.

We have resisted the temptation to elaborate the intriguing proposition that if government had heeded IEA authors – Roberts on trade unions in 1959, Hobson and others on monetary policy in 1960, Macrae on rent control in 1960, Colin Clark on growth in 1961, Lees on the NHS in 1961, Meade on free trade in 1962, Morgan on monetary policy in 1964, Brunner on planning in 1965, West on education in 1965, Hicks on local government spending 1966, Houghton on NHS charging in 1967, Polanyi on planning in 1967, Pennance on housing in 1968, Walters on monetary policy in 1969, Lutz on competition in 1969, Friedman on monetary policy in 1970, 1974, 1975, scores more, and Hayek on the market order in 1976, 1975, 1973, 1972, 1968, or any year since 1929 – we might have been spared the simultaneous inflation, unemployment, falling living standards, under-financed education and medical care, needless penury of some pensioners and poor in 1977. That is for others to judge.

What we should record in this review of the work of IEA authors is the increasing respect it has won from observers and writers who had begun with early antipathy or extreme scepticism. In 1960 one prominent economic writer gave the Institute 'six months'. We hope we may share the satisfaction of our authors in the increasing use of IEA *Papers* in schools and universities and the attention, if not agreement, that IEA *Papers* have received from distinguished academics, influential economic commentators of the integrity and independence of Samuel Brittan, Peter Jay, Patrick Hutber, Ronald Butt, public men in all three parties, and economists around the world. IEA Hobart and other *Papers* have supplanted Fabian tracts and PEP pamphlets as the largest source of authoritative, up to date economic analyses of the recent and current scene.

We are responsible for selecting the subjects for study and choosing the researchers and authors. We have not always shared their analysis or conclusions. (We have not even always agreed between ourselves.) But we have considered their subjects relevant for study, although ignored by other economists, and their diagnosis stimulating and thought-provoking. The Prefaces consistently indicate that the published texts represent the authors' judgements, not ours. The essential requirement throughout has been that they should analyse fearlessly, document scrupulously, and write clearly.

Has the Institute justified its efforts? Its offices exhibit a framed reproduction of the classic *obiter dictum* of Keynes in 1936:

> 'The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else.
>
> Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist.'

Professor Hutchison has advised caution[1] with a counter-quotation from John Stuart Mill in 1745:

> 'Ideas, unless outward circumstances conspire with them, have in general no very rapid or immediate efficacy in human affairs.'

We have found new ideas in IEA *Papers* often applauded in principle in private but resisted with the knowing injunction that they are not 'politically possible'. We are very sceptical of this instinctive approach of the politician: it reminds us, during our work on the economics of advertising, of the response of the sales manager to a new product – that it would not sell because the

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[1] *Markets and the Franchise* (Occasional Paper 10, 1966).

public had not heard of it. The objection of 'political impossibility' is the last refuge, in circular reasoning, of the hidebound. In our commission to IEA authors to pursue their thinking wherever it led them, since no-one (not even they) could foretell the future, we emphasised their task was to present analysis that was right even if it was judged, at the time, politically inexpedient. We have seen many ideas launched or refined in IEA *Papers* resisted initially as 'politically impossible' and welcomed not long after as timely, if not overdue. It is for others to reduce the time-lag between scholarship and policy.

We have to thank Michael Solly for a Trojan effort in processing the material for printing, and Goron Pro-Print for producing galleys in two days: one more example of the small-scale enterprise that may yet save British industry.

RALPH HARRIS

ARTHUR SELDON

Dedication

We dedicate this volume to Antony Fisher without whose initial vision the Institute would not have been established, to the 300 economists who have advised or written for the Institute, and to the benefactors who have sustained its research and educational work without questioning its independence.

* * *

A special acknowledgement is due to Michael Solly who has maintained an enviable standard in the production of IEA publications since 1959 and who supervised the printing of this Paper in the record time of three weeks from draft manuscripts to delivery of final copies on Christmas Eve, 1976.

Benevolence . . .

THE WISDOM OF ADAM SMITH

It is not from the benevolence of the butcher, the brewer or the baker that we expect our dinner, but from their regard to their own interests . . .

The Wealth of Nations

Benevolence may, perhaps, be the sole principle of action in the Deity . . . but so imperfect a creature as man . . . must often act from many other motives.

The Theory of Moral Sentiments

It is [ambition] which rouses and keeps in continual motion the industry of mankind. It is this which first prompted them to cultivate the ground, to build houses, to found cities and commonwealths, and to invent and improve all the sciences and arts which ennoble and embellish human life . . .

The Theory of Moral Sentiments

. . . we are all naturally disposed to overrate the excellencies of our own character.

The Theory of Moral Sentiments

. . . he is a bold person who does not hesitate to pull off the mysterious veil of self-delusion which covers from his view the deformities of his own conduct . . .

The Theory of Moral Sentiments

. . . the praise of good intentions, without the merit of good offices, will be but of little avail to excite either the loudest acclamations of the world, or even the highest degree of self-applause.

The Theory of Moral Sentiments

[People engaged in the administration of government] are generally disposed to reward both themselves and their immediate dependents rather more than enough.

The Theory of Moral Sentiments

The great advantage of the market is that it is able to use the strength of self-interest to offset the weakness and partiality of benevolence, so that those who are unknown, unattractive or unimportant, will have their wants served.

Professor R. H. Coase: *Adam Smith's view of man*

The Authors

RALPH HARRIS was born 1924 and educated at Tottenham Grammar School and Queens' College, Cambridge. He was Lecturer in Political Economy at St. Andrews University, 1949-56, and has been General Director of the Institute of Economic Affairs since 1957. He wrote (with Arthur Seldon) *Hire Purchase in a Free Society, Advertising in a Free Society, Choice in Welfare,* etc., for the IEA. His essay, 'In Place of Incomes Policy', was published in *Catch '76 . . .?* (Occasional Paper 'Special' (No. 47), 1976). His most recent work, written with Arthur Seldon, is *Pricing or Taxing* (Hobart Paper No. 71). He is Secretary of the Wincott Foundation and the Political Economy Club, formerly secretary, now a Vice-President, of the Mont Pelerin Society, and a Council Member of University College, Buckingham. Mr Harris lectures and writes widely on post-war policies and economic requirements of free society.

ARTHUR SELDON was born in London in 1916, educated at Raine's Foundation School and graduated from the London School of Economics where he was Research Assistant to Sir Arnold Plant, 1937-40. He was a Tutor in Economics for the London University Commerce Degree Bureau, 1946-56, and a Staff Examiner in Economics to the University, 1956-66.

After editing a retail journal and advising in the brewing industry, he joined the Institute and wrote its first *Paper* in 1957 (on pensions), its early reports on advertising, hire purchase and welfare with Ralph Harris, and several later *Papers.* His essay, 'Remove the Financing Flaw in "Public" Services', was published in *Catch '76 . . .?* He is co-author, with Ralph Harris, of *Pricing or Taxing.*

He wrote *The Great Pensions Swindle* (Tom Stacey, 1970), and compiled *Everyman's Dictionary of Economics* with the late F. G. Pennance (J. M. Dent, Second Edition 1976). Author of *Charge,* for Maurice Temple Smith, March 1977. He has been an occasional contributor to the *Economist,* the *Financial Times, The Times* and the *Daily Telegraph.*

I. The Challenge to Collectivism

Most major disagreements between economists can for practical purposes be represented as a tug-of-war between two views of the ability of politicians to promote economic welfare. The classical liberal conception saw an essential but limited role for government to enforce a framework of laws and institutions that would advance economic freedom and prosperity by the fertile interplay of competitive enterprise with consumer choice. The opposite, collectivist, conception saw almost unlimited scope for government to improve social welfare by restricting the freedom of individuals as producers, traders, property-owners and consumers.

It cannot be doubted that, when the IEA began in 1957, the tide of ideas and public opinion was running powerfully against the classical conception. For every problem it was at once assumed on all sides that government had a solution. And politicians of all parties stood ready to oblige. Even when the problem, as in housing, could be shown to have resulted from past government action, it was still taken for granted that the only 'politically acceptable' course was more intervention.

Failure of collectivism

In the 30 years of almost continuous extension of the collectivist approach since the war, it is hardly necessary to document its failure to yield the promised benefits. We need only recall the central economic objectives of public policy – full employment, stable prices, a strong £ and a favourable balance of trade – to see that by 1977 every one had been mocked by massive default. Wherever we look in the governmental sector, we encounter evidence of failure. There is the remarkable co-existence of record unemployment and inflation, the widespread dissatisfaction of both suppliers and customers with state education and health services no less than throughout the nationalised industries, and the intensifying tax-payer resistance to financing the swollen 'pnblic' sector which has been made the domain of the political process. The only striking indications of economic progress are to be found in the private sector where, despite every kind of discouragement and disturbance from government policy, competitive enterprise has supplied the British family with a range of consumer goods in clothes, food, domestic and leisure facilities that were not available to the richest at the end of the war.

The crucial question is whether the failure of government plans followed inevitably from the nature of the chosen objectives and methods, or whether it was due to bad luck or mismanagement. Since 1957, IEA authors have, in effect, pointed to the weaknesses and dangers inherent in the collectivist consensus. The chief aim of this conspectus is to enable the uncommitted reader to judge this crucial question for himself. It is a matter of common observation that while both main parties have contributed to the cumulative extension of government intervention, each has blamed its own failures on bad luck and its opponents' identical failures on bad management. In office, politicians have regularly pleaded that they were 'blown off course'; in opposition they have swiftly reverted to promising deliverance next time.

We may start from a non-contentious view that the failure of post-war policies has not been for want of trying. Whatever the party men may say of their opponents, more objective observers are bound to acknowledge that there has been no lack of benevolent intentions on all sides in Parliament. Politicians, with perhaps a few debatable exceptions, have mostly meant well. Even if their motives have included a large element of perverted self-interest in the personal enjoyment of power and public office, ministers must be credited with thinking – on ground of survival alone – that their chosen methods of increasing regulation, taxation, government spending and over-riding personal choice would bring the promised advance in material and social welfare without undue sacrifice of valued freedoms.

Role of self-interest

This striking discrepancy between the good intentions of politicians and their poor performance illustrates a fundamental difference in analysis between the contrasting approaches and expectations of the classical and collectivist schools of thought. All economists start from the scarcity of human and material resources in relation to the demands upon them. The moment we turn to the choice between alternative ways of using scarce resources most effectively to yield the maximum output of (valued) goods and services, their paths diverge sharply. The core of the collectivist faith is that the 'public interest' in production and consumption can be identified and imposed directly by governments taking power to over-ride the judgement of individuals informed by their personal preferences and interests. The instant appeal to both heart and mind of this general proposition is sufficiently strong to withstand a good deal of contact with disappointing reality.

The classical view, which has much less immediate or emotional appeal, sees the public interest emerging spontaneously as a by-product of individuals more or less freely pursuing their own interests. When critics warn against the appeal to self-interest as pandering to 'greed', 'profiteering', selfishness', they are unwittingly paying eloquent tribute to the strength of the motive power which Adam Smith described more dispassionately as 'the effort of every man to better his condition'. Platform rhetoric aside, honest introspection no less than observation will certainly confirm that people work more conscientiously and consistently when there is something at stake in the outcome for themselves, their families, or indeed for any interest they can easily identify with their own, including unselfish causes and charity. There is little room for disagreement about the force and tenacity of 'self-interest' in this sense. The difference is that the collectivist sees it as generally in conflict with what he regards as the 'public interest', whilst the liberal believes the two can be reconciled with the minimum of detailed interference by government.

Without undue violence to the profound philosophical issues, the key question can be put in more homely terms. Since we each see our personal interest more clearly and consistently than that of our neighbours, how can we best be prevented from pursuing it at their expense? The answer of the classical liberal economist is that the most effective – indeed the only dependable – check to the abuse of self-interest is nothing more nor less than a competitive market. At its simplest, every producer is disciplined by the prospect of losing sales if he pushes his price above that which others are content to ask for a similar product or service.

Motives versus outcome

It is from this central commonsense proposition that economists in the classical tradition have elaborated and refined a technique of market analysis which, we believe, provides a more serviceable guide for policy than the question-begging assertions about 'the public interest' on which the collectivist consensus has relied since the war. If sceptics are to give a fair hearing to the argument that follows, however, an essential pre-condition is to be on guard against the widespread confusion between *motives* and *outcome*. It is easy to demonstrate from post-war experience that the most single-minded, even high-minded, dedication to the 'public interest' provides no guarantee of success. It is more difficult for the layman to grasp that by allowing people generally to act in the light of their own interests, which includes 'selflessness' in pursuing self-chosen *unselfish* causes, something more recognisable as the true public interest may emerge. Thus so long as competition between suppliers prevails in the market, they can advance their chosen interests only by serving that of the consumer. Adam Smith's famous quotation, from which we have taken our title, is worth pondering afresh:

> 'It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from regard to their own interest.'

Likewise, when the investor (or worker) is considering how best to employ his capital (or labour), Smith assumes 'it is his own advantage and not that of society which he has in view' but, he continues in one of the most celebrated passages from *The Wealth of Nations:*

> '. . . he is in this as in many other cases led by an invisible hand to promote an end which was no part of his intention. By pursuing his own interest he frequently promotes that of society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade in the public interest.'

The market does not assume men are omniscient saints; it takes them as they are and transmutes parochial concerns into public good.

Need for competition

From this underlying postulate that competitive markets can bring harmony between the private and public interests, far-reaching implications can be derived. The first is that both buyers and sellers must gain from trading on price and other terms which they freely choose to accept. The prevalence of competition reconciles what might otherwise be the opposing interests of suppliers (in high prices) and consumers (in low prices) by creating a common interest in doing business at the ruling market price. The competitive process is not, in the jargon, a 'zero-sum game' in which some gain only at the expense of others. It is a social mechanism that converts potentially conflicting interests into 'mutual gains from trade'.

A second implication is that changes in the supply of or demand for a product can be brought into balance by the impersonal mechanism of an increase or reduction in price. Changes in price act as signals to producers and consumers to co-operate without collusion in restoring an approximate balance (if not the textbook 'equilibrium') which was disturbed by shifts in demand or supply. The 'imperfections' of markets – through inequality of incomes, monopoly, 'externalities' – do not make it inferior to the alternative of government which in practice has its own imperfections that are more difficult to correct, not least because escape from unacceptable (public) suppliers is difficult or impossible (Chapter VI).

Above all, competition prevents the abuse of powerful producer interests by giving the consumer the final say in determining their fortunes. When we talk of 'the sovereignty of the consumer', we mean nothing less than that only so long as there is competition among suppliers can the generality of buyers decide which of them will prosper. Markets offer 'exits' that make consumer 'voices' effective. There may be delays, as for example when a declining firm increases advertising to try and restore demand, but in the end no business can flourish unless it gives good value to its customers and is responsive to their changing preferences.

Although it follows that the consumers' interest – whether in cheapness, quality, service or other features – is not in conflict with a (successful) firm's interest in selling its products, it remains true that any supplier would stand to gain from a restriction of competition that enabled him to raise his price (or lower quality, etc.) without losing sales. But when competition is infringed by a dominant or monopoly supplier, the harmony with consumers in that market is replaced by what may properly be called 'exploitation': the imposition of a price higher than the minimum which an efficient producer would charge in competitive conditions.

The universal consumer interest

Thus the harmony Smith likened to the product of 'an invisible hand' is in practice the result of competition which compels the producer to give satisfaction to his customers. And since, as Smith also postulated, 'Consumption is the sole end and purpose of all production', it is the universal, common consumer interest which should prevail against the particular, partial, producer interest. This principle of harmony can be expressed with even wider generality. So far we have sketched the way competition reconciles the apparently conflicting interests of buyers and sellers in markets for products which determine the profits of enterprises. But much the same analysis holds good in principle for markets in labour, saving and land which give rise to factor prices in the form of wages (and salaries), interest and rent. In all cases, competition among suppliers is necessary to uphold the universal consumer interest against 'exploitation'.

A deduction is that government should, *with the minimum of exceptions*, confine access to income by all participants in economic activity to the profits, wages, interest and rent that can be earned from competitive markets in which the general community of consumers rule the roost. There will, of course, be familiar social welfare grounds for conferring 'public income' on the old, handicapped and others not capable of earning an adequate income from competitive economic activity. But unless such exceptions are narrowly defined – which does not mean treated ungenerously – the door will be opened to a fragmentation of the market order and a disruption of the general harmony it is capable of providing.

Consider a producer (union) that is dissatisfied with the profit (or wage) its investors (or employees) can earn in the market in which its capital (or labour) is employed. A familiar resort is for its spokesmen to appeal to government for protection against imports or for other checks on competition that would enable its members to escape from consumer sovereignty and extort a higher income by raising prices. Once government has yielded to such a pressure group, a conflict between sectional private interests and the general interest is opened up and there will be a queue of other 'special cases' ready to plead with equal plausibility for exemptions from the discipline of competition.

Some contest the sovereignty of the consumer on the ground that consumers are also producers and that the impact of changes in techniques or markets may impose painful adjustments on suppliers or workers whose products or jobs are threatened with decline. The classical retort is that the costs of such continuous adjustments by producers are worth paying to preserve the wider consumer benefits from competition. On this reckoning, the best way of easing change is, firstly, by some form of minimum income support, and, secondly, by encouraging mobility of labour and other factors to move into alternative lines of production with better prospects. The market does not offer lives of comfort from disturbance, but it makes the impact of unavoidable change gradual in contrast to the protectionist alternatives – from the guild system through syndicalism to communism – in which change eventually forces its way by commotion, convulsion and violence.

Beggar-my-neighbour

If the interplay of consumer choice and producer competition acts like the philosopher's stone to transmute 'self-interest' into the general interest, a reverse alchemy comes into play when politicians try to impede this process. However good their motives to help particular groups, they invariably end up impoverishing even the intended beneficiaries. Thus the further law departs from general rules to facilitate competition and lapses into favouring or frustrating particular activities, the more it erodes both efficiency and freedom. The alternative to Smith's 'invisible hand' becomes the state's 'visible fist', since government interference requires the increasing use of coercion – whether by discriminatory taxes and subsidies or by outright prohibition.[1]

Economists of the classical tradition are falsely accused of ideology in resisting exceptions to the rules of competition when their

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[1] If a number of special concessions are made, the liberal economist prefers government intervention to take the form of open taxes or subsidies which at least indicate the cost of protectionism, rather than prohibitions which conceal the extent of distortion.

concern can be upheld on the twin pillars of equity and efficiency. Once governments start down the road of protecting sectional interests by restricting competition, there is no natural halting-place short of generalised restrictionism. The dilemma is that if favours are given to one group, it is logical deployment of self-interest for others to seek similar, or larger, favours. The wider any privilege is extended, the more it is attenuated and the less benefit it confers on each recipient. In economic analysis, to suppose all can gain from the spread of beggar-my-neighbour policies is to fall into the crudest fallacy of composition. Can there be any doubt that in Britain we have long passed the point where all or most are losing – no doubt unequally and inequitably – from the use of the political process by all or most in an effort to enrich ourselves at the expense of all or most? This is indeed the war of all against all.

Once the presumption in favour of consumer sovereignty and competitive markets is undermined by dispensations to sectional interests, political cohesion itself is imperilled. As Professor F.A.Hayek has shown,[1] government in western democracies is highly vulnerable to pressures from organised groups offering electoral (and financial) support in return for privileges. The wider this process spreads, the more governments become coalitions of organised interests, and the more hostages they offer to producers at the expense of the common interests of consumers. The result is not only a weakening of the efficiency and adaptation of production to changing conditions; it is also a spreading disillusion as each favoured group finds its anticipated advantages cancelled out by the proliferation of favours all round. This source of mistrust and even contempt for politicians is none the less real for being generally not understood. Unlimited government thus leads inexorably to unlimited disenchantment.[2] And the pace of collectivism accelerates, not because that is what people want but as the unintended outcome of diverse, conflicting but cumulative demands for favoured treatment.

It is the most naive error to suppose that the main conflict of

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[1] *Economic Freedom and Representative Government*, Occasional Paper 39, 1973 (2nd impression 1976).

[2] Hayek's solution is by constitutional reform to limit the power of the elected majority to concede favours to powerful importunity.

interest is between 'capital' and 'labour'. If one trade union can impose higher wages by restriction of entry, the cost is not borne by investors, who can escape, but by other workers who could do the job but are excluded, and by the consumers who pay higher prices for the product. But as union restrictionism spreads, the expected producers' gains are lost in generally higher consumer prices. Thus the benefit of monopoly (for wages or profits) depends on a differential advantage which vanishes when others join in the same game.

The spread of protectionism

It is not fanciful to chart the long decline in Britain's economic performance against the fall from favour of the broad classical liberal precepts for economic policy. Britain had become the workshop and banker of the world at a time when economic liberalism was at its height. Only around the end of the 19th century when our industrial predominance was challenged by European and American competition did political discussion return to the possibility of tariff protection – in the supposed interests of wages and employment as well as of profits and capital. The plain choice was between embracing the risks and opportunities of adapting to new markets or resisting change in defence of the vested interests.

This is the conflict at the heart of British economic and social policy which dates back at least to the beginning of the century. It is succinctly summed up in *The Clash of Progress and Security*, the title of a neglected volume written by Professor A. G. B. Fisher in 1935.[1] The central argument, based on *a priori* liberal analysis and confirmed by historical observation, is that a progressive economy must be characterised by change and uncertainty caused by the impact of new techniques, products, resources, demands. The rate of advance in standards of living therefore depends on the ease with which labour and other factors of production can be transferred from declining firms and industries where their value is falling into expanding markets where their value is rising. The dilemma for economic and social policy is that, whilst everyone wants the fruits of material progress – in leisure or other amenities if not in more consumption – as workers and capitalists they

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[1] Published by Macmillan.

naturally resist the disturbance to their present employment and investment without which material progress is frustrated.

Even before 1914, a powerful wing of the Conservative Party was campaigning to reverse the classic doctrine of free trade in the name of Imperial preference. Simultaneously, the new Labour Party was emerging as the avowed political arm of the trade unions and in 1906 had persuaded a nominally Liberal Government to confer on those embryonic labour monopolies what Dicey declared to be 'privilege and protection not possessed by any other person or body of persons'.[1]

The 1914–18 war gave a massive impetus to the forces making for protectionism. Thereafter, the post-war slump – deepened by the inept return to the gold standard at an over-valued parity – provided plenty of pretexts for prolonging and even extending the damaging process. In 1931 the final departure from free trade gave 'safety first' politicians a protected home market in which to insulate the great basic industries still further from the competitive markets under the slogan of 'rationalisation'. In the words of the leading authority on the structure of British industry:

> 'the chief effect of government intervention between the wars was to defend the failure rather than to encourage the enterprising'.[2]

The Labour Party that came into power in 1945 took over a mostly debilitated economy but was sustained by an unusually widespread degree of goodwill. Reacting against the memory of pre-war unemployment – but not against its true cause – the Government proclaimed its aims as full employment and the welfare state which were to be achieved by planning, with nationalisation reserved for the run-down basic industries. The danger glimpsed by liberal economists was that such an approach would reinforce most of the conservative – in the sense of conservationist – elements in public policy that had made for economic rigidity between the wars. But only the politically-jaundiced could question the high integrity and intelligence of such leading members of the Government as Attlee, Cripps, Dalton, Bevin, Bevan, Shawcross.

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[1] Preface to the second edition of *Law and Opinion in England*, Macmillan, 1914.
[2] Professor G. C. Allen in *The British Disease*, Hobart Paper 67, 1976.

The question was simply whether their collective good intentions would prevail against their chosen collectivist methods.

Among the foremost champions of the great classical tradition, Professor (later Sir) Dennis Robertson did not conceal his doubts. In his 1949 Presidential lecture to the Royal Economic Society, under the title 'On Sticking to One's Last', he warned fellow economists against 'betraying their calling' by coming to terms with 'the changed temper of the age'. He went on:

> '. . . it takes some spirit to state clearly and fairly the case for wage reduction as a cure for unemployment or an adverse balance of payments, or the case for the curtailment of subsidies and the overhauling of social services as a solvent of inflationary pressure, without being prematurely silenced by the argument that nowadays the trade unions would never stand for such things. Perhaps they wouldn't, but that is no reason for not following the argument whithersoever it leads. But it is easier flogging dead horses than taming live ones; and some of those who display great retrospective gallantry against the fallacies and obscurantisms of yesterday seem to me somewhat over-hasty to make their peace with those of today.'

Similar unheeded doubts were voiced by such senior economists as Lionel (now Lord) Robbins, John Jewkes, Sir Arnold Plant, Frank Paish, James Meade, Roy Harrod. There could be little doubt, however, that the political 'temper of the age' was to meet every setback to government plans with calls for still more far-reaching interventions.

By the 1950s it certainly took some spirit to discuss any aspect of policy explicitly in terms of market analysis without inviting the crushing accusation of wanting to 'turn back the clock'. But what if the clock were wrong? What if the scorned analysis of supply and demand embodied timeless lessons – or 'laws' – for the most efficient management of scarce resources consistent with the widest freedom of choice?

For 'practical' people who misunderstand the role of theory in guiding judgement, the issue could be settled only by experience. For the intellectual inheritors of the Western tradition of political economy, the confident claims of collectivism could be met only by renewed research and systematic study. It was as a modest contribution to this endeavour that a handful of younger economists (including the present authors) and more senior economic journalists[1] began periodically taking counsel together in 1957 under the auspices of the Institute of Economic Affairs. The bold aim declared in the earliest *Papers* was 'to promote a better understanding of economic principles as they apply to leading issues of the day'.

[1] Their names were Sir Oscar Hobson, Paul Bareau, George Schwartz and (later) Harold Wincott.

II. Towards a Better Understanding . . .

Having undertaken 'to promote a better understanding of economic principles as they apply to leading issues of public policy', our first task was to select a number of 'leading issues' and if possible find authors who could write not only with the authority that comes from knowledge of the subject, but also with the independence that is not always combined with close knowledge. In the relatively placid days of 1957 several issues suggested themselves, either because they were the subject of public debate or because they were neglected in contemporary discussion but judged by us to bear on the better performance of the British economy.

In the first category of actively contentious issues, we gave high priority to pensions, hire purchase, advertising and the invisible earnings of the City of London. All were under fire from critics of the market economy: occupational pensions were attacked as being inferior to an enlarged state scheme, hire purchase as contributing to inflation, advertising as wasteful and distortionary, and the City's activities as exposing the domestic economy to the vagaries of international capital flows.

In the second category of neglected issues were trade unions, resale price maintenance (rpm), and rent restriction. All were acknowledged to obstruct or even suspend the operation of competitive market arrangements, but were supported by powerful sectional interests which it was thought 'politically impossible' for governments to confront.

Opening shot on pensions

It was easier to identify issues for inquiry than to find authors combining the requisite authority and independence who would subject them to rigorous analysis.

On pensions, most of the academic specialists like Professor R. M. Titmuss were sociologists while the practical experts were generally too close to the insurance industry to take an objective view of the Labour Party's plan for National Superannuation. Yet retirement pensions provided a specially interesting subject for market analysis, both because they illustrated the tug-of-war between electoral pressure for ever-more generous provision and the mounting cost in taxation, and because Labour's ambitious blue-print laid claims to prudent concern for genuine insurance principles. To Ralph Harris (as General Director and sole employee of the new Institute) the name of Arthur Seldon was suggested as an independent economist who might be persuaded to undertake a review of Labour's proposals. The resulting *Pensions in a Free Society* was the first *Paper* to be published by the IEA, in July 1957.

Mr Seldon found that the appropriate development for a society in which standards of living were advancing was to remove obstacles to the continued rapid spread of occupational pension rights and concentrate state help more generously on the diminished number in need. He traced the progress of 'pensioneering' since Lloyd George had first promised 'nine-pence for four-pence' and the progressive undermining of the actuarial link between contributions and benefits. 'Social insurance' was a misnomer which sought to cash in on the reputation of private insurance whilst sinking deeper into losses that had to be made good by subsidies from general taxation. In retrospect, *Pensions in a Free Society* may be seen as opening up the debate between the selective and universal approach to state welfare. Mr Seldon's wider verdict, which would no doubt elicit more support today than it did among the party spokesmen in 1957, was expressed in the following sentences:

> 'Help given those in need is like Portia's gentle rain from Heaven: it "blesseth him that gives, and him that takes". Giving to anybody and everybody deprives the act of grace and makes it the sport of spongers.' (p. 14)

The analysis drew strength from the great line of classical economists through John Stuart Mill and Alfred Marshall who, in strikingly similar phrases, foretold that government support, by undermining self-help, would become self-perpetuating. Likening indiscriminate state assistance to a crutch which discouraged people from standing on their own feet and so made them 'incurable cripples', Mr Seldon argued that continued expansion of state pensions would risk 'beating our crutches into shackles'. His alternative proposals aired the then unfamiliar idea of using income tax codes in place of inquisitorial means tests to top up low incomes, whilst encouraging occupational pensions by tax concessions that would leave the maximum scope for diversity to match varying circumstances, with transferability of accumulated pension rights to remove an impediment to mobility of labour.

The decisive merit Mr Seldon found in private pension arrangements was the characteristic advantage of a market in which the consumer exercises choice between competing offerings in the light of their respective costs. The central defect of state pensions – later to be diagnosed in other welfare services – was that the link between choice and cost is destroyed by compulsory finance through public funds. Ten years later, the Labour Government paid at least lip-service to this analysis in its White Paper on National Superannuation which included the following passage:

> 'People are prepared to subscribe more in a contribution for their own personal or family security than they would ever be willing to pay in taxation devoted to a wide variety of different purposes.'[1]

From City to trade unions

On the City's earnings we were introduced to Mr William Clarke who, as City Editor of *The Times*, was well-placed to assemble new data which conclusively demonstrated the success of banks, brokers, insurers, in exploiting their competitive skills to earn significant sums of foreign currencies at minimal exchange costs to the British economy. Mr Clarke's report was published in 1958 as *The City's Invisible Earnings* and not only stilled the ill-informed anti-City prejudice of many politicians and writers such as Andrew Shonfield, but led its author to write a full-scale textbook, *The City in the World Economy*,[2] in 1965 and the following year to become Director of a newly-created fact-finding group under the title of the Committee on Invisible Earnings.

On trade unions, we commissioned an economist specialising in the labour market at the London School of Economics, who had

[1] *National Superannuation and Social Insurance,* Cmnd. 3883, HMSO, 1969, quoted by Ralph Harris in oral evidence to the Layfield Committee on Local Government Finance: *Pricing or Taxing?*, Hobart Paper 71, 1976, p. 19.

[2] 2nd impression 1966; subsequently reprinted as a Pelican, Penguin Books, 1967.

been trained at Ruskin College, Oxford, and was more sympathetic than many economists to the aspirations of British unions. The outcome was a report by Professor B. C. Roberts published in 1959 as *Trade Unions in A Free Society*.[1] In a scrupulously balanced survey, the author acknowledged an essential role for trade unions but did not shrink from discussing restrictive practices, criticising over-full employment (as inhibiting responsible wage-bargaining), urging that the politics of union candidates should be brought into the open, opposing the closed shop and calling for protection of members against the abuse of trade union power. That brief summary may strike many readers, almost two decades later, as an agenda for relevant reform today.

Restrictions on prices and rents

Another LSE economist, Professor B. S. Yamey, agreed to analyse the pros and cons of resale price maintenance whereby manufacturers of branded products could withhold supplies from retailers who competed for customers by cutting stipulated prices. His study was published in 1960 as *Resale Price Mainetnance and Shoppers' Choice,* the first in the now-famous series of *Hobart Papers*.[2] On the central ground that rpm obstructed retailer competition and so prolonged the survival of less efficient methods of distribution, Professor Yamey recommended that this restrictive practice should be outlawed – very much as was done by a reforming President of the Board of Trade, named Edward Heath, on the eve of the 1964 General Election.

For a study of rent controls, we commissioned a staff writer on the *Economist,* Norman Macrae, who combined scrupulous analysis with lucid journalism. The result was *To Let?*,[3] also published in 1960. It showed the irresistible weight of argument against well-intentioned restrictions on rents which, by drying-up investment in building-to-let and diverting consumer spending to less urgent needs, must prolong the hardship of the homeless and squalor – as indeed it has continued to do up to the present day, despite the vast sums sunk into subsidised council building in an unavailing effort

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[1] 2nd edition, 1962.
[2] 4th edition, 1964 (also reprinted in *Radical Reaction,* 1961).
[3] Hobart Paper 2, 1960 (reprinted in *Radical Reaction*).

to cure the shortage of rented houses. Nowhere has 'benevolence' produced more harmful results.

On the two other issues we chose back in 1957, we found it less easy to discover suitable authors. Few economists had regarded advertising as a becoming subject for academic study, and hire purchase was a new, perhaps transient, development thought more suited to analysis by accountants or financial journalists. Like the welfare state, they were regarded as subjects more fitting for descriptive and historical exposition than for study in the light of any discernible 'economic principles', which we interpreted as the characteristic analysis of supply and demand in the market (or non-market) for the goods or services in question.

Neither of us could claim any specialist knowledge of these widely differing activities, both of which went beyond economics into considerations of law, political and philosophical debate with which the old practitioners of political economy were more at home. As a start, therefore, we turned for inspiration to the long line of classical writings from Adam Smith, Senior, Mill, Marshall, Pigou, Robertson, Keynes, to the leading contemporaries – Robbins, Hayek, Jewkes. Our aim was not merely to collect more data but to assimilate it within a systematic framework of analysis that would lend perspective and order to an otherwise fragmentary assembly of scattered facts and figures. Our approach in each case was to start by identifying the distinctive features of the service in question, then ask what determined the demand for and supply of it, and go on to assess the choice and information available to consumers and the competitive or other pressures on suppliers to respond to present and prospective demand.

Down with never-never . . .?

Hire purchase did not at first appear an easy subject to break into for two generalist-economists, with its legal, financial and administrative inter-relations between the financiers, suppliers of merchandise and the person or firms signing the HP agreement. Yet the conventional critics were often so shrill in denouncing 'never-never' trading that simple curiosity was enough to stimulate inquiry into what justification the critics might have on their side. A formidable array of politicians, mostly on the Left but with some on the Right, in unison with churchmen, lesser moralists and journalists seemed agreed in the 1950s that HP was an unhealthy development. It was easily scorned as a system of 'live now, pay later', dismissed both by Tories like Lord Hailsham as corrupting the working classes and by Socialists like Harold Wilson as proof of the 'candy floss' extravagances of high capitalism. Many accused it of contributing to, if not causing, the inflation which periodically disturbed the relatively untroubled waters of that time.

In 1958, the joint-stock banks had not yet made HP respectable by acquiring the pioneer 'finance houses' or 'industrial bankers'. The early practitioners were the more easily belittled as upstarts or intruders, part of Galbraith's image of the 'affluent society' which tempted the ignorant consumer to 'live beyond his means', evidently excusable for the middle classes with their easier access to bank overdrafts and house mortgages. Not wholly immune from the prevailing prejudices about this still apparently new phenomenon,[1] we started from a study of the scant literature on instalment credit in Britain, collected the more copious writings from America, and prepared to interview a cross-section of people engaged in the business.

Nearly 20 years after the first edition of our report *Hire Purchase in a Free Society* in 1958,[2] it may be difficult to appreciate that it then took some spirit to publish findings that showed the conventional criticisms to be largely unfounded. We discovered shortcomings (mainly in disclosure of financial information), but the verdict to which our evidence pointed was that hire purchase played a valuable part in widening choice, raising the consumer's horizon, encouraging the acquisition of property, spreading ownership of labour-saving consumer durables (like washing machines) as well as luxury goods (like TV sets) which would otherwise have won their way more slowly to the mass market as a pre-condition for cheapening costs of production and improving variety and quality.

But were HP charges too high? The only objective meaning of 'too high' is that the charge or price is artificially held above that which competing suppliers would require. We found the instalment credit business highly competitive, with a range of charges reflecting the differing options and security offered to customers and suppliers respectively. As for the complaint about encouraging people

[1] Paying by instalment can be traced back to Roman times.
[2] 3rd edition, 1961.

to live beyond their income, we discovered the simplest answer to be that wage-earners who are paid in weekly instalments might find it convenient to acquire long-lasting assets by paying in weekly instalments.

The more serious claim that HP caused inflation by increasing spending was shown to ignore the fact that customers had first to save the initial deposit before borrowing the balance from the finance house. And where did finance houses get their money? – from their own depositors or investors, or from the joint-stock banks which would otherwise have extended their credit elsewhere. Even at that early stage, we were driven back to the elementary proposition that since it is only governments that can increase the quantity of money in the economy, inflation should not be blamed on intermediaries who happened to take advantage of the additional credit thus created. Inflation, we dared to say, 'is being caused in Downing Street', yet politicians had developed a battery of controls over down-payments and periods of repayment which, in the name of stabilising the economy, simply disrupted the car and consumer durable industries where long production runs were needed to keep down costs. If only our contemporaries then in the Treasury had enjoyed the advantage of a similar exposure to practical realities, they would have subsequently been less likely to countenance the accelerated monetary inflation after 1970, which is now seen by all but those blinded by ideology or guilt to have brought us to the precarious pass in which we find ourselves in 1977.

. . . and advertising?

As economists who had learned about the theory of 'perfect competition' similarly at Cambridge and the London School of Economics, we turned to the study of advertising in 1958 with a well-schooled suspicion that such manifestations of high-pressure salesmanship distorted competition by confusing, if not confounding, consumers about the merits of competing goods and services, with all the associated costs of misdirecting resources into what the textbook theorists – from J. K. Galbraith to Joan Robinson – identified as 'product differentiation'. If, indeed, the advertising industry was spending hundreds of millions of pounds on promoting brands of soaps, soups, cigarettes, between which there was nothing much to choose, it surely deserved the opprobrium of being denounced as 'unproductive', 'wasteful', 'parasitic'.

Having read the little scholarly literature that then existed on the economics of advertising, we left our chairs in Hobart Place and went out into the market-place to cross-examine the advertisers, their agencies, and 'the media', that is, the people in radio, television newspapers and specialist journals who 'sold space' on the basis of the cost to advertisers of getting their message to the particular income – and interest – groups they wanted to reach. Nor did we ignore the trade associations and the various appointed and self-appointed watch-dogs, including consumers organisations. The assessment to which we were driven was very different from the dismissive view encouraged by the academics. We came across advertisers who strained the truth with gross exaggeration or misdescription of their products, as we encountered advertising agencies with a low opinion of the consumer and a high opinion of their ability to sell (almost) anything.

But the stridency of political denunciation drew us to compare the advocacy employed by politicians in winning votes with that of advertisers in seeking sales. It did not take long reflection to persuade us that the sins of which commercial advertisers were accused were committed on a larger scale by politicians, using precisely the same techniques as the most uninhibited advertising agencies and sometimes even engaging their professional services. Advertising, then, can be seen as one form of advocacy employed with only superficial differences by all kinds of 'salesmen' – of ideas as well as wares. What did competing political parties and indeed all kinds of other groups, unions, charities, churches, do but employ similar techniques to influence public opinion in their favour?

Commercial advertising is thus no more than a small part of the multifarious activity of forming and re-forming public opinion in a free society – but monopolised by the state or its agencies in fully collectivist societies. Seen in this light, its relatively small potentiality for abuse is more easily checked – by voluntary codes, laws against misdescription, and even the long-term self-interest of advertisers themselves who do not wish to bring their brand names into disrepute by condoning false claims. Furthermore, it is easier for the consumer to compare the product with its visible advertising than for the voter to nail the lies in which politicians and other less visible persuaders regularly indulge.

Above all, where consumers can choose between the advertising and products of dozens or scores of suppliers, as voters they are confronted with a choice between two or three parties all selling much the same improbable collection of claims, promises, slogans, with no adequate remedy when costly disillusion takes the place of easy promises.

Our case histories showed that advertising was an indispensable part of a system where consumers are offered a wide choice between competing ways of satisfying their preferences. By enabling the producer of a new or better product to attract more quickly larger sales, advertising can lead to significant economies in production. It was of course part of the cost of making the product available, but by increasing efficiency in production *and marketing* it could reduce other costs. So far from supporting the Galbraithian charge that advertising enables 'monopoly' producers to control their market, we discovered that the best advertising usually failed to sell a bad product. And the effect of failure is often to goad the advertiser to improve his product by imitating his more successful competitors, so that even the market leader at any time has to look to his laurels if he expects to maintain his market.

Without accepting all the enthusiastic claims of agencies for their 'scientific evaluation' of advertising, research confirmed that the business had progressed far from the hit-and-miss methods of relying on inspired copy-writers. Measurement of effectiveness in relation to sales enables leading marketing companies to minimise costs and refine the selection of message and media. An example of the ill-informed political approach to this subject at that time was shown by the demands from Professor (now Lord) Kaldor and others for 'a tax on advertising' to bring government additional revenue without burdening the economy. The elementary fallacy was that if advertising in press or television were taxed, advertisers would find it cheaper to switch to more costly packaging, point-of-sale display, mailing, or even canvassing potential customers in their homes.[1]

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[1] Ralph Harris and Arthur Seldon: *Advertising in a Free Society,* 1959; *Advertising in Action* and *Advertising and the Public,* 1962.

The realities of an aspect of the competitive market economy that seemed most vulnerable to criticism thus strengthened our respect for the system resting on consumer sovereignty, especially when compared with the alternative of giving more power to politicians.

III. From Full Employment to Inflation

When nothing has gone right for the post-war collectivist consensus on economic policy, it is difficult to single out the chief error that informed the approach of every administration since 1945. The following chapters will review the liberal economist's critique developed by IEA authors of the false hopes embodied in such benevolent objectives as social welfare, economic planning, public enterprise and subsidies. But perhaps the most disastrous error was the method adopted by politicians of all parties to prevent a recurrence of mass unemployment between the wars.

In his classic *General Theory* in 1936 J M (later Lord) Keynes had argued persuasively that the existence of *high, general* unemployment was due to a deficiency of demand throughout the economy and that government could increase employment and output simply by spending more than its total revenue from taxation. Under the mistaken belief that the Second World War, like the First, would be followed by large-scale unemployment, the Coalition Government had cautiously pointed to the possibility, *inter alia,* of varying national insurance contributions to maintain 'a high and stable level of employment'. In the mouths of politicians, this modest objective became an over-riding election pledge to guarantee continuous 'full employment' *in all circumstances.*

The start of 'go-stop'

The unintended mischief started with the first Labour Government in 1945. Their pledge was interpreted as requiring the Chancellor of the Exchequer to run a budget deficit – by increasing public spending or cutting taxes – whenever the official statistics showed unemployment rising above 1½ per cent of the labour force, equivalent to a total of around 300,000 in a labour force of 20 million. Experience swiftly confirmed that this ambitious objective brought two problems in its wake. The high pressure of demand necessary to maintain employment led, firstly, to increased wage costs and prices and, secondly, to an adverse balance of payments as domestic spending drew in more imports and reduced the flow of exports. So long as exchange rates were fixed, the effect of differential rates of inflation on foreign trade compelled governments to take corrective action against the consequent out-flow of the gold and dollar reserves to finance the trade deficit.

Thus having stimulated the economy to secure 'full employment', Chancellors were driven to rein back spending in the effort to check the opposite danger of what became known as 'over-heating'. It was this attempt to steer the economy through the narrow channel between the Scylla of unemployment and the Charybdis of rising prices that explains the oscillation of policy between the alternating expansion and contraction of credit that has dogged the British economy every three or four years since 1945. Although this phenomenon became known as 'stop-go', a more correct description is 'go-stop' since it was the excessive expansion to maintain the target level of full employment that made the subsequent credit squeeze inevitable. For almost 30 years, Labour and Conservative governments attempted to hold to this conception of 'demand management' in the professed interest of 'stabilisation'. The results were always erratic and cumulatively disastrous. Any gains from higher employment during the 'go' phase of the cycle were dearly bought at the cost of accelerating inflation. Price increases escalated from (mostly) around 2-5 per cent a year in the later 1940s and 1950s to between 5-10 per cent in the 1960s, and culminated in 25 per cent by 1975. The value of £1 in terms of US dollars fell from 4·00 in 1945 to 2·80 in 1949, 2·60 in 1967 and to around 1·60 in 1976. In terms of Swiss francs or German marks, the fall was even more precipitous.

False therapy

Rather than abandon pursuit of an over-ambitious full employment target in the interests of combatting inflation, Chancellors have resorted to every conceivable device in the effort to reconcile what were evidently conflicting objectives. Since increased wages appeared to be the cause of rising costs and prices, Chancellors started by lecturing the trade union leaders on the need for moderation in collective bargaining. When exhortation failed, various forms of 'incomes policy' were introduced, prescribing 'norms', 'ceilings' and periodically outright 'freezes', often in flat contradiction of solemn election pledges that all such controls would be avoided. As it became clear that these efforts to operate on the cost side of the equation did not stop prices rising, the politicians directed their attention to the side of supply.

The elementary thinking was that if incomes policy would not stop full employment from pushing wages ahead faster than output, perhaps the balance could be restored by getting total production to move ahead fast enough to keep in step with increasing wages. The Anglo-American Productivity Council had certainly shown the large scope available for British industry to raise its efficiency in ways that would have brought the real wages of British workers closer to those achieved by comparable American industry.[1] The all-party collectivist consensus, however, ruled out a radical reformulation of policy that would enforce micro-economic wage and profit incentives in competitive markets as the chief stimulus to increased efficiency. Instead, the new macro-economic panacea of 'growth' found expression in the Conservative Covernment's National Economic Development Council in 1961 and in Labour's short-lived National Plan in 1965 (Chapter V). In essence, such expedients amounted to little more than the related 'statement of intent' on moderation in wage demands. Between them they provided a mostly verbal screen behind which expansionary full employment policies could be pursued more single-mindedly, in the hope that by running the economy flat out, production would increase sufficiently to offset the inflationary pressures on wages.

It needs no detailed documentation to show the complete failure of these well-intentioned efforts to combine full employment with stable prices. Successive failures were, of course, explained by specific alibis, mostly now forgotten. The plain truth is that, as ever-more frantic efforts were made to break out of the 'go-stop' circle, the rise in prices was pushed higher in each successive expansionary phase and so required increasingly severe credit squeezes which has raised the 'corrective' unemployment level from below 500,000 to 1 million and more recently towards 1½ million.

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[1] The findings of the Anglo-American Productivity committees were reported by Graham Hutton in *We Too Can Prosper* (Allen & Unwin, 1953), which still reads like a neglected agenda for action to improve the efficiency of British industry.

The IEA anti-consensus

The explanation as revealed in a long line of IEA publications is not that politicians failed for want of good intentions, nor that they were frustrated by bad luck. It was that the underlying analysis on which they based their 'management of the economy' was misconceived. The key issue was whether the inflationary effect of full employment arose from the 'cost-push' pressure of trade unions on wages or from the 'demand-pull' pressure of monetary expansion on the general price level.

The classical economists had always argued that a general inflation was the result of monetary demand increasing faster than total output. In the absence of general monetary expansion, the effect of increased wages would be to price marginal labour out of jobs. On this view, the error of post-war full employment policy was that it obliged Chancellors to increase monetary demand to whatever level proved necessary to maintain employment *irrespective of the level of wages and output.* The corollary was that trade unions were thereby armed with the power to push wages up in a sellers' market for labour without incurring the usual penalty of unemployment.

In 1957 Mr Peter (now Lord) Thorneycroft as Chancellor appointed a Committee under Lord Radcliffe to examine the working of the monetary system in the hope of resolving this central issue. When its unanimous report came out two years later with a largely dismissive verdict on the relevance of monetary discipline for the avoidance of inflation, the Institute invited three academic economists and two senior financial journalists to review it with Mr Thorneycroft (who had meanwhile resigned from Mr Macmillan's Government, together with Enoch Powell and Nigel Birch (now Lord Rhyl), on the issue of public spending). Their essays were published in 1960 (within six months of the Report) under the provocative title *Not Unanimous*[1] to signify that, although the IEA authors differed among themselves on matters of emphasis, they agreed in judging the official Committee to have under-estimated the central, indispensable role monetary policy could play in preventing inflation. The failure diagnosed by Radcliffe was explained by the IEA editor in the following words:

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[1] With the sub-title 'A Rival Verdict to Radcliffe's on Money'.

'The political objective of full employment made it difficult to persist with monetary measures to the point at which they raised the cost (or restricted the supply) of money so that they made marginal firms and marginal workers uneconomic.' (p. 109)

How much full employment?

An even more explicit attack on the full employment target was published by the IEA in 1964 under the title *Policy for Incomes*,[1] in which Professor Frank Paish showed a close correlation over successive cycles between the level of employment and the rate of increase in wages. His conclusion was that efforts to restrict wages (or profits) by fashionable 'incomes policies' would not stop inflation so long as there was an excess demand for labour. His warning against efforts to keep the level of unemployment below 2-2¼ per cent inevitably earned him a bad name among politicians and journalists who preferred to go on believing that good intentions could triumph over unpalatable economic analysis.

If 'practical men' would not listen, the demand for the Paish *Paper* in schools and universities was sufficient to justify four editions in as many years.

Meanwhile the demonstrated failure of Conservative and Labour variants of incomes policy to check mounting inflation provided the same author with the occasion for a new *Paper*, more challengingly entitled *Rise and Fall of Incomes Policy*.[2] By 1969 Professor Paish's review of the statistical evidence led him to pitch the minimum level of unemployment up to 2½ per cent if accelerating inflation was to be avoided. He explained that higher levels of unemployment might be necessary to restrain the rise in wage-costs and prices because of the cushioning effect of redundancy payments, the increased use of monopoly bargaining power by trade unions, and the spread of micro-economic structural unemployment not amenable to remedy by the pseudo-Keynesian[3] macro-economic expedient of demand management.

What became widely known (if not understood) as the 'Paish

[1] Hobart Paper 29 (4th edition, 1968).

[2] Hobart Paper 47, 1969 (2nd edition 1971).

[3] Reasons for believing that Keynes would have rejected the full employment policies conducted in his name were presented by Professor Axel Leijonhufvud in an IEA Occasional Paper (30), *Keynes and the Classics* (5th impression 1976), which went through three impressions between 1969 and 1971.

view' rested on the empirical evidence of a statistical correlation between the levels of wages and unemployment. In contrast, Professor Victor Morgan's *Monetary Policy for Stable Growth*,[1] which was also first published in 1964, concentrated on the theory and operation of financial policy. His central recommendation was not in conflict with that of Professor Paish but went further. Professor Morgan argued that governments should accept 'a more flexible interpretation of full employment' as necessary to reduce inflationary pressure. Where Chancellors tried to stabilise rates of interest or bank lending, he claimed that the centre-piece of monetary policy was nothing more nor less than 'the total volume of money'. Hence his central recommendation that this magnitude should be regulated by the classic method of open-market operations by the Bank of England. Then came a warning and a hope:

> 'The result would probably be a rather greater variation in interest rates, but the more successful the Treasury in maintaining the value of money the lower would be the average level of rates. A serious consequence of inflation has been the very sharp rise in long-term rates of interest, and their reduction would both ease the tax burden and give a direct stimulus to growth.' (p. 49)

That passage may sound rather technical. But it explains why the Treasury's neglect of monetary prudence has landed us, in 1977, with interest rates three or four times higher than they need have been. It is a tribute to well-founded analysis that in the third edition of his *Paper* in 1969, Professor Morgan did not need to change a word of his concluding section on policy written five years earlier. Nor would he need to re-write it today.

In 1969 the Institute invited Professor Alan Walters, as a younger economist combining outstanding ability and rare independence, to review the interaction between money and the growth of (nominal) national income since the 1880s and to offer a judgement on the relative merits of the Keynesian and monetarist explanations. His *Money in Boom and Slump*[2] concluded with a lesson which the author put in italics as follows:

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[1] Hobart Paper 27, 1964 (3rd edition 1969).
[2] Hobart Paper 44, 1969 (3rd edition 1971).

> *'One of the main general implications is that the government should stabilise the quantity of money.'* (p. 52)

In the Preface to Professor Walters's *Paper*, the editor paid tribute to

> '. . . a small body of economists who refused to be stampeded by the over-simplifications drawn by over-zealous acolytes from Keynes's supposed destruction of the classical system of economic thought'. (p. 6)

Monetarism and Friedman

Helped by evidence of the political failure to maintain either full employment or stable prices throughout the 1960s, a group of economists mostly associated with the IEA had thus provoked the renewal of the intellectual debate about 'monetarism'. By 1977 the few remaining sceptics appear to be confined to the pseudo-Keynesian outposts of Cambridge, the Treasury and the NIESR.

A decisive milestone in this conversion was undoubtedly laid by Professor Milton Friedman. In 1970 he encapsulated his theoretical and empirical work over many years in a Wincott lecture[1] which was promptly published by the IEA as *The Counter-Revolution in Monetary Theory*.[2] Within the compass of 20 pages, Friedman set out the monetarist explanation of inflation that has become synonymous with 'Friedmanism' and justly helped to earn him the Nobel Award in 1976. The essence of his argument, based on studies of many countries over long periods of history, was expressed as follows:

> '. . . inflation is always and everywhere a monetary phenomenon in the sense that it is and can be produced only by a more rapid increase in the quantity of money than in output.' (p. 24)

His practical conclusion was that monetary policy should be steadied and directed to stabilising the price level instead of being alternately relaxed and tightened in pursuit of the mirage of full employment without inflation which had evaded post-war

[1] It is interesting to recall that Mr James Callaghan heard the lecture delivered in September 1970. Six years later as Prime Minister, he announced to a Labour Party conference the formal abandonment of 'Keynesian' deficit-spending in a passage Friedman has since taken to quoting.

[2] Occasional Paper 33, 1970 (3rd impression 1974).

Chancellors in Britain and other countries most influenced by the vulgar popularisation of the alleged teachings of Keynes. It is one of the most intriguing speculations to ponder the troubles Mr Heath might have spared the country he sought to serve from 1970 to 1974 if he and his Chancellor had grasped the caution with which Friedman concluded his *Paper:*

> 'A steady rate of monetary growth at a moderate level can provide a framework under which a country can have little inflation and much growth. It will not produce perfect stability; it will not produce heaven on earth; but it can make an important contribution to a stable economic society.' (p. 28)

Instead, as though perversely to test this proposition by doing the opposite, the Heath Government in 1972 and 1973 expanded the money supply by between 25 and 30 per cent a year to combat unemployment. The result was that, after the usual $1\frac{1}{2}$–2 years' time-lag, the price level rose by over 25 per cent in 1975 as part of the Labour Government's economic inheritance.

Support for expansion in 1972 (and most other times) was strongly urged by the National Institute of Economic and Social Research. Accordingly, in *Short-term Forecasting,*[1] Mr George Polanyi examined its record of forecasts and policy recommendations which had for many years been given prominent and respectful publicity by the press and broadcasting media. His review of the divergence between forecast and result since 1959 revealed two characteristic failings:

> 'First, a considerable margin of error although they were made only for short periods . . . The second, and more serious, defect of NIESR forecasts and policy prescriptions is their persistent inflationary bias.' (pp. 9-10)

As a telling example of the resulting pressure on governments to inflate, Polanyi quoted the NIESR *Review* in 1972 when it was urging a massive increase in government spending:

> 'We have to acknowledge our inability to predict with any confidence what the resultant effects on inflation would be. But we also have to acknowledge that, so far as value-judgements

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[1] Background Memorandum 3, 1973.

go, we now put the earliest possible reduction of unemployment very high in relation to any risk of accelerating inflation some years hence.'

In view of the influence wielded by the NIESR in the Treasury (which subsidises these forecasts), it can hardly be doubted that the NIESR author of those words bears a heavy responsibility for the accelerating inflation – and rising unemployment – which followed the adoption of his short-term policy expedients. Polanyi's proposal was that, if government subsidises this kind of activity, it should spread support among a number of competing research centres. Above all, a shift from 'fine-tuning' towards longer-term policies would reduce the importance of forecasting and the damage done by its inevitable inaccuracies.

The Hayek version

In 1972, the Institute widened the debate by publishing a selection of writings by Professor F. A. Hayek over 40 years since his early disputes with Keynes.[1] The title, *A Tiger by the Tail,*[2] was Hayek's vivid description of inflation as a policy that was uncontrollable by its progenitors. The distinctive approach of this leading exponent of the Austrian school of economics is his characteristic 'micro-analysis' of unemployment as resulting from the wages of individual groups of labour being inflated above the value of their output. Since the result of over-pricing any product or service is to reduce demand below supply, the effect of paying workers more than the value of their product would normally be to increase unemployment. But if governments committed to full employment resorted to expanding the money supply, they would simply reduce the value of money in terms of which the excessive wages were paid. Monetary inflation would thus enable employers to pass on the higher wages costs, whilst at the same time it reduced the value of the money in which the higher wages were paid.

Thus Hayek emphasises the role of trade unions – as 'uniquely privileged institutions' – in pushing wages to a level where higher unemployment could be avoided only by monetary inflation. Worse still, the inflation only postpones the reckoning because, as

[1] The extracts were assembled and linked by Miss Sudha Shenoy in a commentary to form a text of continuing value to teachers and students of economics.
[2] Hobart Paperback 4, 1972 (2nd impression 1973).

the inevitable rise in prices reduces the value of higher wages, the unions will use their coercive power – made irresistible by full employment policy – to insist on still higher wages in the vain hope of staying ahead of the inflation. Hayek's conclusion was that, if politicians seek to overlay by monetary expansion the unemployment effect of trade union wage bargaining, the outcome is not only inflation but *accelerating* inflation, leading eventually to 'mass unemployment'.[1] In a prescient passage that by 1977 must carry conviction with all but the most sceptical, Hayek wrote:

> 'While a mild degree of inflation is widely regarded as not too high a price for securing a high level of employment, the fact that inflation achieves this result only if it accelerates means that sooner or later the other effects of inflation will cause increasing discontent and a growing dislocation of economic processes.' (p. 114)

Semantics or substance?

At an IEA Seminar on inflation in 1974, Mr Peter Jay distinguished between the Friedmanites, who seemed to deny a role for trade unions in 'causing' inflation, and the Hayekians, who attributed major blame to them. Discussion followed on whether this was a difference of semantics or of substance. The answer seemed to be more semantics but perhaps with a dash of substance. The Friedmanites emphasise the primacy of the money supply against economists of other schools, such as Lord Kaldor and Sir John Hicks, who deny its importance. The Hayekians do not question that mismanagement of money is crucial in the process of inflation, but they emphasise the political or institutional conditions in which governments are led, or misled, or blackmailed into monetary inflation by trade union pressure for the maintenance of employment. Professor Friedman as good as agreed with this formula. In reply to a Robbinsian disquisition on the nature of 'cause', Friedman said:[2]

> 'I try to avoid using the word "cause" . . . When I use it in this connection I always speak of the change in the money supply as a proximate cause, and say that the deeper causes must be found in what are the explanations for the rise in the money supply.' (p. 101)

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[1] *Ibid.*, p. 58: the words quoted were written in 1950.

[2] *Inflation: Causes, Consequences, Cures*, IEA Readings 14, 1974 (3rd impression 1976).

In *Monetary Correction,*[1] Friedman went on to analyse the damaging effects of unanticipated changes in the rates of inflation on employment and on equity between saver and taxpayer who lose and borrower and tax collector who gain. He described national savings as a 'bucket-shop operation' and argued that the profit governments reap from inflation may make them less ready to take corrective measures. Hence his proposals for the use of 'escalator clauses' (or indexing) for personal, corporate and capital gains taxes and government securities, and in private transactions the voluntary extension of escalator clauses for wages, rents, borrowing and other contracts. In addition to reducing distortions and inequities, Friedman argued that the adoption of contracts in real, not nominal, terms would diminish the side-effects of falsifying expectations as inflation is phased-out.

How much unemployment?

The reason why monetary inflation had only a passing effect on stimulating employment was explained more fully in a lecture by Professor Friedman published by the IEA in 1975[2] with a commentary by Professor David Laidler, now sadly lost to Canada in the 'brain drain'. The authors' analyses pointed to the importance of changes in expectations about the future value of money. Starting from the analysis that unemployment is caused by wages increasing above the current value of output, the market route to full employment would require a reduction in excessive wage costs. Since unions were thought likely in the 1930s to resist an open reduction in *money* wages, the Keynesian subterfuge worked by reducing *real* wages through the indirect mechanism of inflation. But Friedman observed: 'you can't fool all of the people all of the time'. As both employees and employers wake up to the inroads of inflation on their incomes, they build the anticipated future fall in the value of money into their wage demands and prices.

Hence follows the analogy with drug-taking, which both Friedman and Hayek have used in their more popular expositions. As the body economic becomes accustomed to a given dose of monetary injection, increasing doses are required to achieve the

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[1] Occasional Paper 41 (2nd impression), 1974.

[2] *Unemployment versus Inflation?*, Occasional Paper 44 (2nd impression), 1975.

same stimulus to the level of activity. The analogy works the other way so that when governments reverse monetary policy to cut down inflation, the withdrawal symptoms are felt in the form of temporary dislocation and unemployment. The technical explanation is that the existing levels of both wages and employment are based on expectations that inflation will continue and must therefore suffer a setback when the extrapolation is falsified by a sudden fall in the rate at which prices rise. In their joint *Paper,* Friedman and Laidler developed the hypothesis that the target level of 'full employment' consistent with the avoidance of inflation is governed by the 'natural rate of unemployment'. When monetary policy is used to reduce unemployment below this 'natural rate', it has only a short-term effect unless the monetary inflation is continually increased towards what Laidler warned may prove 'an ultimately explosive inflation'.

This 'natural rate' is in turn determined by the imperfections in the operation of the labour market and can be reduced by tackling barriers to the mobility of labour including trade union restrictions, council house subsidies, inappropriate skills and ignorance of job opportunities. Until these obstacles are tackled, Laidler ventured the guess that for Britain to reduce inflation to below 5 per cent by 1980 might require unemployment to stay around a million.

It was the prospect of unemployment reaching a million in 1971 which provoked the Heath Government to launch upon an unparalleled monetary expansion, the inflationary effects of which were reviewed by Ralph Harris in his contribution to *British Economic Policy 1970-74: Two Views.*[1] In 1971, when Mr Heath was being urged by the combined voices of the Labour Opposition, the TUC, the CBI and the NIESR to 'reflate', John Wood embarked on an analysis of the official statistics then showing almost one million unemployed. His report, published in April 1972 as *How Much Unemployment?*,[2] demonstrated that the published figures provided no guide to the number of unemployed who might be drawn into work by conventional 'Keynesian' policies. If allowance was made for the 200,000 unemployables, the still larger number of short-term unemployed moving between jobs and the unfilled vacancies notified to public and private employ-

[1] Hobart Paperback 7, 1975. [2] Research Monograph 28.

ment agencies, Mr Wood concluded that the remaining number of genuinely unemployed might be close to the 'minimum level compatible with the efficient working of the labour market. This judgement may be less surprising to readers who reflect on the inevitable changes in the skills required by changing industry and the increasingly generous scale of social benefits which enable unemployed people to take more time looking for a suitable job.

A more pessimistic view was powerfully presented in a Wincott lecture, published as *Employment, Inflation and Politics*,[1] by Mr Peter Jay. He feared that the level of unemployment consistent with non-inflationary monetary policies would prove intolerably high under trade union collective bargaining. The conclusion of his sustained analysis was to vest ownership and control of enterprises in their employees but in an environment of competitive markets. His words were:

> 'It is at least an alternative to the anarchy followed by the strong-man to which present arrangements are inexorably leading us.' (p. 34)

To call attention to aspects of the developing inflation ignored in political and newspaper discussion, the IEA in 1972 and again in 1974 arranged seminars to which leading economists, financial writers and MPs of all three parties contributed. There was no question of striving for the unanimity which misled the Radcliffe Committee. Nevertheless, the proceedings (published as IEA Readings)[2] yielded impressive agreement that the failure of successive governments to deliver full employment without inflation was due to their neglect of monetary policy under the influence of economists using the name and prestige of Cambridge and Keynes to urge 'incomes policy' and other measures that pushed the economy remorselessly towards collectivism.

Both Hayek and Friedman have drawn attention to the neglected danger of inflation in providing a pretext for governments – whether deliberately or inadvertently – to extend controls over wages, prices, profits, rents, until they destroy the remaining vestiges of a self-correcting market mechanism. The fact that such

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[1] Occasional Paper 46, 1976.

[2] *Inflation: Economy and Society*, IEA Readings 8, 1972, and *Inflation: Causes, Consequences, Cures, op. cit.*

'remedies' will not work in the absence of monetary discipline, and would not be necessary if monetary discipline were restored, simply adds the spectre of economic dislocation to the certainty of continued inflation. By 1977 the majority of competent economists, financial writers and even politicians would acknowledge the grave errors persisted in for 30 years by governments pursuing a full employment policy that has proved a dismal failure. The significance of the IEA authors is that their consistent critique not only provided forewarning but indicated the far-reaching changes in policies and attitudes necessary to undo the long-term damage and distortions caused by well-meaning politicians pursuing short-term expediencies.

Internationalised money . . .

The periodic spurts of mounting inflation in Britain since 1945 inevitably put a strain on the exchange rate between sterling and the currencies of our major trading partners which maintained a more stable value. To meet the resulting balance-of-payments deficit, there were three main choices for policy. The first two, both broadly consistent with an international liberal order, were either to acknowledge the relative decline of the pound by devaluing, as we did in 1949 and again in 1967 or, as more frequently happened, to cover the gap by foreign loans whilst trying to bring domestic inflation down by raising Bank rate, tightening credit and reducing spending. The third alternative, a violation of economic liberalism, involved trying to insulate the British economy from such corrective measures by intensifying protectionism: exchange control, including restrictions on foreign travel, and devices for export promotion or import restriction.

Since the periodic application of all three 'remedies', often in combination, failed to restore lasting stability, it was inevitable that the desirability of maintaining fixed exchange rates should come under question. As early as 1958, the Institute had published a typically eloquent and spirited exposition by Paul Bareau of *The Future of the Sterling System*. In arguing for the removal of exchange controls, he acknowledged 'some substantial technical advantages' of a flexible rate of exchange, not least in discouraging speculation against a weak currency in anticipation of devaluation, but on balance he opposed floating:

> 'The discipline of the fixed rate of exchange has a value which should not be lightly discarded in a world in which the temptations to overspend and inflate always beckon.' (p. 36)

The next major IEA study of these issues came in 1965 with Professor Gottfried Haberler's *Money in the International Economy*.[1] Because of the danger that governments would resort to 'non-market' methods of adjustment, such as surcharges or other restrictions on imports, he concluded in favour of more flexible exchange rates by widening the permitted range of fluctuations. A large part of his case was that the undoubted discipline of a truly fixed rate was lost once periodic devaluations became common.

In 1967 the Institute published *Exchange Rates and Liquidity*[2] by Mr Enoch Powell who argued, with characteristic logic and force, that both currencies and gold (then fixed at $35 an ounce) should be freed to find their own level. Of fixed rates he said:

> 'The control of the international price of currency, like every other suppression of market prices, leads to other controls which make a mockery of the individual's freedom to trade, travel or invest.' (p. 23)

Whilst all liberal economists disliked the protectionist measures governments took to defend fixed rates, however, many were even more anxious that under flexible rates politicians would too easily settle for continuing inflation and allow the rate to sink – as indeed has happened since 1972 when the pound was 'floated' from $2·60. To allow fuller deployment of the opposing arguments, the Institute in 1969 invited Professor Harry Johnson as a leading 'monetarist' to present the case for floating and Mr John Nash as a merchant banker to defend fixed rates. The resulting *UK and Floating Exchanges*[3] offered an opportunity to choose between these contrasting approaches. Professor Johnson thought flexible rates 'derive fundamentally from the laws of supply and demand' and considered that governments inclined to inflation would still have to reckon with the unpopular effects of a fall in the foreign value of their currency and a rise in domestic prices. Mr Nash thought

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[1] Hobart Paper 31 (2nd edition 1969).
[2] Occasional Paper 18.
[3] Hobart Paper 46 (2nd impression 1970).

that 'devaluationists ignored the reserve role of sterling and the international money market' and concluded:

> '. . . a floating pound would lead to short-term considerations being completely in control and the government completely out of control.' (p. 64)

It was a warning that has certainly been borne out by experience in Britain since 1972.

. . . or denationalised money?

A more radical way of resolving the dilemma created by the persistent failure of politicians to resist inflation – under both fixed-but-variable and fully flexible exchange rates – was presented by Professor Hayek in *The Denationalisation of Money*,[1] published by the IEA in 1976 simultaneously with *Gold or Paper?*[2] by Professor Victor and Mrs Anne Morgan. The nub of the Morgans' scholarly exposition was that the international gold standard was wrongly blamed for the monetary troubles before the war and its abandonment opened the way for the inflationary excesses which are likely to continue until 'one or more major currencies are engulfed in hyper-inflation'. Hence their resolute conclusion that gold may yet make a come-back and could provide the basis for a more stable European monetary union.

Hayek's seminal analysis goes back to an earlier starting point. He dates the origin of a government's prerogative to issue a national currency from the time when money was minted from precious metals. What made inevitable the massive abuse by inflation was the transfer of this prerogative to the unlimited government issue of paper money with no intrinsic value. At once the root cause of the debasement of money is revealed as the monopoly power of national governments to compel their citizens to accept whatever the ruling politicians decree to be legal tender. The remedy follows from the diagnosis. It is nothing less than permitting private monies to compete for public favour so that stable currencies drive those that depreciate out of circulation – an apparent reversal, he explains, of the widely misunderstood 'Gresham's law'.

Hayek acknowledged that in each country a single currency is

[1] Hobart Paper 'Special' (No. 70). [2] Hobart Paper 69.

likely to establish itself as a convenient medium of everyday exchange, but not as a store of value – say, in Britain – if we were free to hold Swiss francs, German marks or US dollars in our bank accounts. A full régime of 'competing currencies' would permit private money to circulate along with official money, but as a halfway house he suggested that the EEC countries should simply remove all obstacles to the holding of their currencies by one another's citizens. Each government would then be under effective and continuing pressure to maintain the value of their national money because, in Hayek's words:

> '. . . any deviation from the straight and narrow path of providing an honest money would at once lead to the rapid displacement of the offending currency by others.' (p. 17)

The reader of IEA *Papers* has therefore been offered a choice between the strict monetary control associated with Friedman, the possible return to gold adumbrated by the Morgans, and the competition in currencies advocated by Hayek. What is significant is that all three sets of proposals are based on the common finding that political good intentions are not enough to stop governments yielding to the temptation of inflating and so undermining the stability of the economy and, eventually, of the society and the polity (Chapter VII). The more fundamental lesson from IEA studies of monetary systems is to provide another demonstration of the classical precept that a free society must give precedence to the rule of law over the rule of men.

IV. Towards Choice in Welfare

When the Institute began, the welfare state in its full post-war flower was barely 10 years old. It might have seemed ungracious, if not curmudgeonly, or, still worse, premature to find fault with a social development that was inspired by all-party good intentions, (evidently) supported by war-time experience of 'community sharing' with special care for the most needy, and born of bad conscience about the poor and a determination that want, idleness, disease, squalor and ignorance (Beveridge's 'five giants') should be banished from the earth. Critics were apt to be made to appear callous and dismissed with the intellectually paralysing admonition: 'We are pioneers in humanitarian welfare. We are the envy of the world. Give us time.'

Yet independent economists who followed Dennis Robertson's call to stick to their last could not be expected to stand aside on this specious ground. They were bound sooner or later to examine a large and growing state activity that seemed to conflict with the first principles of economic logic. To the economist, human activity should no more evade economic scrutiny because it is labelled by a disarming, question-begging term like 'welfare' than if it is described by a neutral term like 'investment' or an implicitly disapproving term like 'conspicuous consumption'. All human activity uses resources that are withdrawn from other activities. And they all therefore have to be rationed. The economist is, indeed, drawn with especial curiosity to activities in which the common method of rationing by price is removed, as it was in state education and the National Health Service in the 1948 extension of the welfare state, or hobbled, as it was in intensifying council housing rent restriction.

Politics and state welfare

Doubts had been voiced earlier in the 1950s by the Conservative One Nation Group (of politicians) in 1950[1] and the Liberal

[1] Ian Macleod and Angus Maude (eds.), *One Nation*, CPC No. 86, Conservative Political Centre, 1950.

Unservile State Group (of academics) in 1957.[1] But, apart from some recognition of the functions of price, as in prescription charges introduced by Labour and some thawing out of rents by the Conservatives, none of the three political parties questioned the fundamental economic *rationale* of state welfare financed substantially by taxes (with an element of disguised taxation called social insurance) and provided free at the time of service to all, whatever their circumstances, requirements, preferences and sensitivities, and only rarely (never in kind, exceptionally in cash) taxed as income.

The prospects for rational analysis were made even less favourable by the intellectual influence, if not dominance, by the 1950s of a breed of academics who called themselves social administrators, sometimes sociologists, led by the late Professor R. M. Titmuss and two acolytes Messrs Brian Abel-Smith and Peter Townsend, of the London School of Economics. They were well-informed on administrative structures, and their researches usually yielded appealing evidence of continuing inadequacy of income and welfare services among old people and other categories. They invariably called for these deficiences to be remedied by continuing extensions of state expenditure on services in kind and state disbursements on pensions, grants, allowances and other cash benefits – although, inconsequentially, to all and sundry and not only to people in most 'need'. But the effect of their researches, teaching and advocacy (facilitated by ample publication in Penguins, the compassionate press, and *New Society*) was to distract attention from the economics of state welfare. Even when they concerned themselves with costs, as Professor Titmuss and Dr Abel-Smith did in the 1956 Report of the Guillebaud Committee on the NHS, it was generally with macro-economic statistics of state expenditures rather than with micro-economic individual pricing and its inter-connections with the supply of welfare services and the demand for them. It was this neglect of micro-economic behaviour that created the vacuum of analysis that could be filled only by economists. It was in the event filled mostly by IEA authors. And their studies of pensions, housing, medical care, education, and income maintenance were, in effect, vindicated by two Labour Ministers in charge of the social services in the mid- and late-1960s, both of whom attested

[1] George Watson (ed.), *The Unservile State*, Allen & Unwin, 1957.

that the deficiency of finance for the 'social services' had to be traced to the absence of links between *individual* payment by taxes and services received.

Pensioneering and principles

The first IEA *Paper*, on one of the largest parts of the welfare state, retirement pensions, was briefly noted in Chapter II. It seemed to be a critique of Labour thinking because it examined Labour's 1957 proposals for state pensions, described grandiloquently as National Superannuation. (The state has learned to present its political stratagems with a skill that could be envied by private enterprise, though not emulated because only the state can flavour its advertising with unabashed claims to universal benevolence.) But in 1959 the Conservative Government illustrated the theme of a later IEA *Paperback, The Vote Motive*:[1] that in a two-party system the political policies of both parties would converge. The Conservatives introduced, with civil service advice but no principle of policy to show whether it approached or diverged from their goal, a second state 'graduated' pension to surmount the basic pension. In *Pensions for Prosperity*,[2] Mr Seldon therefore returned to question Conservative thinking.

He concluded that the Conservative graduated pension was 'conceived in fear [of losing votes], composed in haste [to save by-elections], adopted in ignorance [the Conservatives were then not good on principles and goals]'. The new state scheme was undesirable and unnecessary and the better way was to remove obstacles to the expansion of occupational and individual pensions that would more faithfully reflect the circumstances and requirements of individuals and industry by relating premium payment to pension benefit.

This analysis of the costly wastefulness of suppressing price in universal benevolence was not refuted by academics but it was neglected by politicians, who went on inflating, equalising and universalising social benefits. The result is still growing state welfare in particular and government expenditure in general.

Sceptics who conceded the force of this approach rationalised their resistance by the objection that the policies it yielded were

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[1] Hobart Paperback 9, 1976.
[2] Hobart Paper 4, 1960.

'politically impossible'. This view – in education, medical care and housing as well as pensions – could have strangulated the IEA approach in its early days. It was not the task of the IEA to sound public opinion: economic analysis was right or wrong whatever the state of public knowledge or acceptance of alternative social policies. But to test the 'politically impossible' hypothesis, which we suspected was a pretext for continuing policy unchanged, we had public preferences examined by field surveys (Mass Observation in 1963 and 1965; England/Grosse, the same principals, in 1970). The findings – published as *Choice in Welfare* – confirmed our expectation but surprised us by their weight. In 1970 69 per cent of the national cross-section of heads of households said the state should reduce taxes and confine the state pension to people in need and let others make their own arrangements. These, and other, findings so shocked the late Richard Crossman that, unwisely advised by an academic sociologist, he challenged them in the *Guardian* (and later apologised). But both parties carried on, under Mr Wilson and Mr Heath, oblivious to individual preferences, hearing only the voices of unrepresentative spokesmen for pressure groups and ideological interests.

The housing impasse

The difference between unrepresentative democracy and the representative market is graphically demonstrated by British housing policy. Tom Paine hoped that representative government would draw on the wisdom of all sections of the community. The Preface to Norman Macrae's *To Let?*[1] in 1960 remarked that in practice representative government capitulated to sectional interests at the expense of the long-run general interest.

Rent control began in 1915 as a siege expedient to minimise hardship and forestall inflationary wage demands in time of war. But it lingered long after its defects became apparent. By the end of the 1950s the dominance of housing policies by politically-muscular producers of housing – mainly local authorities, for private suppliers were long cast into the outer darkness – and incumbent tenants paying much less than market rents had become so strong that the Conservative Government under Mr Macmillan had given a pledge at the 1959 General Election not to decontrol

Hobart Paper 2, 1960.

rents further if it were re-elected. This was a cynical demonstration of the vote motive that moved Mr Macrae to write with undisguised feeling on the effects of continued rent regulation on disintegrating family life, on retarding the building of new homes to let, and on distorting the shape of British cities. He powerfully united emotion and analysis in urging the return of home-building to the market in order to serve social justice and achieve better use of national resources.

No political party emerges with credit in tolerating the cruel distortions, injustices, and wastes resulting from continued rent restriction. The Institute tried again in 1964 to inject economic common-sense into housing policy. Mr John Carmichael in *Vacant Possession*[1] re-examined the subject *ab initio* by asking why there was a housing 'problem' (and not food, clothing or toffee-apple 'problems'). The chief reason is that the debate had been influenced too much by moralists, sociologists, and politicians who have confused counsel by regarding housing as a social service. They have thus begged all the central questions, which are *economic*. How much resources shall go to housing? How is it to be distributed and financed? Above all, why has investment in housing been less than people would wish if they could indicate how much they thought worth paying for it by prices or rents in a free market? Mr Carmichael's solution was to use rents as an indicator of demand, a signal to supply, and a means of reconciling both.

We returned again in 1967 and 1968 to examine housing policy more closely with four studies emerging from research conducted by the late Professor F. G. Pennance with the assistance of Hamish Gray.[2] Their common approach was micro-economic. In contrast to the macro-economic flavour of other writings on housing that embraced projections of national housing 'needs' based on problematic assumptions about the national average size of families and other technical categories, they analysed housing as a service with supply and demand responsive to price (purchase prices of homes to buy or rents of homes to let).

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[1] Hobart Paper 28, 1964.

[2] F. G. Pennance, *Housing, Town Planning and the Land Commission*, Hobart Paper 40, 1967; F. G. Pennance (with Hamish Gray), *Choice in Housing*, 1968; Hamish Gray, *The Cost of Council Housing*, Research Monograph 18, 1968; F. G. Pennance (with W. A. West), *Housing Market Analysis and Policy*, Hobart Paper 48, 1969.

During the war three voluminous reports (Barlow, Uthwatt and Scott) had investigated the rights of ownership and the disposal of property and land and had been followed by defective legislation. In 1967 the Land Commission Act had created the (short-lived) Land Commission and betterment levy. In *Housing, Town Planning and the Land Commission*, Pennance saw no argument for a land commission to hold and supply land for house builders and looked rather to more flexibility in town planning, in building densities, in housing standards and in subsidies and rents for better solutions. He offered an ingenious proposal that could replace much of the paraphernalia of town planning legislation: development rights in land should be treated as a saleable asset to be sold to the highest bidder from the public at large in the expectation that the purchaser would have a new and effective personal inducement to make the best possible use of the land. Pennance's analysis and conclusions were in the 'mainstream' of classical micro-economics.

There was originality also in the centre-piece of the housing researches: a field study of the extent to which individuals would move their homes if housing subsidies of varying values were made 'mobile'. *Choice in Housing* (1968) adapted to the housing market the techniques tried out in *Choice in Welfare* in 1963 and 1965 to investigate the potential demand for education and medical care if there were individual choice, and so to construct hypothetical demand curves.[1] No economist in the post-war period had attempted this approach. Again the IEA was demonstrating the fruitfulness of micro-economic market analysis where macro-economic analysis based on forecasts of physical quantities (output of bricks) or social units (sizes of families) was yielding highly artificial, arbitrary and misleading guidance for policy.

One of the commonly acknowledged obstructions to labour mobility in post-war Britain is the vast structure of rent subsidies that families would lose if they moved. *Choice in Housing* made the discovery that, depending on the size of the housing voucher, between 22 and 48 per cent of tenants would move if the subsidies themselves were made mobile.[2] Moreover, after 60 years of rent restriction, tenants had not lost the human instinct to respond to

[1] A demand curve shows the amount of a commodity or service bought in a given period at a series of alternative prices.
[2] *Choice in Housing*, p. 28.

price in the manner described by the elementary economic laws of supply and demand. Where the response to two voucher values for education and medical care had been measured in *Choice in Welfare*, five values of housing voucher for occupancy costs were investigated in *Choice in Housing*. The response indicated that, not far below decades of layers of rent control and council housing subsidies, a market in housing was ready to operate if it were allowed by the politicians. Professor D. V. Donnison, who like others had attempted macro-economic projections of housing 'need', had doubted (without evidence)[1] whether housing suppliers would respond to the incentives of a housing market after 50 years in which suppliers had sold off or died out. Here in *Choice in Housing* was evidence that consumers *without* personal experience of a housing market could spontaneously participate in it. Such micro-economic evidence could not have emerged from macro-economic forecasts. If, 10 years later in 1977, the housing market is still crippled or in limbo, the fault is not that of consumers or suppliers but of politicians without understanding of the market or with fears that it would supplant them.

These general lessons and implications for policy were confirmed by several further *Papers* after 1968: Pennance's *Housing Market Analysis and Policy*,[2] Robert McKie's *Housing and the Whitehall Bulldozer*[3] and two Readings, *Verdict on Rent Control*[4] and *Government and the Land*.[5]

The medical imbroglio

The IEA studies that aroused most emotional resistance from sceptics and critics were those on medical policy in general and the NHS in particular. Political prejudice and sociological sentiment (or, it must be said, sentimentality) were making objective analysis almost impossible. The Hosanna 'The National Health Service is the envy of the world' was apt to be sung whenever analysis located structural weakness that called for remedy or reform. The weakness on which political and sociological nerves were most exposed was the financing flaw of 'free at the time'. Analysis of the

[1] *Housing Policy Since the War*, Codicote Press, 1960, p. 32.
[2] Hobart Paper 48, *op. cit.*
[3] Hobart Paper 52, 1971.
[4] IEA Readings 7, 1972.
[5] IEA Readings 13, 1974.

implications aroused high feeling from the Titmuss camp, often resulting more in accusations of hard-heartedness or vested interest than with rebuttal of argument.

The financial flaw was evident in the recurring confrontations, inquiries and hints of resignation by doctors in the 1950s. It could not be long before an economist dissected the NHS as clinically as surgeons dissect their patients. In 1960 the Institute asked Dr (economic, not medical) Dennis S. Lees to amplify and document the argument of an article in *Lloyds Bank Review*. The result, *Health Through Choice*,[1] applied basic economic analysis to a priceless service and emerged with conclusions that shocked the non-economists. In a sentence: nil price inflated demand and suppressed supply. The resulting gap could be closed only by methods of rationing that were less efficient and more repugnant than price. If efficiency was desired, and authoritarian rationing abhorred, the only remedy was to restore price except where it was impracticable in the small portion of medical services that were 'public goods'.[2]

This analysis is more familiar today. It has been confirmed and documented in several further IEA *Papers*. In 1964 Professor John Jewkes (a member of the 1957-60 Royal Commission on doctors' and dentists' pay) and Mrs Sylvia Jewkes, Professor Arthur Kemp of California, and Dr Lees closely examined[3] an extended critique by Professor Titmuss of Dr Lees's *Paper*. Professor J. M. Buchanan, of public choice fame (Chapter VII), in 1965[4] showed that with nil prices people will demand as consumers more medical care than they will willingly finance as taxpayers. Two *Monographs* in 1967[5] examined public responses to alternative methods of organising and financing medical care and found no confirmation for the *cri de coeur* that, whatever its faults, the NHS attracted universal approbation in Britain (still less that it was the envy of the world where no country had copied it).

A *Paper* in late 1967[6] based on a lecture by a former Minister in the Labour Government from 1964 to 1967, Mr Douglas (now

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[1] Hobart Paper 14, 1960.
[2] These and other terms are explained in Seldon and Pennance, *Everyman's Dictionary of Economics*, J. M. Dent, 2nd edition, 1976.
[3] *Monopoly or Choice in Health Services?* (Occasional Paper 3).
[4] *The Inconsistencies of the NHS* (Occasional Paper 7).
[5] A. Seldon, *Universal or Selective Social Benefits?* (with H. Gray), (Research Monograph 8); *Taxation and Welfare* (Research Monograph 14).
[6] *Paying for the Social Services* (Occasional Paper 16).

Lord) Houghton, attracted attention both by its argument no less than by its authorship (the IEA was then still apt to be consigned to the outer darkness as the home of reactionary *laissez-faire* liberals). It was the argument that endured. It was confirmation, by a respected politician of integrity with a ranging mind unintimidated by civil service obstruction, of the proposition analysed more theoretically by Professor Buchanan. In Lord Houghton's words:

> 'While people would be willing to pay for better services for themselves, they may not be willing to pay more in taxes as a kind of insurance premium which may bear no relation to the services actually received.' (p. 16)

Pay for choice

People would willingly pay more for medical care than they were allowed to pay by politicians in taxation. That was, is, and ever will be the dilemma of a price-less medical service. It was echoed two years later by a second senior Labour Minister, the late Richard Crossman, more doctrinaire but no more impervious to the promptings of intellectual doubt. Crossman's formulation in 1969 was remarkably similar (Chapter II, page 15).

In short, both former Labour Ministers were saying that the price-less NHS was producing fewer resources than would be available for medical care if the link between payment and service were restored. Both were thinking of graduating national insurance contributions with income and varying the service with payment. Lord Houghton went further and courageously suggested hospital charges, long anathema to the followers of Bevan and the conception of a free health service.

What was surprising was the Bevanites' lack of understanding of, let alone welcome for, this confirmation of theory and political experience that the NHS was based on a flawed method of financing. Since they were continually calling for more resources for the NHS, their persistent refusal to question the Bevanite hope of a free service indicated that they saw the NHS not as the most efficient method of organising medical care but as an instrument of 'social (egalitarian) engineering'. But the supporters of the NHS shrink from confessing that they are condemning the British people to less good medical care than they would like and could pay for. The NHS supporters are prepared to trade health and life for equality – or, rather, for the *appearance at aiming* for equality, since the NHS has a built-in structure of political inequalities that are different from, and arguably more difficult to remove than, the inequalities of the market derived from differences in income that can be corrected by a reverse income tax. Bevan himself had seen back in 1945 that:

> 'If we were rich enough we would not want to have free medical services: we could pay the doctors.'[1]

Seeing red . . .

The wrath of the Titmuss camp was intensified by a study of methods of increasing blood supplies for transfusion, which were discovered to be inadequate in a chance illness of a member of the IEA staff in 1968. M. H. Cooper and A. J. Culyer in *The Price of Blood*[2] were not persuaded that the free blood generated by the National Blood Transfusion Service was assembling the maximum that could be made available to save life. They found micro-economic analyses more revealing than moralistic appeals to voluntary donors and concluded that there was a case for pricing, monetary or non-monetary, in a dual system of voluntary and paid donors which might reduce waste of blood and increase supplies.

This piece of sober analysis drew metaphorical blood and led Professor Titmuss to write a long book[3] on the ethics of giving in general and blood in particular that was more effective in displaying good intentions than critical analysis. His reply was subjected to rigorous intellectual analysis by Cooper and Culyer, and by American economists, in *The Economics of Charity* in 1974.[4]

As a final contribution to a debate in which no refutation of the economic argument for pricing had emerged, Arthur Seldon late in 1968 prepared a text, provocatively entitled *After the NHS*,[5] based on a paper for a conference in Sydney on the prospects for private health insurance in the 1970s. He concluded that the NHS

[1] In a speech at the 1945 Labour Party Conference, quoted by Arthur Seldon in *After the NHS*, Occasional Paper 21, 1968, p. 44.
[2] Hobart Paper 41, 1968.
[3] *The Gift Relationship*, Allen & Unwin, 1970.
[4] IEA Readings 12.
[5] Occasional Paper 21, *op. cit.*

would encounter increasing strains as rising incomes made more people able to pay for better medical care than the state could provide equally (on paper) for all out of taxation. The demand for private medical care would therefore grow, and with it the market for private health insurance. But the longer the NHS continued the more doctors and potential patients would have little or no knowledge of the possible alternatives. The future for health insurance therefore depended in practice on 'arbitrary, unforeseeable, even capricious political influences'. That judgement must remain. Medical care in Britain is no longer a service to be decided, in quantity or quality, by the consumer interests of patients. It has become politicised to a degree at which the NHS may have to be made increasingly exclusive and autarchic in the effort to withstand comparison with, or competition from, private medicine at home or abroad. If the politicians, the bureaucrats and the trade unions have their way, it will be made increasingly self-contained, depending for its funds on hard bargaining in the Cabinet Room on grounds that are political rather than medical. And no doubt the politicians and apparatchiks will be tempted into trying to outlaw the remaining private sector – to remove comparison by competition. The final outcome would then depend on how the British people find ways to escape underground through black/grey markets, as in Hungary, Poland, and other East European countries, or go for treatment to British doctors in Eire, perhaps in Scotland if she wins home rule, or in Europe or British enclaves in Gibraltar, Malta, Singapore or Hong Kong. But it would be a Pyrrhic victory, for even Bevan would be shocked by what his NHS has had to become to conscript custom from unwilling, non-paying 'customers'.

A 'national' or a totalitarian system of education?

In 1870 W. E. Forster is supposed to have inaugurated a 'national' system of education in place of the 'untidy sprawl' of church and secular schools that developed during the century before him. The social novelists, from before Dickens to after Charles Kingsley, 'made history' (in a literal sense) with their dramatised fictions that are still, to this day, taught and accepted as fact. Until 1965 this view was that Victorian education was conducted in dark, satanic schools: harsh, unfeeling and poor. In 1965 the IEA published a seminal study, *Education and the State*, by Dr E. G. West. The fiction lingers, but it is asserted with more caution and reservation.

The historians were stunned by the challenge to the conventional wisdom in Dr West's evidence that literacy and numeracy were widespread and spreading by 1870. Schooling would, we suggest, have improved more than it has done under state education. The state, concluded Dr West, was therefore jumping on 'a galloping horse'; and, in a later book, *Education and the Industrial Revolution*,[1] he adduced evidence that suggests the state has been slowing it down: that by now the British people would be spending more on education than the state is financing out of taxation. This again was oblique support for the Buchanan-Houghton-Crossman proposition.

The gradual exclusion and suppression of spontaneous innovation in the effort to enforce a uniform system of centralised state control is becoming as evident in education as in medical care. In its contributions to the discussion of this subject the Institute tried to steer clear of political pre-judgements and emotional moralising and fasten attention on economic analysis. As elsewhere, the consequences of nil-pricing called for attention. The first IEA study on the suppressed demand for education came in 1963. We tried to discover what it might be by recreating a demand curve in a hypothetical market.[2] We used the device of the voucher to measure the additional resources that might be channelled to education if it were made available with the significant new dimension of choice. Here again, despite the absence of a market and the response to price that most parents had never experienced, we found they reacted in conformity with the elementary laws of economics in the text-books. In response to a voucher worth one-third and two-thirds of the current cost of 'free' (tax-financed) education, parents in a national cross-section responded logically and rationally. In 1963, and again in 1965 and 1970, increasing proportions indicated they would take a voucher in preference to 'free' schooling and pay for the new choice out of pocket. (This was even a crude measure of unit elasticity of demand: in 1965 twice as many accepted the two-thirds value voucher as the one-third

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[1] Batsford, 1975.
[2] *Choice in Welfare*, 1970, explains the methodology.

value voucher.) Professor Mark Blaug, who in a Fabian Tract tried to clarify the economic issues in education policy,[1] was the first to recognise the economic significance of this approach in discovering the slope of the demand curve.[2] Professor Jack Wiseman, co-author of *Education for Democrats*[3] in 1964, also emphasised the central role of price in discovering preferences (demand).[4] And the Editor of *New Society* and aspiring Conservative politician, Mr Timothy Raison, acknowledged that this approach was an advance on sociological studies of 'attitudes' without reference to the costs of alternative policies or methods such as had appeared in *New Society*.[5]

Response to price

The response to price would not surprise economists who, in spite of the vogue for macro-economic models, have not lost sight of the individual men and women who make up economic society. But the comparative responses from the four socio-economic groups in the national cross-sections may have surprised the sociologists. In the 1970 survey the 43 per cent of fathers who preferred the two-thirds voucher was the average of 52 per cent in the 'upper middle' and 'middle' class (measured by income and occupation), 49 per cent in the 'lower middle' class, 42 per cent in the 'skilled working' class, and 35 per cent in the 'working class' of unskilled and semi-skilled manual workers (these are field research classifications). Sociological studies of the 'underprivileged' and 'disadvantaged' do not discover the anxiety for family improvement and the latent readiness for sacrifice to pay for it among the ordinary people of Britain. The 35 per cent of wage-earning fathers were saying they would add £75 a year to a voucher worth £150 (state school costs were then estimated at £225). If state school standards have deteriorated since 1970 in failing to equip the children of 'working class' parents with the skills required to enable them to earn a living, as the Prime Minister has at last had

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[1] 'Selectivity in Education', in *Social Services for All?*, Part II, Fabian Society, 1968.
[2] *Education: A Framework for Choice* (IEA Readings 1, 1967; 2nd edition 1970).
[3] Hobart Paper 25.
[4] *New Society*, 2 November 1967.
[5] Market Research Society Conference, Broadway, 1970.

to recognise,[1] their response in 1977 to a 75, 85 or 100 per cent voucher would, of course, be even more emphatic. It is clear from the widening interest in the voucher idea that some parents would add to a voucher to move their children to private schools, which many would find more within their means than the middle-class resort of moving to a more expensive home in an area with an acceptable state school.

The late Richard Crossman had complained that women had been omitted from the surveys. (He also suggested the unworthy motive that the omission was designed to conceal less favourable responses.) So in the 1970 survey we included a small sample of mothers with children of school age, but big enough to check whether a larger sample would differ markedly from the fathers. To the 43 per cent of all fathers who preferred a two-thirds voucher to free state schooling, the corresponding mothers' response was 57 per cent. If this figure indicates the response of a larger sample of mothers, it would suggest that the anxiety for a choice and the readiness to pay for it among British parents as a whole has been, and is, even larger than our field studies indicated. And if the small sample of mothers is discounted, the sceptical sociologists could have conducted larger surveys (perhaps with university or Social Science Research Council funds), and so could the politicians (without cost to themselves) through the government statistical bureaucracy. We must conclude both were less interested in parents' preferences than in providing the education they considered, for reasons paternalistic at best or authoritarian at worst, they knew better than parents that their children should have.

Not least, the micro-economic approach yielded information on the additional resources that could be available for education if choice were added. The 1965 survey indicated that parents would add out of pocket about a quarter of the amount spend on secondary state education. In 1977 that sum might have amounted to some £350 million, and to more if the voucher 'take-up' were higher. The decisions for policy are then, as in medical care, between, first, an attempt to construct an increasingly centralised state structure aiming at, but not achieving, equality except through totalitarian controls with inequalities reflecting political influence and, second,

[1] Speech at Ruskin College, Oxford, 18 October 1976.

a more diversified system underpinned by minimum standards, with inequalities reflecting incomes supplemented by reverse taxes but with considerably more resources. The choice in policy was becoming clearer: equalise or maximise.

This may seem to be a political choice to be decided in the ballot-box. The economics of the ballot-box, or 'public choice' (or in older language democracy and politics), is a new branch of economics to which the Institute turned in the late 1960s and 1970s to elucidate economic policies that could no longer be explained by the conventional assumptions about benevolent motivation in government and bureaucracy (Chapter VII).

The cosy consensus

This pioneering was conducted in a world where the consensus on increasing state influence held sway. The Newsom Report on primary education, the Trend Report on civil science research, and the Robbins Report on universities in the early 1960s had all concluded with recommendations that would entrench state finance and control. Meanwhile in the USA economists were studying the concept of a market in education. In the view that the possibilities in Britain were being neglected, we asked Professors Alan Peacock and Jack Wiseman to analyse the scope for a wider variety of education, from primary to university, than was being contemplated in Britain. Their *Paper*[1] challenged much current thinking, including the Robbins Report, and amassed an impressive array of argument for a structure of vouchers, bursaries and loans, buttressed by information and the removal of market imperfections and privileges, to encourage innovation and experimentation and take education out of politics. This *Paper* was an early stimulus to the notion that the Institute might explore the possibilities of an independent university (discussed in Chapter VII).

Dr West's historical researches in *Education and the State* had strengthened his interest in the voucher as a means of retracing the false steps begun by the 1870 Education Act. To take the argument further, the first of the new series of IEA Readings in 1967 assembled a criticism of Dr West's approach by Dr Blaug and a reply by Dr West. Some years later there was an unusual opportunity to

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[1] *Education for Democrats*, Hobart Paper 25, 1964 (2nd impression 1970).

test these intellectual exchanges. In 1974 the Layfield Committee on local government finance asked the Institute for evidence on the education voucher. Mr Alan Maynard was invited to prepare the written material,[1] and the co-operation of Kent County Council, which had shown interest in the voucher, was secured in discussions on the administrative and practical aspects. The written material was supplemented by us in oral evidence.[2] The Layfield Report said the voucher was 'a challenge to conventional educational philosophy and practice' but outside its terms of reference. The Kent feasibility study will be made known after this book is completed. As with medical care, state education faces the dilemma that it cannot, except by coercion, keep its customers as rising incomes enable more parents to pay for better education than the state can supply out of taxation.

Income maintenance

Classical economists have long acknowledged that the incentives and inducements developed in a market may result in a distribution of income that would leave some unable to pay for the conventional essentials for civilised living, and that their incomes would have to be supplemented outside the market. To make the market yield its benefits, the cash method of ensuring the essentials is normally regarded as better than destroying the market and providing state-produced benefits in kind at less than market prices or wholly 'free'. This note was struck in the first IEA *Paper* (on pensions) in 1957[3] and invariably recurred in *Papers* analysing the creation of markets in 'public' services as part of the process of building a structure of pricing.

This was our reply to the common objection that some services – notably education, medical care and housing but also many minor ones such as libraries, meals-on-wheels, ante-natal clinics – had to be provided at nil or subsidised price because poverty or inequality made markets impracticable.

The 1964 Labour Government had contemplated an approach to more systematic income supplementation in its consideration of a minimum income guarantee discussed by the then Douglas

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[1] *Experiment with Choice in Education,* Hobart Paper 64, 1975.
[2] Ralph Harris and Arthur Seldon, *Pricing or Taxing?*, Hobart Paper 71, 1976.
[3] *Pensions in a Free Society, op. cit.*

Houghton in his IEA *Paper* in 1967. A reverse income tax, as we have called it in the IEA, was examined systematically in 1969 by a small IEA study group of Anthony Christopher, then Assistant (now General) Secretary of the Inland Revenue Staff Federation, the late George Polanyi, Barbara Shenfield and Arthur Seldon.[1] The general objective of replacing a vast structure of multi-means tests and indiscriminate benefits by one payment in cash more likely to reach people most lacking income seems clear. The Conservatives introduced an embryo reverse income tax, the Family Income Supplement, in 1971, and drew up a scheme for 'tax credits' in 1972, which the Labour Government of 1974 appeared to abandon in a fit of party pique.

After the massive and unsustainable expansion of state spending in 1974, it would seem that government has come to the end of the road of enlarging its functions and financing them by taxation. Resistance, avoidance, evasion, disillusion and emigration set limits to the credibility of further promises to perfect state welfare. Overseas borrowing cannot continue indefinitely if shrinking incentives weaken industry and output. In reconstructing governmental services, a reverse income tax provides a humane and efficient method of enabling all to pay in the market for services that are otherwise supplied 'free' or subsidised more or less indiscriminately and entailing high taxation, a large bureaucracy, political control, weakened democratic institutions, and little or no choice.

The taxation 'externality'

All these 'externalities' of high government welfare (and other) expenditure, usually under-stated by enthusiasts for government activity, were analysed in IEA *Papers* and are discussed in this text – bureaucracy, political control and democratic debility in Chapter 6 and attentuation of choice in this chapter. We now turn to taxation.

The first systematic study was Colin Clark's *Taxmanship*[2] in 1964. In a celebrated article in the *Economic Journal* in 1945 he had argued that when taxes exceeded 25 per cent of national income inflationary

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[1] *Policy for Poverty*, Research Monograph 20, 1970.
[2] Hobart Paper 26 (2nd edition 1970).

pressures tended to be irresistible. He now examined this empirical relationship further. Again he found the political process at fault:

> '. . . taxation raises costs partly through discouraging productive effort; more significantly, perhaps, in causing industrialists to become careless about costs . . . and, finally, and in rather a subtle manner, the existence of a high level of taxation alters the whole climate of politics: politicians lose their capacity to resist pressures . . .' (p. 24)

And the tax 'externalities' of the welfare state could not be ignored:

> 'A large part of the effort of modern politicians is devoted to destroying . . . the sense of responsibility among electors and to spreading the futile and dishonest belief that somehow or other someone else will pay for the good things for which electors are invited to vote.' (p. 12)

The distorting effect of purchase taxation levied at varying rates on commodities categorised arbitrarily as 'essentials' and 'luxuries' was exposed in an early *Paper* by Professor A. R. Prest in 1961.[1] He preferred a uniform sales tax.

In 1965 John Chown was prophetic about Mr Callaghan's corporation tax:[2]

> 'The proposed corporation tax will penalise dividends compared with profits retained by public companies . . . research points to very disturbing conclusions . . . the rate of return on invested retentions is usually low and occasionally negative.' (p. 8 and p. 19)

A further observation,

> '[the debate on Finance Bill] reveals an obsessive preoccupation on the part of the government with tax avoidance . . .' (p. 44),

foreshadowed an examination by Professor A. A. Shenfield of tax avoidance in 1968.[3] The deteriorating observation of and respect for the tax laws comprise another 'externality' that must be weighed in the balance. Professor Shenfield said:

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[1] *Reform for Purchase Tax* (Hobart Paper 8, 2nd edition 1963; reprinted in *Ancient or Modern?*, 1965).
[2] *The Corporation Tax – a Closer Look* (Eaton Paper 5, 1965).
[3] *The Political Economy of Tax Avoidance* (Occasional Paper 24).

'. . . anti-avoidance has become an instrument for the erosion of law . . . If it is an evil at all, avoidance is a minor one. Anti-avoidance has become the major one.' (p. 34)

And again:

'Avoidance is significant only under a regime of a high-taxing, high-spending state. Such a state is notoriously wasteful both in its administration and in the choice of purposes for which it spends its revenue at the margin.' (p. 24)

In 1965 Professor C. T. Sandford had argued,[1] as a central reform, for the replacement of estate duty by an inheritance tax (or legacy duty) as more logical and equitable and also to diffuse the ownership of property. Such a change had been urged in his early days by Lord Robbins who now, in *Aspects of Post-War Economic Policy* in 1974,[2] said also that highly progressive direct taxation must affect incentives to work, 'particularly as regards keenness and initiative', and to save.

International comparisons to show that other peoples are taxed even more highly are familiar as 'proof' that the British are not over-taxed. This evidence is largely irrelevant: national circumstances differ in many ways and are best regarded as indigenous to the individual country. The British earner is not encouraged to work more by the reflection that the Belgian or Swedish or German taxpayer has to meet even higher taxes; the comparison he makes is with his *own* gross and net earnings – after tax and after inflation – a year or two or three earlier. The view of Professor Vito Tanzi, an authority on international tax structures, in 1970[3] was that the British income tax was

'. . . a real impediment to the growth of the economy [and] more burdensome than those of the other major countries.' (p. 48)

Finally, Professor D. R. Myddelton, who combines academic authority with a refined capacity to speak in uncompromisingly simple language, said, in the same *Readings:*

'There is no doubt that poorer citizens would gain far more by an increase in the national income than by trying to redistribute more of the "existing" national income.' (p. 129)

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[1] *Taxing Inheritance and Capital Gains* (Hobart Paper 32, 2nd edition 1967).
[2] Occasional Paper 42.
[3] *Taxation: A Radical Approach* (IEA Readings 4).

V. In Place of Planning

The mistaken methods of pursuing high employment and welfare through increasing government spending and taxation led on inexorably to multiplying errors in economic policy. As quickening inflation periodically compelled governments to face the reality of excessive pressure on scarce resources, they were tempted to look round for rapid and painless ways of increasing output. Their hope was to break out of the familiar vicious circle, which an earlier post-war Chancellor (Dalton) had defined as 'too much money chasing too few goods', by conjuring up more goods whilst persisting with the chronic pressure of excess demand. They thus failed to learn the monetary lesson that the cause of inflation was not the absolute level of available or prospective supplies but the relationship between those supplies and the pressure of demand – which would remain excessive so long as it was set by the overriding priority of 'full employment'.

'Caucus race' replaces 'carrot and stick'

Furthermore, excessive spending not only guaranteed continuing inflation arising from the demand side of the equation, but aggravated the imbalance by retarding production on the supply side. Both the positive and negative inducements of 'carrot and stick' were simultaneously weakened, the first by the increasing taxation of incomes to pay for indiscriminate welfare, and the second by the guarantee of protected jobs and wages (markets and profits) under full employment. A new twist had thus been given to Fisher's 'clash of progress and security', aggravated by more than a dash of Alice in Wonderland's 'caucus race' in which – irrespective of performance – everybody wins and all have prizes. The long-run danger of giving security priority over economic progress is that the conditions for attaining neither are fulfilled.

In an essay entitled *All Capitalists Now* to launch the *Hobart Papers* series in 1960, Mr Graham Hutton showed that the economic imperative for progress in using human and material resources more efficiently confronts both capitalist and communist societies. He explained that the market economy generated prices and profits both as signposts to guide and spurs to galvanise the employment and redeployment of labour and capital. In this feature he detected its superiority over collectivist economies which started[1] by ruling out market incentives and had to rely on coercing producers and consumers to conform to an arbitrary central plan. But politicians were already embarked on a quest for the 'middle way' between freedom and coercion, which they hoped would yield the benefits of both with the drawbacks of neither.

. . . growth through self-levitation

Typical of the philosophy and failure of the 'middle way' was the establishment of the National Economic Development Council (NEDC) in 1961. It was launched by a Conservative Chancellor who was able to bask in the enthusiastic support of the Labour and Liberal parties, urged on by the CBI, the TUC and most of what passed as 'responsible' economic comment. Great was the rejoicing when in 1963 NEDC unveiled a five-year plan to increase the annual rate of growth throughout the British economy. Behind the facade of statistics and targets was the simple hope that government exhortation, the exchange of (questionable) information, and the universal expression of benevolence could provide an effective substitute for market disciplines and incentives to higher efficiency and output.

The plan rested on what was admitted to be a 'confidence trick' in the sense that the government promised to maintain a high pressure of demand in return for which business men and trade unions would galvanise themselves to match it by increased production. In place of 'go-stop', we would be blessed with 'go-go'. An explanation of this boot-strap self-levitation had been popularised by Andrew Shonfield in an influential polemic notable for advocating most of the fashionable fallacies that have plagued policy since 1958.[2] From the superficial diagnosis of Britain's

[1] It is significant that in the 1960s economists in Russia and other communist countries began increasingly to discuss how markets could be used to keep production in touch with reality.

[2] *British Economic Policy Since the War* was published – like so many other fashionable but damaging tracts since the decline of the Left Book Club – by Penguin.

'central failure' as 'inadequate investment' he proposed the simple remedy: 'to step up the rate of productive investment sharply'. This panacea rested on the assumption that there was a fixed relationship between capital and output so that increased investment would automatically justify its cost. The folly of this lofty macro-generalisation and its emphasis on volumes over values was that it paid no attention to the question of getting the capital (and associated resources) into the faster-growing, higher yielding or lower-costing lines of production in the absence of keen competition guided by the differential profits from alternative investments.

Growthmen never die

Even before the NEDC published its five-year projection, *Growth in the United Kingdom Economy to 1966,* the Institute had invited an internationally renowned econometrician, Colin Clark, to review the contemporary discussion of growth in the light of his classic *Conditions of Economic Progress,* written 20 years earlier. The result was one of the most outstanding IEA *Papers,* entitled *Growthmanship, A Study in the Mythology of Investment,*[1] which was reprinted three times between March 1961 and May 1962. Mr Clark's verdict was a damning indictment of 'growthmanship', which he defined as:

> 'an excessive preoccupation with economic growth, advocacy of unduly simple proposals for obtaining it, and the careful choice of statistics to prove that countries with a political and economic system which you favour have made exceptionally good economic growth . . .' (p. 12)

After a scholarly demolition of the statistical correlation between investment and increased output over long periods and in many countries, the author concluded that 'the principal factors in economic growth are not physical but human', including better knowledge, organisation, skill, effort, education, enterprise. Among a list of recommendations that still repays study, Mr Clark urged the freeing of competitive markets, cutting taxation, reducing the power of trade unions to restrict output by closed shops and intimidation, tackling business restrictions on competition, imposing commercial criteria on nationalised industries, and

[1] Hobart Paper 10, 1961 (2nd edition 1962; reprinted in *Ancient or Modern?*, 1965).

encouraging the distribution rather than ploughing-back of profits. Above all, public policy should avoid trying to 'force accelerated growth' by means that created inflation and thereby distorted or impeded efficient investment.

It is only necessary to ponder such radical recommendations to be certain that they would not be endorsed by the NEDC, composed of equal numbers of trade union and business 'spokesmen' who on Mr Clark's independent analysis might be regarded as among the leading natural opponents of true economic progress.

By April 1962, when the second edition of *Growthmanship* was published, NEDC had announced that its target rate of growth to 1966 would be at the annual rate of 4 per cent. Mr Clark took the opportunity of adding a Postscript to his *Paper* which included the following bullseye:

> 'The new "target" can be described in no other terms than as a most irresponsible piece of growthmanship on the part of the Government and official thinkers.' (*Ancient or Modern?*, p. 165)

And so it turned out. In 1964, the Labour Government inherited the consequences of the reckless 'Maudling boom', which compelled the incoming Chancellor, James Callaghan, to apply the brakes on the same pattern as in previous 'go-stop' cycles.

A recurring feature of the post-war economic record is that the failure of policies favoured by the consensus did not – at least before 1974 – lead to their abandonment. As Professor Jewkes has explained,[1] the response of politicians has been that if planning does not work they must simply chase after better or bigger plans. Even if the 1964 Labour Government had not been predisposed towards more planning, full employment, welfare spending and intervention, they had spent 13 years in Opposition since Attlee's defeat in 1951 and since 1957 had watched the Conservatives under Macmillan move further down the collectivist road. They could hardly do less themselves, and with typical political optimism they confidently promised that more of the same medicine would achieve the success that had eluded their 'half-hearted' opponents. The only novel element was a new Department of Economic Affairs which would urge the case for 'growth' against the Treasury's

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[1] *The New Ordeal by Planning*, Macmillan, 1968.

orthodox concern for its effect on the domestic price level and the value of the pound abroad.

The morbidity of planning

By September 1965, the Labour Government was ready to launch a new five-year plan as a much-enlarged version of the NEDC document aiming at a 25 per cent increase in output from 1964 to 1970, with associated targets for separate industries, their employment, investment, exports and so on. We need waste no time on detailed description of this imposing piece of make-believe which, having been approved in the House of Commons without a dissenting Conservative vote, was declared by the Minister responsible nine months later to be null and void when the July 1966 crisis measures sought unavailingly to avert the devaluation of sterling the following year.

The failure of the National Plan was predictable – and was indeed predicted. In May 1965, four months before the Plan was published, or its title known, the IEA dared to print a *Paper* entitled *The National Plan: A Preliminary Assessment*[1] by John Brunner, a brilliant young economist who had the advantage of having worked in the Economic Section of the Treasury. Judging the forthcoming Plan entirely on the basis of the questionnaire to business men which was supposed to provide its foundation, Mr Brunner had little difficulty in predicting that its detailed forecasts would provide wholly unreliable guides to such interlocking magnitudes as output, investment, employment, exports. It was little use the DEA asking firms to take account in their answers of its central target increase of 25 per cent in GDP for the simple reason that the demand for individual products and services would grow (and contract) at widely varying rates, depending on changes in relative prices which neither DEA nor firms could possibly foresee. Thus estimates of future demand that ignored price changes could be no more than 'sheer speculation'.

Mr Brunner drew on analysis and experience to show that the impressive statistics assembled and collated by the planners would be based on a mixture of guesswork, crystal-gazing and hopes of thousands of companies that knew neither how the markets for

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[1] Eaton Paper 4 (3rd edition 1969).

their products would develop nor how their competitors would respond to such unforeseeen changes. At best, he thought, the answers companies gave on their future output would reflect the 'simple-minded obsession with what can be produced rather than what can be sold'. Hence his description of the returns from industry as 'a fearful hotchpotch of the fairly probable and the purely speculative, of the firm intention and the pious hope'.

The author concluded by questioning whether

> 'anything is to be gained from fabricating what amounts to a statistical strait-jacket for British industry. The more everything is reconciled with everything else, the worse the confusion when a particular forecast is confounded'. (p. 21)

The logic of planning?

When the National Plan had to be abandoned in 1966, its more determined supporters explained the failure by the government's lack of powers to impose the targets. The debate accordingly switched to the issue of 'planning with teeth'. In 1963, Dr (now Lord) Balogh had set out in a Fabian Tract the sanctions a Labour Government could use to encourage or compel industries and even individual firms to implement the planning objectives, ranging from the carrots of tax concessions and subsidies to the sticks of building controls, licensing and the threat of outright nationalisation. Yet what if the intellectual *rationale* of central planning were as defective and unsubstantial as Colin Clark and John Brunner had argued? Any attempt to forestall its breakdown by more coercive measures of enforcement would only delay and compound the ultimate reckoning.

At this stage, the Institute decided to commission a review of the record of planning which would resolve the question whether successive failures were inevitable or could be explained by faulty execution. We were more fortunate than we then could know in attracting to the IEA as a staff researcher Mr George Polanyi who brought with him the invaluable, practical experience of more than a decade as an economist concerned with forecasting and planning in one of the less unsuccessful nationalised industries. In July 1967 we published the first of several outstanding reports by him under the title *Planning in Britain: the Experience of the 1960s*.[1] It is im-

[1] Research Monograph 11, 1967.

possible to do justice to his exhaustive analysis and documentation of the theory and practice of economic planning. The least surprising of his conclusive demonstrations was that neither NEDC nor the DEA's Plan had achieved their central aim of increasing economic growth and escaping from the 'go-stop' cycle. More remarkable was his final verdict:

> 'British planning in the 1960s failed because . . . it provided no basis of rational criteria by which to decide the pattern of individual outputs . . . which would produce the desired growth without inflation.' (p. 113)

The confident 'projections' for output provided no guide to action because they were simply the expected developments of 'just those market forces which planning was intended to supersede . . .'. With unerring logic, Mr Polanyi showed that, where a competitive market provided rational, objective criteria for production based upon the valuation of output by consumers, central planning did not and could not supply any alternative criteria. The incurable fault of planners was not their practical incompetence but the fallacy of the underlying theory that macro targets could supply coherent guidance for economic decision-taking in a world of changing techniques, products, demands. As for 'planning with teeth', the author was almost contemptuous:

> 'In the absence of rational criteria for a more efficient allocation of resources than that of the market system, the planners would have no guidelines for deciding what they are to compel people to do.' (p. 115)

Thus the impressive pretensions of the most sophisticated planners are seen to be built on nothing more substantial than arbitrary, subjective projections about how they think the economic system is most likely to develop or how the planners think it *ought* to develop.

It can hardly be doubted that politicians were misled by the exaggerated claims of econometricians to be able to simulate the working of a complex economy by a computable model that could predict the effects of changes in key variables on such aggregates as output, employment, investment, imports, exports. The danger of grotesque error arises from the lack of both theoretical understanding and adequate statistical information. In an effort to clarify the practical value of macro-models, the Institute published three specialised studies. The sympathy of Dr Malcolm Fisher[1] and Professor Erich Streissler[2] with the methodology did not blind them to its limitations as a guide to centralist planning. And Professor L. M. Lachmann[3] embarked on a more root-and-branch questioning of macro-models that had lost sight of their micro-economic foundations.

Look back at forecasting

The fallibility of forecasting brings us close to the centre of the intellectual debate between the dispersed initiative of entrepreneurs in the market and the centralised decisions of planners in ministries. It is not difficult to show that social and economic forecasting is always a treacherous art. A succession of IEA *Papers*[4] has drawn attention to the wide and unstable margins of error in authoritative forward estimates on steel production (by the Iron and Steel Board), the supply of doctors (by the Willink Committee), the demand for scientists (by the Scientific Manpower Committee), the prospects for British nuclear power (by the Atomic Energy Authority), the demand for electricity (by the Electricity Council), the trend of population (by the Registrar General), short-term changes in exports, imports, GNP, etc. (by the National Institute of Economic and Social Research), and of course trends in unemployment and inflation (by Chancellors of the Exchequer).

In every case the source of error can be traced to one or both of two forms of frailty. The first is the inherent deficiency of all forecasts which rely essentially on the forward projection or 'extrapolation' of past trends in production, demand, birth rates, prices, etc., with adjustments for expected variations. In this sense forecasts are backward-looking and will be falsified whenever the future departs from the past in ways that cannot be anticipated. The second source of error, most common in governmental fore-

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[1] *Macro-Economic Models: Nature, Purpose and Limitations* (Eaton Paper 2, 1964).
[2] *Pitfalls in Econometric Forecasting* (Research Monograph 23, 1970).
[3] *Macro-Economic Thinking and the Market Economy* (Hobart Paper 56, 1973, 2nd impression 1975).
[4] Among the IEA texts on forecasting are *Lessons from Central Forecasting* (Eaton Paper 6, 1965), *The National Plan* (Eaton Paper 4), *The Political Economy of Nuclear Energy* (Research Monograph 9, 1967), *Short-Term Forecasting: A Case Study* (Background Memorandum 4, 1973), *Growth through Industry* (IEA Readings 2, 1967).

casts, is the incorporation of an undisclosed element of wishful thinking that the future will be *better* than the past. This explains the NEDC and National Plan projections of growth rates, as it does the recurrent bouts of unjustified optimism by Chancellors and other Ministers on such central issues as inflation, unemployment, the exchange rate, the imminent solution of the housing shortage, the demand for teachers, university places. The special danger of 'official' forecasts is that, because they are more stubbornly persisted in, they lead to delayed and, therefore, more drastic changes of policy which in turn disrupt the expectations of everyone affected.

The merit of forecasting by business men is not that they are naturally more gifted at predicting the future but that competition tends to cancel out over-optimism and over-pessimism and therefore diminishes the net error arising from both 'tramline' projections and possibly unconscious wishful thinking. All businesses have to take a micro view about their prospects, sometimes as far ahead as five or more years on slow-maturing investment projects. The essential difference is that not all competitors act on the same view and the market provides a feed-back in the form of sales, orders, profits which exerts a continuous pressure to adjust yesterday's forward plans to today's emerging reality. It is this sanction of profitability, also, which prevents business men indulging in what George Polanyi described as the 'wish-dream' method of projection which infects the enthusiasts for national planning. And since competition among producers operates as a selection mechanism, it results in the elimination or replacement of those who act too often or too long on faulty forecasts.

No escape from uncertainty

The most thorough-going analysis and application of these alternative approaches to forecasting was published for the IEA by Longmans in 1969 with the title *Central Planning for the Market Economy*. Its author, Dr Vera Lutz, was commissioned by the IEA as a gifted British economist who had lived in Europe and gained first-hand knowledge of French 'indicative planning', which was commended by consensus economists as a model for Britain to imitate. Starting from a meticulous study of successive Plans, Dr Lutz showed wide discrepancies between the targets or forecasts and the outcome, even for such major aggregates as changes in working population, and output of basic industries, chemicals, manufacturing, housing. And where forecasts for an industry appeared fairly accurate, margins of error commonly of 20 per cent (plus or minus) masked much wider variations for separate product groups – the micro-economic categories that, of course, concern individual companies. Nor did the author find that 20 years of experience with French planning (1947 to 1965) yielded any dependable improvement in the accuracy of forecasting.

Turning to the theory of planning, Dr Lutz drew on the seminal writings of Frank Knight and F. A. Hayek to show that the central problem with which economic institutions have to deal is the prevalence of uncertainty and limited knowledge about the course of human affairs. From this fundamental proposition, she showed that the decisve merit of a market economy was that it acknowledged a central role for risk-taking and 'solved' the problem of pervasive uncertainty by dispersing judgement and initiative. Thus an essential aspect of competition between entrepreneurs is competition in forecasting. Properly understood, the market is a mechanism for making the best use of the fragmentary knowledge scattered among the population and co-ordinating the economic activities that flow from it. The pretension of central forecasting to provide a rational alternative basis for planning the allocation of resources is, on this analysis, shown to be without intellectual foundation.

A glimpse of the limitations of central planning has led some economists like Galbraith and Shonfield to talk of a 'modern capitalism' that could emerge from a 'convergence' between the competitive and collectivist models. After reviewing the confusions and contradictions in such attempts to compromise between the rival logic of two utterly distinct conceptions, Dr Lutz concluded that Western countries must choose between moving in two opposing directions:

> 'We must still decide whether to encourage the competitive market economy and to try to strengthen its foundations after the weakening that has already been caused by inflation, administrative controls, excessive taxation, restrictive practices, the denigration of the profit motive and other incitements to poor management; or whether to "advance" further beyond "classical capitalism", infusing it with still more elements of socialism and/or corporativism.' (p. 186)

Towards a choice

At least until recently, the post-war years have been notable for the reluctance of most influential people in journalism, academia, business and political life to make a clear choice between the distinctive liberal and collectivist conceptions of economic policy. The natural inclination to appear 'moderate' was for long re-inforced by the siren chorus of consensus that the 'mixed economy' offered a stable and tolerable compromise between what were easily parodied as opposing 'extremes'. By 1976 the evidence of experience increasingly suggested that the middle way was neither stable nor tolerable. Under Macmillan, Wilson and Heath, the failures of successive expedients can be seen to have pushed intervention ever-faster towards full-blooded collectivism with results that none can find satisfying. It may be that the outcome will be to open more minds – perhaps for the first time – to judge between the intellectual merits of the alternative approaches.

Throughout the 20 years in which policy has moved increasingly in the opposite direction, IEA authors have patiently persevered in studying the radical reforms necessary for competitive enterprise the better to serve the common interest of consumers. Much of the case for 'planning' had always rested on the argument that, however appealing in theory, competitive markets did not in practice conform with textbook requirements. The key question too seldom asked was whether the 'imperfections' were endemic or whether the worst of them could be remedied by reducing and redirecting the impact of government. As has been made clear – but cannot be emphasised too often – the liberal market analysis acknowledges that an 'invisible hand' works only within a deliberately devised framework of law which it is the indispensable task of government to enforce.

Competition policy

Since 1957 a major concern of IEA authors has been, in the words of the editorial Preface to one of the *Hobart Papers*:

> 'to examine the circumstances in which markets work well or badly and the environment required for them to yield the optimum social advantage'.

Taken together, the resulting publications provide a wide-ranging, if not comprehensive, agenda for the reformulation of the main aspects of public policy for market economy. The overwhelming impression their authors provide is that the 'imperfections of competition' are due to the failures – of omission and commission – of governments themselves. Prominent among the obstacles to beneficial competition have been the tolerance or outright enforcement of monopoly and restrictive practices and the perpetuation of protective tariffs.

The urgency of reform to sharpen competition between enterprises has been a recurring theme of IEA authors, going back to the first Hobart Paper in which Professor Yamey showed the damaging effects of resale price maintenance on retailer efficiency and consumer choice. His proposal for the abolition of rpm was repeated by Professor John Heath in the second edition of a *Paper, Still Not Enough Competition,*[1] which indicated detailed improvements in policy against monopoly. In 1967 *Growth through Industry*[2] brought together a dozen economists and entrepreneurs on the theory and practice of competition and ways of improving its effectiveness. From the economists came suggestions for outlawing price and market-sharing agreements (Professor Jewkes), freeing or denationalising state monopolies (Professor Wiseman), a five-year 'plan for competition' embracing reform of trade unions, tariffs, taxes, patents (Ralph Harris). From chairmen of such outstandingly successful, innovative companies as Black & Decker, Shell, Beecham, Decca, De La Rue, the emphasis was on the desirability of avoiding the disturbance caused to company planning through profitability by frequent changes in government polices on price and incomes control, SET, investment inducements, regional development, etc.

When Galbraith used a series of BBC Reith Lectures to deploy his conventional view that competition must give way to domination by industrial giants, Professor G. C. Allen countered in 1967 with a *Paper* tellingly entitled *Economic Fact and Fantasy*[3] which showed how vigorously competitive enterprise persisted despite inappropriate and inconsistent governmental interventions. One such example of misconceived expediency appeared to be Labour's proposal in 1966 to set up the Industrial Reorganisation Corpora-

[1] Hobart Paper 11, 2nd edition, 1963 (reprinted in *Ancient or Modern?*, 1965).
[2] IEA Readings 2.
[3] Occasional Paper 14 (2nd edition, 1969).

tion. The IEA invited a young Italian economist to review his country's Industrial Reconstruction Institute, which had provided the model. His shrewd conclusion in *Private Enterprise and Public Emulation*,[1] amply borne out by costly experience, was that the British version, with its dependence on taxpayers' funds, was less likely 'to be governed by commercial criteria comparable to those by which private companies are judged in competitive markets'.

In 1963 the IEA had launched a new series of Eaton Papers specifically concerned with ways of improving the information available to guide business and financial judgement. The first, Professor Harold Rose's *Disclosure in Company Accounts*,[2] called for more informative and frequent publication of data that would enable shareholders, take-over bidders and managements themselves to form an accurate assessment of the efficiency with which all aspects of business were conducted. In a second edition (1965), Professor Rose emphasised that, next to preventing abuse, the most important reason was

> 'the necessity for ensuring that shareholders and the economy derive an efficient return from the use of retained profits'. (pp. 58-9)

Other authors have similarly argued from German experience that 'ploughing-back' profits, defended by businessmen and encouraged by favourable tax treatment, was damaging to efficiency and competition by reinforcing established companies and facilitating 'the survival of the fattest' rather than the strengthening of the fittest.

Free trade

The lessons of both Mr Deaglio and Professor Rose were confirmed in 1970 when Dr Brian Hindley's *Industrial Merger and Public Policy*[3] warned against the discretionary powers of the IRC (and the Monopolies Commission) in judging the merits of mergers, and urged the strengthening of market pressures through fuller disclosure of the results of companies and their constituent parts. Instead of government intervention to promote mergers without

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[1] Research Monograph 5, 1966.
[2] Eaton Paper 1 (2nd edition, 1965).
[3] Hobart Paper 50.

aggravating monopoly, he urged the exposure of British industry to keener competition from abroad:

> 'When Britain erects high tariff barriers, or impedes the importation of foreign goods by any other artifice, she creates a situation in which monopoly is likely to become a much more important element in the economy than is inherently necessary.' (p. 38)

In 1973 the proceedings of an IEA seminar for economists and businessmen were published as *Mergers, Take-overs, and the Structure of Industry*,[1] which emphasised the superiority of a clear legal framework for competition in place of discretionary intervention by governmental agencies. The same verdict was drawn by the late George Polanyi from case studies published in *Detergents: A Question of Monopoly?*[2] and *Which Way Monopoly Policy?*.[3] His analysis suggested that the Monopolies Commission was unduly governed by concern about such politically sensitive features as 'excessive' profits or advertising, even where (as in detergents) the record indicated that higher than average earnings were the result of efficiency and product improvement rather than monopoly – in the strict meaning of exclusive or collusive control over a product for which there was no competing close substitute.

Lest such a view be thought unduly sensitive to business interests, it is worth recalling that Mr Polanyi was also the author of *Growth through Competition*,[4] which proposed in place of central planning a four-point programme with unilateral free trade as the most effective means of imposing a general competitive discipline on British industry. This classic liberal prescription for combatting domestic sloth and restrictionism was powerfully echoed by two IEA economists with international reputations. In 1962 the early discussion over British membership of EEC prompted our invitation to Professor J. E. Meade to review the pros and cons in *UK, Commonwealth and Common Market*.[5] The nub of his measured verdict was that we should join the EEC if it was likely to become 'a liberal outward-looking institution' but not if it was to develop as 'a tight parochial, European bloc', in which event we would do

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[1] IEA Readings 10.
[2] Research Monograph 24, 1970.
[3] Research Monograph 30, 1973.
[4] Hobart Paper 35, 1966 (2nd edition, 1969).
[5] Hobart Paper 17, 1962 (3rd edition, 1971).

better to impose the much-needed 'competitive jolt' to British industry through outright free trade, if necessarily unilaterally. (Looking back to 1931, the author dared to say that free trade and a floating £ would have been better than protectionism and a fixed rate which had insulated sluggish British industry from foreign competition.) In 1969, Professor Harry Johnson lent his weighty authority to the free trade cause in a contribution to a symposium on *Rebuilding the Liberal Order*[1] which included the following passage:

> 'The case for unilateral free trade is especially relevant for this country, which has inflicted enormous damage on itself [by] "protection" in all its manifold forms [including] fuel policy, regional policy, "science policy", subsidies to investment in chosen industries, government purchasing policy, and other expressions of national purpose.' (p. 13)

The result of prevailing policies was in Professor Johnson's words that it had become 'impossible to tell which industries we are good at and which we are bad at'. Nor was it only 'academic' economists who dared to preach such radical doctrine. In an earlier symposium entitled *Economics, Business and Government*,[2] Sir Paul Chambers as chairman of ICI described himself as 'a fierce advocate of competition' and urged:

> '. . . what economists should be doing is not fussing whether there should or should not be a merger here and there; what they should be fussing about is the absence of free trade throughout the world. There is a crying need for free trade, not least for world free trade in the chemical industry.' (p. 23)

In the same *Paper*, Lord Robbins called for 'a bleaker atmosphere, less protection, less easy money, more competition'.

But how protected was British industry? The late Professor Sidney Wells's detailed international comparisons were published as *The Shape of Britain's Tariff*.[3] His devastating conclusion was:

> 'In the century since the death of Cobden, Britain has passed from being a nation in the vanguard of the free trade movement

[1] Occasional Paper 27, 1969.
[2] Occasional Paper 8, 1966.
[3] Research Monograph 17, 1968.

to one whose tariff is among the highest and most complex of all industrialised nations'. (p. 11)

His final judgement was that free trade was likely to have

'a more galvanising effect upon industry than the exhortations, committees and *ad hoc* interventionism with which successive governments have frustrated enterprise'. (pp. 57-58)

One example of the '*ad hoc* interventionism' perpetuated for over half a century in the face of massive failure has been the variations on the theme of 'regional policy' by which governments of all parties have used tax inducements, subsidies and direction of industry to prop up declining regions and industries. In *Regional Policy for Ever?*[1] Dr Graham Hallett pointed to the danger that well-meant protectionism would lead to assisted regions becoming 'folk museums'. Professor West analysed the influence of the bureaucracy (Chapter VII) in extending its interventionism without bothering to assess the value of expenditure running at £800 million in 1975. In view of the unhappy record of British Leyland (a product of a merger engineered by the IRC), particular significance attaches to his quotation of a *cri de coeur* by Lord Stokes (its chairman) to the House of Commons Expenditure Committee:

'You have cost us a fortune by making us set up factories in places which are quite unsuitable . . . You ruin our business; we try to make it survive.' (p. 126)

Trade unions . . .

The final example of a barrier to competition exposed by many of the most distinguished contributors to IEA *Papers* is the exceptionally privileged position of trade unions. (We believe it is the most baneful, deep-seated source of restrictions on efficiency and freedom.) We have referred to one of the very first IEA studies, Professor Roberts's *Trade Unions in a Free Society,* which argued back in 1959 that union pressure for wages increasing faster than output in conditions of 'an excess of jobs over persons available to fill them' must lead to inflation. Many other IEA authors, including the redoubtable Professor Gottfried Haberler,[2] have since drawn attention to the same danger. As a further effort to explore the

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[1] IEA Readings 11, 1973.

[2] In *Inflation and the Unions* (IEA Readings 6, 1972).

legal basis of this threat to economic stability, we commissioned a study by John Lincoln who had been a Ministry of Labour official and later assistant to Lord Beveridge. In *Journey to Coercion*[1] he found his sympathy with trade unions strained by the 'press gang' methods of their leaders to impose the closed shop, and concluded that only legal reform could provide a remedy. In a remarkable introduction, Sir Lincoln Evans, a lifelong leader of the Iron and Steel Trades Confederation, cautioned trade union leaders against 'the irresponsible use of strength' and observed:

> '... the British people ... are allergic to tyranny regardless of whether it wears a top hat or cloth cap'. (p. 9)

However much unions may threaten freedom, the question for economists is rather what effect they have on efficiency, judged by both the use of existing plant and investment in more productive equipment. Accordingly, in 1964 the IEA sponsored an Industrial Practices Inquiry with the co-operation of two retired trade union leaders, two businessmen and two economists. All three resulting reports left no doubt that trade unions (and 'professional' bodies) were – in the absence of legal restraint – inevitably led on from the unexceptional purpose of ensuring high standards of performance to more or less blatant manifestations of sectional interest in maintaining incomes above the value of their members' services as established objectively in competitive markets. The most disturbing evidence was assembled in two studies published in 1966. In the first, *Restrictive Practices in the Building Industry*,[2] Frank Knox and Jossleyn Hennessy revealed obstacles to efficiency that led to the conclusion:

> 'The construction industry's productivity has remained relatively low not because of technical stagnation but partly because of union resistance to innovations.' (p. 20)

Amidst evidence of extensive demarcation and manning restrictions, the authors reported that some apprenticeships had been cut from five to four years but, they asked:

> '... if a Spitfire pilot could be trained in months, must it take five years to train a bricklayer?' (p. 33)

[1] Polar Paperback, 1964.
[2] Research Monograph 1, 1966.

The second report drew on a wider survey to provide a *Source-book on Restrictive Practices in Britain.*[1] It revealed that restriction on entry, effort and modernisation extended far beyond the familiar examples of printing, docks, shipbuilding, railways and coalmines into airways, petro-chemicals, engineering, plastics and paper. Comparisons with identical plants in the USA showed that twice as many operatives were commonly required in Britain. Evaluating the evidence, Mr Hutton pitched the 'concealed unemployment' due to over-manning at between one and three million workers – at a time when the DEA's National Plan had claimed to identify a 'shortage' of 200,000 workers to meet the supposedly ambitious target for growth. At the same time, Professor Kaldor was urging the Selective Employment Tax as a way of forcing labour out of services into what he regarded as the hard-pressed manufacturing sector.

Parallel to the restrictive practices of manual unions, Professor Dennis Lees in *Economic Consequences of the Professions*[2] found similar tendencies in professions as different as those of lawyers, architects and opticians. His summary verdict was that professional practices should be registered under the Restrictive Practices Act.

Down the centuries the British people has tamed the arbitrary powers of its oppressors: the feudal barons, the tyrannical church, the arrogant monarchy, the lordly landowners, overbearing big business. It looks as if the next in line is the legally-endowed tyranny of the trade unions, deployed in practice by a handful of unrepresentative officials, that impairs the economy, weakens democratic institutions and the sovereignty of Parliament. (This is a classical liberal position that is gradually spreading, as Bernard Levin's column in *The Times* and Paul Johnson's recent articles in the *New Statesman* clearly indicate.)

. . . the worst enemy?

In the light of such a catalogue of obstacles to efficiency, most economists specialising in the analysis of the labour market appear all the more culpable by preferring to keep silent on the fundamentals whilst being ready to serve on official advisory and regulatory

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[1] Research Monograph 7, 1966 (2nd impression 1967).

[2] Research Monograph 2, 1966.

bodies set up partly to deal with the resulting disorders. As a major effort to correct this imbalance of intellectual debate, the IEA in 1975 asked one of the most fearless and independent scholars, Professor W. H. Hutt, to bring up-to-date a study he first published in 1930 as *The Theory of Collective Bargaining*. The result was published under the same title with the addition of *1930-1975*.[1] From a severely theoretical analysis, Professor Hutt concluded that the effect of 'the strike-threat system' has been to reduce output and the general level of real wages. In contrast to their intention of increasing and spreading wealth, trade unions have exploited their power so as to create avoidable poverty and widen inequalities among differing categories of workers. Not least, his sustained argument strengthens the view, now inescapable, that unions have impelled governments to resort to inflation in a vain effort to fend off the unemployment that would otherwise result from their pressure to raise wages above the value of output.

The link in this powerful chain of reasoning is that capital investment is the chief source of improvement in real wages throughout history and that the strike-threat system must discourage entrepreneurs from increasing investment as fast as they would otherwise be led to do by the pressures of profitability and competition. Professor Hutt's searching analysis exposes the shallow and short-term thinking that still leads many spokesmen, from the CBI and TUC no less than the political parties, to argue that a sufficient remedy for the flagging performance of British industry is 'more investment' – without a word on the reforms that would be necessary to ensure existing capital is first put to more productive use. We cannot do better than conclude this chapter on the competitive alternative to collectivist 'planning for growth' by quoting from the final pages of this seminal work, which will surely carry still wider conviction in 1977 than when they were written less than two years ago:

> 'The truth is that strike-threat force has contributed to the reduction of Britain to the status of a second-rate economic and political power . . .'
>
> 'Almost the only beneficiaries of the system have been the union hierarchies and politicians for whom the existence of

[1] Hobart Paperback 8, 1975.

poverty provides a profitable situation . . .'
'Humanitarians who believe that to strike is a basic human right, used to further justice, have been misled.' (p. 125)

An unusual and unexpected demonstration of trade union opposition to the free market in furthering discrimination (and therefore inequality) was provided by Professor Hutt's *The Economics of the Colour Bar* in 1964. He distilled more than 30 years in South Africa:

> 'We do not find in colour prejudice as such the main origin . . . of most economic colour bars . . . The chief source of colour discrimination is, I suggest, to be found in the natural determination to defend economic privilege . . . ' (p. 27)

He traced the influence of pressure from white trade unions to maintain wage rates by excluding African labour from better-paid employments in the first colour bar Act of 1911. Apartheid was a form of collectivism exercised in the interests of maintaining sectional privilege, whereas:

> '. . . the dissolution of colour injustice has been continuously assisted by competitive capitalism'. (p. 180)

Again, the contrast between motive and outcome confounds those who judge by the benevolence of intentions. The plain truth is that consumers in the market are colour-blind, and producers concerned with minimising costs have a strong interest in employing and training the least privileged classes capable of doing the work.

VI. The Government Economy

More than half of the British economy is directly conducted or indirectly controlled by government. A third of the output is produced by government – from nuclear submarines in naval dockyards to council housing by local authority direct labour. A fifth of national income is collected in cash and redistributed to beneficiaries or returned to taxpayers. Advocates of state activity who would minimise 'the government sector' claim that only the former is relevant. It is true that the cash redistributed or returned is spent privately by the recipients of social benefits or returned taxes. But both the third of goods and services and the fifth of cash require taxation: the power of decision by government is the same; the effects on incentives are the same; the collection costs by the bureaucracy are the same.

The individual taxpayer does not distinguish between taxes that go to pay for defence and taxes that are redistributed as pensions or returned to him as family allowances. He regards them all as deductions from his pay or as additions to his prices. They are compulsory, coercive imposts decided by others – in a democracy, he thinks, by majorities of at least 51 per cent, but in post-war Britain by fewer than 50 per cent. His money in effect is increasingly taken from him in taxes decided by minorities he dislikes or fears. He sees no virtue, and takes no pleasure, in paying higher taxes, since the benefits he barely recognises as coming to him and his family do not vary with the amount in taxes deducted from his pay or added to his prices. Even in 'public goods' he may sense he must join to pay for with others, like law and order, he feels he has not had much say; and for many, like education, which he knows he could decide for himself, he increasingly feels that the insult of no choice is added to the injury of enforced payment. Taxes for non-public goods symbolise coercion.

Prices are fundamentally different. They appear as a voluntary disposal of income, sized and timed to suit the payer and vividly related to the quality and quantity of the purchase, chosen by free customers from competing sellers. Prices symbolise not a deprivation but an assertion of power.

The post-war removal, or hobbling, of price in the supply of the government third of the total national output created problems in the financing and rationing of available supplies that were often neglected or under-estimated by economists in academia or government pre-occupied by the seemingly more urgent macro-economic tasks of avoiding or preventing inflation or unemployment (or, in recent years, both simultaneously). In its attention to welfare services in the early years, the Institute sponsored studies that graphically demonstrated the consequences of nil-pricing or subsidised pricing in creating wide gaps between supply and demand by depressing supply and inflating demand. The severe problems resulting from this divergence recurred in varying forms in IEA studies on fuel, transport, broadcasting and other services provided or organised by central government, and in education, roads, libraries, car-parking, water and other services provided or organised by local government.

The broadcasting imbroglio

The first 'nationalised' industry to be examined was not the largest but what John Stuart Mill might have regarded as the most dangerous for government to control – broadcasting, the jugular vein of an open society. The charters given to the BBC and the ITA were to expire in 1964 and the Pilkington Committee was expected to report in 1962 on the nature of the relationship between government and the broadcasting industry. It seemed to us that the public discussion had been hogged by political scientists, sociologists and theologians, and that the economic aspects were being under-estimated or overlooked.

In *TV: from Monopoly to Competition*,[1] Wilfred Altman surveyed the origins of the BBC monopoly and found most enlightenment in the analysis of the British-born Chicago economist, Professor R. H. Coase. His conclusion, that the BBC monopoly was neither inevitable nor desirable, was much more fundamental than the metaphysical speculation among moralists of all schools – from

[1] Hobart Paper 15 (2nd edition 1962).

political Left to Right – that broadcasting was too sensitive to be entrusted to broadcasters, that it would be prostituted by commercial advertisers, and that it had to be controlled by politicians claiming concern solely for 'the public interest'. This approach begged all the central questions of the nature of the supply of and the demand for broadcasting, the implications of monopoly, the scope for competition, the economic consequences of commercial *versus* political influence, the disciplines on competitive industry and competitive politics, not least the question rarely answered by the advocates of government control who suppose that politicians and bureaucrats are not as other men: *quis custodiet ipsos custodes?* Some of these issues touched on the new branch of economics, the theory of public choice (Chapter VII).

On the mainstream aspects of supply, demand and price, David Sawers argued that the *economics* of the industry suggested a third service should be run by the ITA rather than the BBC. The politico-sociological aspects of monopoly or competition were discussed by Denis Thomas. And where Lord Hailsham, Lady Violet Bonham-Carter, and Lord Simon (of Wythenshawe) had given all-party blessing to the political monopoly of broadcasting, supported by moralists from Lord Reith to the archbishops, the editorial Prologue said:

> '. . . citizens who are expected to be capable of choosing their political governors should be capable of choosing their television programmes . . . [such an attitude] implies risks but . . choice is a discipline in education . . . provided the sources of information are unimpeded, people learn maturity by making mistakes.' (p.4)

In the Second Edition, following hard on the heels of the Pilkington Report, David Sawers was severely critical of its 'cavalier' approach to viewers' choice and made pay-TV the centrepiece of his proposals for putting TV into the market. This, of course, was the economist's instinctive approach to the helplessness of the consumer confronted by monopoly: to restore price as the instrument (or weapon) of choice. The pay-TV solution was later developed by Sir Sydney Caine, Vice-Chairman of the ITA, in *Paying for TV.*[1]

[1] Hobart Paper 43, 1968.

'Predictable criticism'

This subject brought the first of a succession of predictable criticisms of the Institute: that it was emerging with solutions for policy that would benefit or profit private industry or commercial capitalist interests. This reproach could be naive or mendacious, or both. It could be naive because, if no policy that benefits private interests is acceptable, all activity would have to be conducted by government; yet there was little support from history or analysis to suppose that government would necessarily conduct it in the public interest; and private industry could benefit at the expense of the public only by monopoly. The view could also be mendacious where it reflected an intention to discredit the young Institute by associating it with private interests, a suggestion that indicated inability to meet the argument of IEA authors.

The Institute was also early in the field with its questioning of 'free' local government, an interest it maintained from 1962, with *Libraries: Free for All?*,[1] to 1976, with *Pricing or Taxing?*,[2] in both of which the General Director, Ralph Harris, had a hand. This is one of the 10 or 12 main themes to which IEA *Hobart Papers, Research Monographs, Occasional Papers* and other studies tended to gravitate. Apart from the *Papers* on education and housing (Chapter IV), Professor A. R. Ilersic came next in 1963 with *Relief for Ratepayers*,[3] Gabriel Roth, a member of the Smeed Committee, with *Paying for Parking*[4] in 1965, and *A Self-financing Road System*[5] in 1966, water, refuse collection, fire services, and seaside facilities in *Essays in the Theory and Practice of Pricing*[6] in 1967. Sir John Hicks in 1966, with a *Paper* published in three weeks, *After the Boom . . .*,[7] argued that the 1966 economic crisis in the external balance of payments was largely the fault of local authorities, with their excessive expenditure on civic amenities and education as the main element in uncontrollable government extravagance. The several studies of housing in 1967, 1968 and 1971 were briefly reviewed in Chapter IV. In 1972 we returned to the financing of local government in general by Maynard and King in *Rates or Prices?*.[8] In 1974 Professor R. L. Carter considered the financing

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[1] Hobart Paper 19 (reprinted in *Freedom or Free-for-All?*, 1965). [2] Hobart Paper 71.
[3] Hobart Paper 20 (reprinted in *Freedom or Free-for-All?*). [4] Hobart Paper 33.
[5] Research Monograph 3. [6] IEA Readings 3.
[7] Occasional Paper 11. [8] Hobart Paper 54.

of police services in *Theft in the Market:*[1] how far they should remain dependent on rates and how far they could develop charging for personal services such as advice on theft prevention, convoying, attendance at private sports or other occasions, and so on. And, finally, there was the Harris/Seldon evidence to the Layfield Committee on Local Government Financing in 1975 and the sustained critique in *Pricing or Taxing?* of its report, for approving of charging in principle but feebly failing to do anything about recommending it in practice. Since most so-called 'public' services supplied by government are not *public goods* but provide distinctly *private* benefits, the belated argument on charging has barely begun.

Transport off the rails

The central government provision and regulation of transport was a fruitful source of IEA studies, from John Hibbs in 1963 on buses[2] to Keith Hartley in 1974 on aircraft.[3] In view of the unimpressive record of nationalised transport the argument from the politicians and the bureaucrats that the remedy for the failure of nationalisation was more nationalisation was barely credible. The economist soberly analyses theoretical reasons for state ownership or control of industry – 'natural' monopoly, external benefits or costs, economies of scale, 'free' or subsidised provision to correct inequalities of income. This was what Ivy Papps, drawing on American experience of state regulation and the work of Professor George Stigler, did systematically and scrupulously in *Government and Enterprise* in 1975,[4] and other authors in specialised studies of transport, fuel, steel, nuclear power, universities, airports, telephones and in the control of pollution. Invariably it was difficult to see how the theoretical advantages could be achieved in practice, given the realities of the horizons of government, the political objectives of party politicians, the pressures of sectional interests in strong bargaining positions, the temptation to use control over nationalised industries to ease macro-economic policies of demand management, the tendency to use government control to manipulate the economy into a new electoral cycle of expansion and contraction to synchronise with General Elections.

[1] Hobart Paper 60. [2] *Transport for Passengers* (Hobart Paper 23, 2nd edition 1971).
[3] *A Market for Aircraft* (Hobart Paper 57). [4] Hobart Paper 61.

The system of road transport licensing introduced by Labour and Conservative governments in 1931 and 1933 had continued essentially unchanged until the early 1960s when there seemed to be a new readiness to reconsider transport policy as a whole (Dr Richard Beeching had lately been appointed to redesign the railways in the light of economic costs and the market for efficient transport). The deceptively obvious title of John Hibbs's *Transport for Passengers* was intended to convey that transport was for its users and not for its employees. This truism, a precept of classical and neo-classical economic theory, may seem too self-evident to require emphasis, but it continues to be denied, and increasingly in the last few years when the function of industry, expressed in naive economic absurdities like 'job creation', is thought to be the production of work rather than utilities and satisfactions. And if the logical conclusion of job-preservation – the shrivelling of productive industry, the seizure of the economy, and the collapse of living standards – is demonstrated, the reaction of the non-economist is still too often puzzlement and anger. Three decades of economic policy in which the emphasis was on employment, high, full, or over-full, have almost erased the truth, taught by Adam Smith in the 1770s, that will have to be re-learned in the 1970s (and worth repeating), that 'Consumption is the sole end and purpose of all production'.

'A wrong turning' had been taken in 1930, John Hibbs contended, when developing road transport was regulated by state licensing not merely to ensure safety on the roads, as was its frequent pretext, but also to discriminate between firms with the supposed purpose of ensuring 'adequate' or 'remunerative' services. Those question-begging ideas soon degenerated into the protection of established transport undertakings, both state and private. The development of road transport in response to the requirements of consumers/passengers had been slowed down. Modernisation would therefore have to be more disturbing eventually than if transport had been able to adjust itself by degrees to changing conditions of supply and demand in a competitive market with free entry to suppliers of transport who satisfied the safety standards.

The cost-benefit blind alley

The early 1960s saw a revival of the Pigovian notion of social costs and benefits that should qualify the disposition of resources indicated by the private calculations of buyers and sellers in the market. Mr Hibbs's knowledge of transport made him sceptical of this approach. His scepticism was shared in varying degree by other IEA authors.

The doubt whether cost-benefit analysis of social or 'external' effects not taken into account by the buying and selling in the market was, perhaps, reflected most graphically in the concluding passage of Professor George Peters's careful review of the various forms of the theory and the diverse evidence in Britain and other countries. (This text, *Cost-Benefit Analysis and Public Expenditure*,[1] has sold steadily to teachers and students at schools and universities since it was published in 1966, and went through three impressions and three editions by 1973.) Professor Peters gave 'the last word' to Professor Robert Dorfman, an American economic authority on the subject, who illustrated, by the parable of the horse and rabbit stew, the doubtful usefulness of cost-benefit analysis in deciding policy on investment and allocating resources to new projects. The rabbit represented the measurable externalities, the horse the subjective elements that are immeasurable and can be judged only crudely. Since the horse dominated the stew, there was little purpose in measuring the rabbit. Professor Peters concluded:

> '. . . eulogising the technique [of cost-benefit analysis] as the latest and hence the greatest discovery of pure science is . . . foolhardy'. (p. 72)

This dispute among economists continues, and is still a fundamental element in public debate and policy. The claims remain large and vague. A main reason for nationalisation, said Professor Michael Lipton of the University of Sussex in 1976,[1] is that

> 'the volume, type or cost of [an industry's] activities greatly affects the welfare of people not in any direct financial relationship with it. Such external costs and benefits are not reflected in the industry's accounts.'

Voters may therefore vote subsidies for public enterprise for loss-making services with external benefits. Lipton argued:

[1] Eaton Paper 8, 1966 (3rd edition 1973, 2nd impression 1974).
[1] 'What is Nationalisation For?', *Lloyds Bank Review*, July 1976.

> 'The voters may well feel that the £8,000 million (if this is a correct net figure) lost [in subsidies, compensation, capital write-offs since the war] is outweighed by the nature, pricing, or distribution of subsidised services . . .'

This would seem a very precarious claim. The market criterion for investment and profitability is usually imperfect because of economies of scale, inequalities in demand related to income, and so on. But once it is abandoned there would seem no end to the subsidies or taxes that can be 'justified' by vague, unsubstantiated assertion of social benefits or environmental damage by politicians subject to no control at all except through the muffled, infrequent voice of the ballot-box. Voters have had little opportunity since the war of deciding to spend £8,000 million on nationalised industry losses in preference to schools, hospitals, housing, pensions, industrial investment to produce exports, or day-to-day consumption. And the assumption of the supporters of the political process is invariably that, if there are possible advantages on paper from replacing the market by the ballot-box, they will necessarily be realised in practice. This odd political unrealism is discussed in the review in Chapter VII of IEA writings on the economics of politics which British economists do not yet teach systematically in British universities and show little signs of incorporating in their advice on public policy.

Transport for goods

In 1968 the Labour Government proposed to integrate road and rail transport in the National Freight Corporation and to license goods vehicles. Professor Alan Walters in *Integration in Freight Transport*[1] showed that the 'integration' of 1947 to 1953 had not produced the heralded more 'rational' distribution of heavy long-distance traffic carried by rail and light short-distance traffic by road: almost half of British Road Services was carrying *large* consignments over *long* distances. Moreover, traders in general preferred road transport as being faster and more convenient even when not cheaper. In addition, a public transport authority, argued Walters, would not know traders' preferences; nor would it act disinterestedly. Not least, the most efficient size of road haulage

[1] Research Monograph 15, 1968.

firm was small and there was little danger of monopoly. He therefore concluded against monopoly.

By 1968 the defects of loss-making transport were evident enough for the Labour Government in the Transport Act to relieve the railways and other transport services of the burden by shifting the cost of the subsidy from the users of profitable services to the local tax-payers using the loss-making services. In *Transport Policy: Co-ordination through Competition,*[1] Gilbert Ponsonby, who for many years had patiently pointed to the errors of 'co-ordinating' road and rail transport by suppressing competition between them, argued that the primary condition for efficient 'co-ordination' was that each kind of transport should be required to cover the costs of providing its services. And social costs and benefits would not necessarily be allowed for more efficiently by 'publicly-operated' transport than by services competing within a legal framework that required them to bear the cost of suppressing noise, fumes or other social detriments. Moreover, London Transport buses and underground railways should not remain linked; and the bus fleets inside and outside London should be broken up into separate managements, independently deciding not only service supplies but also fares, again within a legal framework of public safety and financial self-sufficiency. Not least, concluded Ponsonby, outsiders should be allowed to enter the market.

Two characteristics of IEA writings are illustrated by these proposals. First, many were radical to the point of replacing rather than patching up industrial structures found by history to be wanting and revealed by economic analysis to have irremoveable flaws. The post-war generation of politicians, public officials, academics, business men, trade union officials and journalists had been brought up on the post-war doctrines of state ownership, control, management, regulation and general oversight and surveillance of industry, which seemed to have worked in the wartime and early post-war years. They were since the 1960s newly confronted by IEA economic dissections of current thinking and policy much more fundamental than they were accustomed to expect from spokesmen in all the estates of the realm who uncritically accepted that the key to the millenium had been discovered

[1] Hobart Paper 49, 1969.

by Keynes, Beveridge, Titmuss and their followers, and that only tiresome administrative complexities remained to be resolved. IEA studies have questioned the very principles and assumptions of the New Jerusalem.

Second, the proposals for policy that emerged from this elemental reappraisal of principles were not a reversion from conscious government planning to '*laissez-faire*'. They offered an advance to a systematic structure of economic rules of the road, and common wayside services, that enabled individuals to make use of the unique knowledge of their capabilities and so reach their destinations without impeding or destroying one another in the process. In their various specialisms IEA authors were reflecting the concept of a liberal economic order envisaged in the classic formulation by Professor Lord Robbins in 1936 and restated in his most recent work in 1976. In 1936 the 'formula' was:

> 'a co-ordination of human activities by means of a system of impersonal rules, within which what spontaneous relations arise are conducive to mutual benefit.'[1]

In the language of the metaphor of the rules of the road (which was first developed by Professor Hayek) people are enabled to go where they wish, not told their destinations by politicians or bureaucrats. This idea, said Robbins,

> 'is a conception at least as subtle, at least as ambitious, as [that] of prescribing positively each action or each type of action by a central planning authority'.[1]

And, moreover,

> 'it is perhaps not less in harmony with the requirements of a spiritually sound society'.[1]

This conception of a spontaneous order goes back to 1776 in Adam Smith's 'system of natural liberty' that required the sovereign (government) to maintain defence, law and order and 'public works' that individuals might want but could not organise individually. The principle was endorsed in 1932 by J. M. Keynes. And in 1976 Robbins re-asserted the supremacy of the conception:

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[1] *Economic Planning and International Order*, Macmillan, 1936.

'. . . the unveiling of the potentialities of an organisation of production, not imposed from above but arising spontaneously from individual or group initiative within a framework of law and order, is undoubtedly one of the great sociological discoveries of all time.'[1]

Air travel and aircraft

IEA *Papers* soon turned from older to newer forms of transport. Air transport for civilian passengers had developed rapidly since the war in response to rising incomes and scientific development but inhibited by international agreements on air fares and conditions of travel that had received little attention from economists. Michael Cooper and Alan Maynard, in *The Price of Air Travel*,[2] showed that the restriction of competition had (as elsewhere) diverted it into new forms as suppliers and consumers tried to come together in charter flights and 'affinity' groups (bee-keepers, etc.) outside the writ of international rules. Once again the maintenance of safety had been made the pretext by IATA (International Air Transport Association) for restrictions on competition by limiting the entry of new suppliers into the market. Once again the market was showing it could not be suppressed. The attempted exclusion of the Laker 'Sky-train', on the ground, as stated by the then Minister, Mr Peter Shore, that it would adversely affect the nationalised BOAC, is the latest stage in the suppression of competition (and an illustration of the defect of state involvement that it is tempted to protect state services by suppressing competition, whatever its benefits for the consumer). As long as consumers cannot be intimidated and scientific innovation suppressed, the market will be a step ahead of authority in the battle of wits between entrenched interests and entrepreneurship.

The power of competition

Two Austrian economists have shed light on these developments by their insights into the relationship between government and the market and the nature of competition. In a short classic, *Power or Economic Law*,[3] in 1913 one Austrian, Eugen von Böhm-Bawerk,

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[1] *Political Economy Past and Present*, Macmillan, 1976.
[2] Hobart Paper 53, 1971.
[3] *Macht oder Okonomisches Gesetz*, 1913.

showed that markets would survive political power. History has largely vindicated him by revealing the extreme penalties that governments in authoritarian countries have had to adopt to suppress the spontaneous urge of individuals to come together as buyers and sellers. In a long classic, *Capitalism, Socialism and Democracy* (Allen & Unwin, 1942), the other Austrian, Joseph Schumpeter, dramatically demonstrated the power of competition that 'counted' in the real world:

> '. . . the competition from the new commodity, the new technology, the new power of supply, the new type of organisation – competition which . . . strikes not at the profits and the outputs of existing firms but at their foundations and their very lives'.

He was contrasting this 'bombardment' with the milder 'forcing a door' of price competition, the imperfection of which had been emphasised by the British (Cambridge) economist Joan Robinson and the American (Michigan and Harvard) economist Edward Chamberlin in 1933.

Aircraft military and civil

In air transport Keith Hartley in 1974[1] closely examined the purchase of military and civil aircraft, and concluded that they were not produced as efficiently for the RAF and for British passenger airlines as they would be if the market were more competitive. As other IEA authors said of television, fuel, medical care, education and other 'public' services, he argued that

> 'the imperfection of this market is a direct result of government intervention rather than underlying technical characteristics'. (p.54)

Again this was a radical challenge to the ruling view that a competitive market was impracticable. And his analysis of the consequences was pursued relentlessly in a demonstration that the real costs of the subsidies and wastes in 'procuring' aircraft by government purchase was the loss to individuals as a whole ('society') of the hospitals, schools, roads, etc., that could otherwise have been built. (This insistence on alternatives sacrificed, another 'Austrian' insight, named Wieser's Law of Costs after its originator, has also recurred in other IEA *Papers*. It is perhaps a more tangible

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[1] Hobart Paper 57.

conception of 'social cost' than the immeasurable externalities.) But, Hartley maintained, the interests of the consumer – the taxpayer for RAF aircraft, the fare-payer for civil aircraft – came second to the politician's search for power, the technocrat's 'obsession' with technical 'progress' no matter the cost, and the manufacturer's search for security in state subsidies.

Mr Hartley left few errors unrevealed. The balance-of-payments argument was weak: civil aircraft made a smaller contribution than comparable industries (except shipbuilding after it became state-supported). The defence argument was illusory: the US industry was more competitive and less costly (the British Government buys American Phantoms, Boeings, etc.). The technological 'spin-offs' (externalities again) were hard to discover or measure. It was not true that the state had to supply capital: there was more profitable use for private capital elsewhere. The conclusion was radical: the state should withdraw from owning civil airlines, and aircraft manufacturers should shed 50,000 to 100,000 employees to work more productively elsewhere.

Maplin and all that

Finally in transport: airfields and the machinery for siting them. At a seminar in 1974 on Maplin,[1] Professor John Heath identified the weakness as the single filter through which advice reached government, and the absence of the process of trial and error:

> 'We went straight for the computerised telephone exchange, straight for supersonic air transport (missing out trans-sonic), more or less straight to production-scale nuclear plants.' (p. 14)

More important than the Maplin outcome, said Heath, were the lessons: that the political machinery of government failed to develop *multiple* sources of advice *tested* by alternative competitive techniques. This sounds like the same sorry story of the single source of advice from Willink in 1957 to close down government medical schools; if private medical schools had been free to take different advice and expanded, the shortage of doctors might have been avoided or mitigated.

Christopher Foster emphasised the excessive opportunity costs

[1] The proceedings were published in *Lessons of Maplin* (Occasional Paper 40, 1974).

of building Maplin, and again questioned the machinery of government that could not stop a wasteful project. The Treasury had failed to check a major expenditure, the Cabinet had approved it without adequate reason, Parliament had failed to scrutinise it.

> 'If Maplin is built, one consequence should be an overhaul of our traditional and constitutional safeguards against the waste of public funds'. (p. 49)

Fuel for the public

The unfortunate consequences of neglecting market pricing in state-controlled industry were amply confirmed in IEA studies of fuel – oil, coal, electricity, natural gas, nuclear power. The earliest, in 1963, was an authoritative critique of post-war public policy by an economist who was also a pioneer and entrepreneur in oil production (in the Manchester Oil Refinery), the late Georg Tugendhat.[1] Since the war the production of fuel had been largely governed more by long-run macro-projections or forecasts of supposed 'national' requirements than by daily micro-economic demands in the market from industrial, commercial and household consumers. Coal and electricity production in particular had suffered from long-range forecasts made confidently which proved wildly inaccurate and wasted national resources, inflated costs and prices, and frustrated industrial and individual preferences.

In his documented analysis of the influences in the supply of and the demand for fuel, Tugendhat's *Freedom for Fuel* argued that politically-inspired fuel policies based on unsupported fears of shortages had made costs and prices higher than they would have been in free markets. It urged that coal and oil prices in Britain (and in Europe) should be allowed to reflect relative costs and efficiency. The National Coal Board should be freed to price its coal in accord with market conditions for competing sources of energy. Correction of the malinvestment since nationalisation and removal of the political difficulties in closing uneconomic pits would enable British coal to compete with American. Not least, and most radical, if not revolutionary, industrial consumers should be able to buy fuel from any source they judged best; and, moreover, they should be free to generate electricity – and thus invade

[1] *Freedom for Fuel* (Hobart Paper 21, 1963).

the state monopoly. (IEA authors have rarely shirked the logical implications of their analysis, however 'politically impossible' they may have been judged at the time by observers with ears too close to the ground.)

Six years later in 1969 fuel policy was closely examined by Professor Colin Robinson. The demand for coal had been declining but 'the vote motive' had slowed down its adaptation to the changing market for fuel. *A Policy for Fuel?*[1] was critical of the tax on fuel oil, the virtual ban on coal from Russia, and the government rationing of North Sea gas and licensing of oil. In a Supplement in 1971 he went more deeply into the political and bureaucratic obstructions to the use of the market in coal and oil production. In 1974 he returned with a longer investigation into *The Energy 'Crisis' and British Coal.*[2] He showed the 'crisis' had been exaggerated by natural scientists, fuel technologists and environmentalists because they had ignored the effect of price on the demand for (and supply of) coal, gas, oil and the newer forms of nuclear and solar energy in the 1970s. W. S. Jevons in the 1860s had similarly corrected the alarmists who foretold the exhaustion of coal 'before the lapse of the year 2034'.[3] Professor Robinson also condemned the use of models that naively projected past growth in the demand for fuel and ignored the effects of price expectations. Not least, he contested the view that the coal industry should be subsidised to avoid rising fuel prices. On the contrary, he argued that the fuel tax should be removed, nationalised electricity suppliers should be allowed to burn the cheapest fuels, and coal imports should be freed.

Natural gas; nuclear power . . .

The political factors in nationalised industry policies continued to submerge the economic implications for productive efficiency and national living standards. In 1967 the Institute turned to two new fuels: natural gas and nuclear power. The discovery of natural gas in the North Sea appeared to present economists with a classic 'natural' monopoly based on legal rights created by government and requiring state control 'in the public interest'. George Polanyi,

[1] Occasional Paper 31, 1969.
[2] Hobart Paper 59.
[3] *The Coal Question*, Macmillan, 1865.

who had been with the North Western Gas Board, thought otherwise. In *What Price North Sea Gas?*[1] he rejected officially favoured 'cost-plus' pricing systems as preventing the allocation of gas to the consumers, industrial and household, who would use it most effectively in raising standards of living. He proposed instead that the gas should be bought not only by the Gas Council but also by groups of industrial undertakings and by Area Gas Boards for local re-sale to industry and domestic consumers.

The developing IEA 'tradition' of radical re-examination of current thinking and unorthodox proposals for policy was continued in Duncan Burn's dissection of nuclear power. The title, *The Political Economy of Nuclear Energy*,[2] emphasised the political element in policy-making that IEA authors were repeatedly confronting but which continued to be ignored, or under-estimated, by economists who were content to make hypothetical cases for state control of industry where they thought they detected natural monopoly or market failure. The *non sequitur*, the long leap of a million miles in logic, which ran 'The market does not work well here; *ergo*, state control would work better', went blandly unnoticed. The early IEA studies which examined industries under state control that were showing unmistakable and obtrusive evidence of 'government failure' were, in effect, case histories of 'the economics of politics' being developed by American economists to which the Institute turned later for explicit studies in the late 1960s and 1970s (Chapter VII).

Duncan Burn's closely-researched study of nuclear energy in 1967 was one such case-history. It was the first detailed account of the development of nuclear power in Britain and the USA. It accepted no evidence at its face value and emerged with conclusions that were unwelcome to those who controlled the industry. Burn challenged the familiar view that, because of the economies of very large-scale techniques and organisation, monopoly was unavoidable and state control therefore essential. His uncompromising judgement was that the state monopoly in Britain would prove inferior to the decentralisation of design and development by private companies in the USA. And so it has proved.

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[1] Hobart Paper 38, 1967.
[2] Research Monograph 9, 1967.

. . . and steel

The sufferings of steel in successive nationalisation-denationalisation-renationalisation was foretold by Duncan Burn in *The Future of Steel*,[1] based on a seminar at which his paper was discussed, *inter alia*, by George Strauss, the Minister who had piloted the Steel Nationalisation Bill through Parliament in the Attlee Government, Sir Lincoln Evans, a former trade union leader, Lord Beeching, then Chairman of the Railways Board, Professor B. C. Roberts, Mr Edward Senior of the Iron and Steel Federation and Mr N. C. Macdiarmid, Chairman of Stewarts and Lloyds. Burn had argued that the public nationalisation debates had prevented desirable mergers into efficient units, though not all were desirable. Nationalisation would also inhibit newcomers from coming to make steel in Britain. Open ports would stimulate price competition. Firms should not be too easily self-financed: they should be forced into the market to raise capital and so expose their efficiency to external scrutiny. The capital market in the USA and Europe was pushing steelmakers into more efficiency: the market should also be improved in Britain. Much the same tests should be applied to research and development. Not least,

> 'More scope must be given to rebels in management, less scope for the deadening prospect of nepotism.' (p. 21)

More macro-economic necromancy

Mr Burn later in 1967 examined the periodic five-year estimates of the demand for steel made by the Iron and Steel Board in 1955, 1957, 1961 and 1964. His sobering judgement in *Lessons from Central Forecasting*[2] was that

> 'the publication of forecasts in great elaboration has misled many people into believing they are scientific and substantial'. (p. 24)

Their authors, he implied, had not given at least equal prominence to the qualifications and subjective judgements that made many forecasts tenuous. Techniques in forecasting have been improved since those days, but subjective judgements, political pressures, and the inability of computers to better the human beings who feed them remain unchanged.

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[1] Occasional Paper 6, 1965 (3rd impression 1966). [2] Eaton Paper 6, 1965.

Telecommunications on trial

A drawback of nationalising industry is that it is less open to academic examination and its performance is seldom contrasted with the efficiency of its service under other arrangements. Telephones and the Post Office had largely escaped searching scrutiny, and both were examined by IEA authors.

In 1961 the Institute invited a young American economist studying in England to compare and contrast the British and American telephone systems. In *Telephones – Public or Private?*[1] Michael Canes found that the American system was much more efficient in supplying the range of services required by industry and private users. The superiority was due primarily to the difference in organisation. American decentralisation through private competing companies was more accountable and responsible to the consumer than was the British government monopoly. He concluded that Britain should experiment with decentralised, competitive, private supply.

The GPO did not fare much better when its letter and parcels postal services were discussed in 1970 by Ian Senior, who had been a civil servant in the Post Office. Within a year of becoming a 'public' corporation, which was supposed to bring much-hoped-for improvement, the Post Office had announced the largest tariff increase for posts since the war. In *The Postal Service: Competition or Monopoly?*[2] Mr Senior argued that 'the present monolithic, rule-bound PO organisation' should be replaced by 'a group of vigorous postal units, public and private, competing energetically', including British Rail and common carriers. Such a structure of varying units would be able to adapt their services to the requirements of users with a flexibility impossible in the centralised Post Office, which was slow to change, to mechanise, to open up new services, and was exploiting the profitable monopoly of the letter post to bolster uneconomic parcels and other services.

> '. . . harnessing the price mechanism for the control of local Post Office management could achieve not only more economy and efficiency, but also foster the new environment of experiment and enterprise.' (p. 31)

His condemnation of the monopoly was devastating:

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[1] Hobart Paper 36, 1966. [2] Background Memorandum 3, 1970.

> 'The PO has had over a hundred years to develop its postal services. If it has anything to fear from competition, that is a reason in itself for creating it. If it has lost the ability to make a profit other than by exploiting its monopoly privilege, that is a reason for abolishing the monopoly. If it can run the postal services better than other organisations, let it have the chance to prove it. If other organisations prove more efficient at satisfying the user, the user will benefit'. (p. 31)

What prospect of reform is there in 1977 given that politicians like power and the trade union shares it?

State education – 'free' but unfree

Higher education in the universities had also in the 1960s become increasingly a tax-financed (only 10 per cent of revenue came from fees), state-controlled industry (the University Grants Committee tried to act as a buffer between the universities and government but more and more academics sensed political decisions and party-political ideology in the pressures to expand or contract science, arts or other faculties).

Financing University Education[1] comprised Professor A. R. Prest's evidence to the Robbins Committee on Higher Education in 1962 and a commentary written in 1966 on subsequent events. The Robbins Committee had recommended that fees should be raised from 10 per cent to at least 20 per cent of university income but had not recommended loans for students. Professor Prest now argued that the case for loans was even stronger than it had been in 1962. Professor Robbins has subsequently and generously conceded that the new argument in the IEA *Paper* – that the loans could be made repayable when the increased means of the graduate borrower made repayment tolerable – had persuaded him that the objections to loans were not insuperable.

Three years later our thinking went a significant stage further. Ideas in economics – the theory of marginal utility in the 1870s, the theory of imperfect competition and institutional monopoly in the 1930s – have originated in several minds simultaneously. The notion of ensuring the freedom of research, learning and scholarship from political influence had suggested itself to some of

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[1] Occasional Paper 12, 1966.

us at the IEA in 1965 or 1966. In conversation with Professor R. H. Coase of Chicago and Professor B. S. Yamey of the LSE it seemed that nothing less than a university established, like the Institute itself, with no state funds at all might be essential for academic independence. Pre-occupation with building up the Institute precluded further action until articles were read in 1967 by Professor Harry Ferns of Birmingham[1] and by Professor Max Beloff. In 1969 the IEA published Professor Ferns's *Towards an Independent University*.[2] The talks, meetings and fund-raising that eventually led to the creation of the Independent University College of Buckingham in 1975 are recounted in several works.[3]

This episode illustrates the influence of ideas on economic life in accordance with Keynes's familiar dictum, quoted in the Preface (p. xi). Hayek once said that it could take 30 years for an idea to fructify into action. The idea of an independent university, despite opposition and official obstruction, took only eight years to bear fruit. It may have been helped by the increasingly evident consequences of nil-price financing. State university students virtually pay no fees (the 10 per cent is largely supplied by local authorities) and therefore lack the bargaining power in negotiations with their universities. Their efforts in the late 1960s to campaign for participation and representation on university decision-making bodies were seen by Professor A. T. Peacock of York and Mr A. J. Culyer of Exeter (who had also arrived at their conclusion independently) as ignoring the explanation in *Economic Aspects of Student Unrest*.[4] The solution, again, was to replace grants to universities by direct loans to atudents that would enable them to pay fees, and repay the cost in part out of future earnings.

The vulnerability to authority of nil- or low-fee paying students was vividly illustrated in a penetrating economic analysis by Professor Armen A. Alchian of the University of California, Los Angeles (co-author of the most rewarding text-book for students: *University Economics*, Prentice-Hall International Edition, 1974). In an IEA *Paper, Pricing and Society*,[5] he described the subservience of university students:

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[1] 'A Radical Proposal for the Universities', *Political Quarterly*, 1967.

[2] Occasional Paper 25 (2nd edition 1970).

[3] J. H. MacCallum Scott (ed.), *University Independence: The Main Question*, Rex Collings, 1971.

[4] Occasional Paper 26, 1969. [5] Occasional Paper 17, 1967.

> 'We use grades as conditions of entry and of continuance in school. We impose required courses with examinations. We have faculty control, academic freedom, tenure, and acquiescent students. Students are severely restricted in their ability to transfer from course to course, to drop courses in mid-term and to repeat courses until they obtain passing grades. They are policed in the kinds of behaviour that will result in dismissal or inability to enter'. (p. 16)

Moreover, fees may be kept low to accommodate the more needy students but they enable the professors to select students according to a non-monetary criterion which serves their own convenience: the better learners who 'deserve' higher education. But if this criterion was applied elsewhere, 'free' concerts (financed by the state out of taxes) could enable musicians to confine their audiences to the most appreciative people; 'free' food would enable chefs and dieticians to limit their dinners to people with the best palates; couturiers could allot the best ('free') clothes to the most beautiful women, thus providing external benefits to the rest of society. On the external benefits argument, clothes – and much else – should be as 'free' as education.

The *reductio ad absurdum* of such a world, in which 'free' (almost) everything is justified on the ground of external benefits, was becoming increasingly apparent as economists, especially in the USA, brought faint ridicule to bear on simple-minded thinking. Professor E. G. Dolan of Dartmouth College, Vermont, coined 'There ain't no such thing as a free lunch' and used the mnemonic, *TANSTAAFL*,[1] as the title for a book on the environment. We in Britain might repeat variations on the theme to keep in touch with economic reality and avoid the temptations of philosophic fancy:

There ain't no such thing as free universities;
" " " " " " a free National Health Service;
" " " " " " a (partly) free council house;
– and many more.

What is surprising is the failure of students to see that their weakened bargaining posture was linked with their status as recipients of a

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[1] Holt, Rinehart and Winston, 1971.

'free' education, and that the ultimate remedy lay in paying the price for independence. In seeking the second-best surrogate of 'representation' on decision-making bodies they make essentially the same mistake as doctors and teachers who accept payment by the state and then resist the consequent control by party politicians as the representatives of their paymasters, the taxpayers.

Pollution without pricing

The unfamiliar effect of non-pricing in exacerbating pollution called for attention in the early 1970s. But again the diagnosis and the solution were different from the conventional thinking. The authors of *The Polluters: Industry or Government?*[1] found themselves applying the continuing debate on 'market failure' and 'government failure' to a new subject: the despoliation of the environment. The *Paper* brought together an American economist, Professor Neil H. Jacoby of UCLA, and the ever-faithful Fred Pennance. Jacoby said that pollution was essentially a political failure:

> '. . . the environmental crisis was generated primarily by tardy responses of the political system, and only secondarily by faults in the market system.' (p. 28)
>
> '. . . if government performs its own unique tasks, the competitive market system will then operate within that framework to produce what the public demands without harming the environment.' (p. 19)

Pennance found the solution in the market rather than in government ukase, but with a reference to substitution at the margin:

> 'Direct charges for roads, water, refuse disposal, for the right to dump, to discharge effluent in rivers and coastal waters, to limit noise, smoke, fumes . . . would demonstrate the scope for using pricing to a much higher degree than at present to decide how individuals value the avoidance of pollution relative to other goods and services.' (p. 52)

That the economist had better solutions than the technocrats emerged very clearly from Professor Wilfred Beckerman's *Pricing for Pollution* in 1975,[2] which extended the argument of his 1974 book, *In Defence of Economic Growth* (Jonathan Cape). To the

[1] Occasional Paper 36, 1972. [2] Hobart Paper 66.

environmentalists who wanted the environment protected at *all* costs, an argument no economist would use, Professor Beckerman had replied, in a nutshell, that a little sacrifice of environment was worth a lot of economic growth (which would yield resources for a wide range of desirable purposes). This was a counter-argument in terms of an exchange at the margin, or, in economic colloquialism, a 'trade-off'. The choice was between a little of the environment for a lot (relatively) more production of goods and services. Professor Beckerman was using the language and concepts of neo-classical economics and its centrepiece, the margin.

So much for principles and objects or ends. When the method of protecting the environment was in dispute, the choice was between outright government prohibition or regulation of industrial processes causing pollution – the instruments favoured by environmentalists – and market pricing to discourage the use of pollution-causing processes and to encourage the adoption of processes that minimised pollution. Here, as elsewhere, pricing could be advocated on technical grounds of economic efficiency by economists with a range of philosophic sympathies.

Neutrality of pricing

The philosophic neutrality of pricing has become clearer since the countries of Eastern Europe began to introduce it into their centrally planned economies. In 1968 Professor Bela Csikos-Nagy (Chairman of the Hungarian Board for Prices and Materials and architect of the new policy) addressed an IEA audience on the efforts of the Hungarian state to decentralise its economy by restoring market processes. The address was revised by the author to clarify matters raised in questions and published as *Pricing in Hungary*.[1] It emphasised the contrast between economists in East European communist countries who are trying to incorporate the pricing system to mitigate the defects of centralised allocation of resources, and economists (and politicians) in the West who conclude from 'market failure' that pricing is undesirable and should be abandoned in favour of centralised allocation of resources.

[1] Occasional Paper 19 1968.

VII. The Economics of Politics

From the early days of the Institute it seemed to us that government economy lacked two desirable elements of the market economy: choices for consumers and competition between suppliers. The market seemed to make for harmony because it did not tie suppliers and customers to each other. A customer could escape from an unacceptable supplier; a supplier could escape from an importunate customer. By contrast the government economy was predicated on two contrary assumptions: that the consumer was incompetent, irresponsible, short-sighted; and the politician or official was informed, responsible, far-sighted.

Both assumptions seemed to be at fault. First, that the consumer was *unalterably* incompetent and could not learn from experience seemed unrealistic. Second, the notion that the politician or the bureaucrat was more concerned with the welfare of others than with his own seemed no less belied by history. Each proposition formed a central strand for the Institute's work. The first, a proposition applying to the private market, led to the early writings on advertising, hire purchase and welfare. The second, bearing on the political market, calls for attention here.

The political market

Until recently economists of all schools divided men into two categories. Men in the market sold for gain. (Some critics said they appealed to the lowest instincts in selling and made a quick buck at the expense of everyone else – and lately the environment.) Men in government and the 'public' services provided services for the good of the public. (Some admirers said they tried to save or wean the public from its myopic folly, and preserved the safety of the realm, the beauty of its treasures, and the public peace.)

The contrasting stereotypes have long been doubted and questioned, but it is only since around 1960 that economists have analysed man in government as the *same* being as man in the market.

(In addition to applying economic analysis to the political as well as the economic 'market', economists have even more recently applied economic analysis to charity 'markets', briefly described below.) Although there were predecessors, the recent development of the economics of public choice in the political market can be traced to a major book in 1962, *The Calculus of Consent*,[1] by Professors J. M. Buchanan and Gordon Tullock of the University of Virginia, but the antecedents in the history of economic thought are important in understanding the role of economists in the modern 'political' economy.

Economists and 'politics'

In *Markets and the Franchise*,[2] based on a lecture delivered at the LSE, Professor T. W. Hutchison traced the changing relationship between the market process and its politically-created framework of laws and institutions as a prelude to an examination of the new interest of economists in the working of politics. This is perhaps one of the most important departures in economic thinking of recent years; it is, we think, one of the most enlightening and exciting.

In Britain the market economy preceded political democracy. Adam Smith in 1763 entered a caution against majority (or what is now called first-past-the-post) voting:

> 'When there are . . . three candidates . . . the person who is most odious may be elected.'[3]

A bare third of votes, he added, can carry a candidate against almost two-thirds. And he dismissed politics as the haunt of crafty politicians dominated 'by the clamorous importunity of partial interests' rather than by 'an extensive view of the general good' – an uncannily modern note which Professor Hayek has been sounding as the urgent reason for reducing the power of government (even over money,[4] long regarded by neo-classical economists as a necessary function of government). But Adam Smith's approach to politics was what is now called 'normative', or ethical, even admonitory, not behavioural ('positive') or neutrally analytical.

[1] University of Michigan Press, Ann Arbor, Michigan (2nd edition 1965).
[2] Occasional Paper 10, 1966.
[3] *Lectures on Justice, Police, Revenue and Arms*, Clarendon Press, Oxford, 1896.
[4] *Denationalisation of Money*, Hobart Paper 'Special' (No. 70), 1976.

And this is the essential change in the new economics of politics: it analyses the behaviour of politicians rather than judges them morally, with implied approval or condemnation.

James Mill, David Ricardo and other Philiosophical Radicals after 1815 envisaged eventual extension of the franchise, but with caution to avoid disrupting the rights of property. The 1832 Reform Act enfranchised one in seven male adults and assisted in freeing the economy from the Corn Laws and other restrictions. The economists were divided on extending the franchise down the scale because of the effect on the rights of minorities. But it was further extended in 1867, not, said Professor Hutchison, for idealist notions, but because the 'political entrepreneurs', as they are now called, led by Gladstone and Disraeli, were buying votes with promises of favours. The new voters were rewarded with the 1871 Act, which protected trade unions at law, and by the 1875 Act, which legalised picketing. Disraeli outbid Gladstone in the political market. Joseph Chamberlain worked for the further extension of the franchise to virtually all male adults in 1884, and then in 1885 made a bid for the new voters by his Radical Programme, which included progressive income taxes on income and property, introduced eventually by Harcourt in 1894.

These two reforms, the legal protection of labour monopolies and progressive taxation, have, said Hutchison, developed into the two main obstacles to a market economy. The further extensions of the franchise to women in 1918 and 1928 he thought less important for economic policy. (We have yet to see whether women will take as kindly as men to the halving of earnings by taxation.) So far, at any rate, said Hutchison, the 19th-century history of the political market for votes bid for by promises of benefits (with far-reaching, long-range, 'external' effects reaching far into the 20th century for which 19th-century politicians cannot be paid or punished) broadly illustrates the economic theory of democracy evolved by Professor Anthony Downs, one of the originators of the new economics of politics, and the process of entrepreneurial politics refined by Professor Gordon Tullock, another main founding father.

The new economics of politics since the early 1960s no longer regards politicians (at their best) as philosopher-kings anxious and able to act on the best, disinterested economic advice. Governments can manipulate the economy to synchronise a boom with General Elections. Politicians must be analysed as political entrepreneurs trying to maximise their power by offering benefits to voters. Economic policy cannot be understood or explained without reference to 'politics' (Perlman, below). Economists were thus returning to a new form of the political economy of a century earlier. In particular, they were studying the economics of public choice – voting methods, the construction of political party programmes and manifestoes, the motivations and 'maximands' of bureaucracies, and so on. This was, said Hutchison, 'a distinct break and a new direction in economics'.

Public choice is the process by which the public selects government-provided 'public' goods through the political process. But the ballot-box is a crude instrument which enables a bare majority of 50·01 per cent to coerce a minority almost as large as 49·99 per cent. Even worse, in three-party systems, minorities (as Adam Smith said) can coerce majorities almost twice as large (33·4 per cent can dictate to 66·6 per cent) as in recent years in Britain. Although the political process must be used for public goods proper, such as defence, it is not required for the many services that government does not have to supply at all. Here, as in education, medical care, housing and many other so-called 'public' services, it is possible to discover public demand by going behind mass voting for large numbers of policies and offering hypothetical choices between paying by taxes and by prices for individual services, as in the IEA *Choice in Welfare* studies (quoted by Hutchison and by Buchanan and Tullock in *The Calculus of Consent*).

Education and politics

The importance of the economics of politics is that it helps to explain policies that cannot be fully understood if political motivations are excluded or ignored. This was the purpose of Professor E. G. West, who explained the development of education policy and of regional policy by the economics of politics (*Economics, Education and the Politician*, 1968, *Regional Policy for Ever?*, 1973).

In education, Professor West maintained that the aim of government policy had shifted imperceptibly down the years from promoting the best interests of the children to perpetuating the power of the apparatus in charge of state education. The 'national' system of education had been enlarged since 1870 not primarily because it was judged better than any alternative would have been but because the Department of Education was enlarging its empire (below, Niskanen). Observers of the British education scene 100 years after 1870 are increasingly realising that education policy is decided not by parents but by politicians (local as well as national), public officials in Whitehall and town halls, and trade union officials. It is significant that the device of the voucher, which could enlarge the power of the parent to influence education, is being opposed most volubly by trade union officials and local authority politicians who would lose power. And it is also significant that a main tactic in their resistance is the familiar vague appeal to the immeasurable 'social benefits' of education, which they claim parents cannot judge, and to the equally intangible 'community interest' in education, which they claim only they can judge. It is difficult to conceive of any method of organising education other than through the political process that would give public servants and employees more power over their paymasters, the taxpayers-voters-parents.

In regional policy[1] Professor West found a similar explanation. On paper all manner of claims are made that government could achieve a better location of industry than the market. The editorial Preface summarised his analysis and conclusions:

> 'If policy were carried out by government served by fully-informed civil servants and advised by disinterested economists, there would be much to be said for it. In practice, Professor West contends, government is not always capable of identifying the economic purpose of guiding industry to the most suitable locations, it cannot measure the "social" or cultural objectives, and it is vulnerable to narrow political pressures in its day-to-day anxiety to win support or avoid criticism . . .' (p. xi)

The Editor summed up:

> 'In general the impression is of regional policy based not on well-thought-out reasoning and secure information, but of lurches every few years from discredited to untried expedients, and sometimes back.' (p. xi)

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[1] *Regional Policy for Ever?* (IEA Readings 11, 1973)

Economists and bureaucracy

One of the developments of the new economics of politics and of public choice is a renewed interest by economists in the behaviour and motivations of bureaucrats. This term is used not in a normative or pejorative sense but to mean simply occupants of offices, especially in large organisations, of which the archetype is the government Ministry.

A pioneer in the economics of bureaucracy is the American economist Professor William A. Niskanen, an academic who was a bureaucrat in the Department of Defence under the Democrat Robert McNamara in the early Kennedy years and later in the Federal Office of Management and Budget under the Republican adviser George Shultz. In 1970 he wrote *Bureaucracy and Representative Government.*[1] Since no British economist was subjecting the bureaucracy to the economic analysis long applied to industry, Professor Niskanen was invited to write the essentials of his work for British readers: *Bureaucracy: Servant or Master?*[2] was published in 1973. And as he wrote as an 'outsider', commentaries on his argument were invited from two former Ministers and two former bureaucrats.

In three revealing lectures[3] at Harvard in 1970 the late Richard Crossman discussed the awesome power of the British bureaucracy but blamed politicians for submitting to it:

> '. . . the real threat to British representative institutions – the ever-increasing and increasingly centralised power of the Whitehall bureaucracy – remains as great as ever . . .
>
> '. . . the ascendancy of the permanent civil servants over the fleeting succession of Ministers who confront them in the Departments shows no sign of abating'. (pp. 23-24)

Other Ministers – Conservative as well as Labour – have complained about the power of Whitehall officials to retard or accelerate government policy. Professor Niskanen's analysis of the bureaucracy was severely 'positive'. After a technical analysis he concluded that bureaucracies tend to be too large because they aim to maximise their budgets. The remedies were three: to reconstruct their

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[1] Aldine-Atherton, New York, 1971.
[2] Hobart Paperback 5, 1973.
[3] *Inside View: Three Lectures on Prime Ministerial Government,* Jonathan Cape, 1972.

internal working by competition between bureaux or by personal incentives to bureaucrats to reduce costs; to develop market alternatives to government agencies; and to make bureaucracies more accountable to the ultimate consumer.

The scholarly study of bureaucracy had, until recently, been almost entirely monopolised by political scientists and sociologists from Max Weber to C. Northcote Parkinson. Apart from Ludwig von Mises's *Bureaucracy* in 1944, there had been only two book-length studies by economists: Professor Tullock's *The Politics of Bureaucracy* in 1965[1] and Professor Downs's *Inside Bureaucracy* in 1967.[2] Professor Niskanen in his 1971 book and in his IEA *Paper* in 1973 was applying the new economics of politics to the bureaucracy. (There has also been a later work, *Economic Theory of Representative Government,* by Professor Albert Breton of Canada.)[3]

In their commentaries on Niskanen, Lord Houghton, a Minister in the 1964 Labour Government, thought that British conditions differed from American and that the British have evolved domestic solutions; Mr Nicholas Ridley, a Minister in the 1970 Conservative Government, broadly confirmed Niskanen's analysis and proposed reforms in the Civil Service, not least ending security of employment; Professor Maurice Kogan, who had served Sir Edward Boyle and Mr Anthony Crosland at the Department of Education, thought Niskanen had raised relevant questions that could not be answered by economists alone; and Mr Senior (whose study of the Post Office was discussed in Chapter VI) approved of the analysis in general but would sharpen the solutions, not least by enabling taxpayers to allocate part of their taxes to bureaux of their choice.

In the last few years more British economists have been studying the economics of bureaucracy; Professors C. K. Rowley of Newcastle and A. T. Peacock of York brought it into their *Welfare Economics*.[4]

The 'vote motive'

The latest IEA text on the economics of politics is by one of its chief theorists. Professor Tullock's *The Vote Motive*,[5] a title designed to point the contrast (or parallelism) with the profit motive,

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[1] Public Affairs Press, Washington D.C.
[2] Little, Brown & Co., Boston, Mass.
[3] University of Toronto, 1974.
[4] Martin Robertson, London, 1975.
[5] Hobart Paperback 9, 1976.

presented for British readers the main elements of the theory of public choice in plain English, with an optional mathematical section that non-economists could skip. The clean break with the traditional economist's view of politics was made clear:

> '. . . the traditional economists had . . . the "benevolent despot" model of the political order. They have thought their duty was to determine the optimal policy and recommend it to government, which would . . . faithfully carry it out.' (p. 2)

The new economists

> '. . . assume that all the individuals in government . . . serve their own interests . . . and then inquire what policies they can be expected to pursue.' (p. 2)

An object of the economic approach to politics was

> '. . . to invent reforms that would raise the "efficiency" of government closer to that of the private market.' (p. 7)

Hence the proposals for incentives in government to reduce costs, for competition between bureaux to stimulate improvement, and for machinery to make government more accountable.

Politicians design their policies and manifestoes to maximise votes. In a two-party system the parties tend to converge, in a three (or more)-party system they tend to diverge. Politicians with strong policy ideals (Goldwater, McGovern, Powell) are less likely to be elected than those (Wilson, Johnson, Nixon, Heath) inclined to change their policies according to public support. (We have a reservation about this proposition: 'selling' political policies depends on the state of public knowledge and information, which politicians themselves supply, or fail to supply.) Bureaucrats can resist cuts in government expenditure because they themselves are the only source of information on the demand for and the costs of their services. Log-rolling, a word with the distasteful connotation of political 'deals', was rampant in Britain: in Labour with its 'social contract' with the unions, and among Conservatives who, said Tullock, 'are going to find themselves . . . required to vote for policies they do not like in return for receiving others they do . . .' (a prophetic judgement illustrated in the three-line whip on Scottish devolution).

Professor Tullock's most radical conclusion, following an analysis based on the 'information costs' in voting, was that simple majorities were not optimal:

> 'For important matters we require . . . "reinforced majorities", say two-thirds . . .' (p. 55)

The operation of this rule could have changed the face of British government, legislation and public policy in the post-war world, where no party has formed a government with a majority of the votes cast at General Elections, still less of the votes that could have been cast. The political process has not yielded majority rule which might have made its coercion sufferable, at least in public goods where it is unavoidable.

Finally, to illustrate the theory of public choice in Britain, Dr Morris Perlman of the London School of Economics applied it to recent and current developments and policies.[1] It was 'politics', he argued, not 'economics' (as *traditionally* applied), that explained the wide range of local and national services run by government but that were not public goods proper;[2] inflation (the explanation in terms of money supply was correct but it still had to be explained 'why the government in power keeps increasing the quantity of money'); the Manpower Commission creating jobs (not least for itself), the main purpose of which was 'window-dressing' to show that politicians were up and doing; Concorde (a 'commercial disaster'); . . .

To complement Adam Smith's 'invisible hand' to pat the bureaucrat on the back when he acts correctly, Dr Perlman proposed 'an invisible foot' when he did not:

> 'The deep-rooted belief in the exceptional virtue of the bureaucrat is the biggest deterrent to any such solutions.' (p. 76)

* * *

The new economics of politics has shown the political process in an even more unfavourable light as a method of ascertaining consumer preferences in the disposal of scarce human and natural

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[1] 'Party Politics and Bureaucracy in Economic Policy', in Tullock, *ibid.*

[2] Public goods have several characteristics that distinguish them from other goods: street lighting, for example, can be used or consumed by more people without others consuming less; but the characteristic that makes it necessary to supply them collectively is that they cannot be refused to people who refuse to pay. They must therefore be financed by taxes.

resources. The choice in the real world is between the market and the ballot-box as the two feasible instruments. Altruism or benevolence alone will not do the world's work. Pricing, even in an imperfect environment of 'market failure', is a strong contender in an open society if the alternatives are preaching or prescription.

VIII. Politically Impossible?

In this chapter we give our personal interpretation of the policies for which a strong body of academic support has developed since 1957.

In 1957 the writ of Keynes, Beveridge and Titmuss still ran strong throughout the land – in all parties, universities, on both sides of industry, in the Civil Service, in (almost) all newspapers and in publications by the NIESR, PEP and Penguins. Some IEA authors may, elsewhere than in the *Papers* they wrote for us, still share or have some sympathy with the macro-economic approach to economic policy: high government expenditure, high taxation, state control, paternalist welfare state, big bureaucracy, centralised planning, strong unions with legal privileges, incomes policy. We respect their views and do not wish to involve them in our personal opinions.

In 1977 the influence, perhaps not so much of Keynes as of the neo-Keynesians is strongest in Cambridge, the National Institute of Economic and Social Research, the Treasury, and lingers on in the *Economist*. The influence of Beveridge and/or Titmuss is still strong in sociology and social administration university departments, in *New Society*, the *Guardian*, the *Observer*, the *New Statesman*, the churches of all denominations, and in varying degrees in all political parties.

It is partly because these policies have had 30 years of trial and have been seen to have failed to realise their promises that the alternative micro-economic, limited government, low taxation, private welfare, small bureaucracy, decentralised initiative, anti-monopoly, non-monopoly union, monetary discipline, self-dependence approach has gained a fair hearing and even a fair wind, especially among professional economists and economic writers and broadcasters.

Objections and refutations

And yet they have not yet been applied in practice. What have been the objections? We have searched the numerous reviews and found fewer convincing criticisms of the economic analysis than objections of a quite different order: administrative or political. We have analysed them all into 10 kinds in roughly ascending order of apparent substance and cogency.

1. The authors were out-dated *laissez-faire* economists.

This is hardly worthy of comment; such descriptions suggest scant knowledge of IEA *Papers* and the distinguished line of classical scholarship on which their analysis has been founded.

2. The authors (and/or the Institute) were defending capitalist interests.

The reply must be that the merits of an argument have nothing to do with whether interests will benefit if it is accepted; all policies benefit interests. The case for competitive markets is that they alone are capable of giving harmony and direction to individual interests in advancing the common interest.

3. The policies turn the clock back.

The reply must be that no policies turn clocks back further than state economies with political control, entrenched bureaucracies and/or high taxation and depreciating currencies, reminiscent of medieval guilds or ancient Rome.

4. The policies would be resisted by people, groups, unions, capitalists, bureaucrats, politicians, etc. who would suffer from them.

This is a puzzling objection from academics who are supposed to be primarily concerned with truth. It comes more naturally from politicians, but they are interested parties. From journalists it reflects their close touch with the day-to-day *Realpolitik* that does not allow for unforeseen but latent, continuing, underlying change in supply and demand.

5. IEA authors, in their application of economic analysis to a host of subjects from overseas aid to water, would subject mankind to 'market forces', which are inhumane because they would expect men to move about from job to job and from place to place in response to supply and demand. Market economists are hard-hearted and callous.

This is a total misunderstanding of the market. 'Market forces' are not primeval powers beyond human reach; they are men and women buying and selling, changing their minds, spending and saving, giving and receiving in swaps or gifts. The market is no more than a vast signalling apparatus. No-one has to observe it; markets maximise choice: as employees people can prefer vocation, prospects, security or environment, to more cash. But those who ignore market signals cannot expect to be kept by those who respond and produce services wanted by others. People who drop out of the market system can hardly expect others who benefit from it to follow them.

If the market indicates that higher prices and incomes are to be had by changing products, jobs or homes, it is jejune to blame the signalling apparatus. Governments can blur the signals to slow down the rate of change in response to pressure or blackmail from vested interests, but only by imposing lower incomes and at a sacrifice of living standards. Moreover, people as consumers, parents, reformers want the fruits of change; and if change is slowed down by political power, it will take place eventually with more upheaval. If change is not allowed to take place by degrees, it will take place by convulsion. Adaptation to changing supply and demand is either gradual, with least disturbance to everyday life, conventions and traditions, or in large discontinuous jumps, known in history as revolutions. The market absorbs changes in opinion, fashion, preferences, tastes, skills, techniques, inventions, discoveries, and slowly transforms them into knowledge through changing prices (wages, salaries, profits, charges, interest rates, rents, etc.) to indicate changing valuations. The choice in practice is ultimately between 'market forces' and political/military force.

6. Market economists stand between people and compassion. They would pay people strictly according to what they are worth in the market, not what they should expect in a civilised society.

Disappointment with the world and its works – with fallible man and niggardly nature – is probably the real source of the differences between economists and sociologists (with exceptions in both camps), and with the refuge in benevolence as the engine of universal provision. Economists study the inter-relationship between man and his environment and emerge with principles that govern his efforts to choose between alternative uses of the resources at hand. However much it may be distorted, controlled or suppressed, the market survives in one form or another, *simple* as in barter, *complex* as in forward exchanges, *imperfect* as in black or grey markets, *distorted* as in queues, administrative rationing, bribery and corruption. But, like a computer, the market cannot do better than the material fed into it. It reflects man as he is and resources as they are. Together they yield the law of equalisation of returns and opportunity costs at the margin (total satisfaction is maximised when the last unit of resources yields no more in one use than it would in any other). No use can be satisfied completely, and that means that many desirable purposes go unfulfilled. We cannot have all the good things in life we should like – schools, hospitals, food, clothing, roads, holidays and everything else. So economists have to point to another law – the theory of opportunity cost – which says that if you use more men and materials on building a school you cannot use them on building a hospital. This obvious common-sense has brought a shoal of condemnation on market economists for denying the people hospitals.

Yet this is realism. Economics takes unsaintly man and grudging nature and evolves rules that guide man in maximising utility to reach the highest standard of living possible. It is not the economists but the sociologists who are at fault by misleading mankind into expecting – and politicians into promising – higher standards of living that only more perfect man and more ample resources could provide. It is the economists who face reality and sociologists, with honourable exceptions, who run away from it. We would argue the post-war world has been misled by Keynes, who envisaged superabundance in the euthanasia of the rentier, by Beveridge who spoke of ending the 'five giants', by Titmuss who thought benevolence could make the world go round. One of us, sent for a job to the Economic Secretariat of the Cabinet after the war, was told by its Head with a wry smile: 'We are being asked to inaugurate the millenium'. And that is what both parties have promised the people at every General Election since 1945.

The seductive compassion – fashion may make its practitioners feel virtuous but leads them to advocate policies that do harm. Market economists can claim to serve humanity by studying, refining, and devising institutions – like market lubricants, reverse income taxes, vouchers for education, health and housing – that respect instead of doing violence to human character as it is. The society they envisage is based on voluntary exchanges and contracts. They do not devise institutions to direct labour, conscript capital, confiscate income, suppress choice, restrict international currency exchanges, and much else, all in the name of 'the public interest' or 'national goals' mysteriously defined by oligarchies, dictators, or even Prime Ministers doing deals with sectional interest groups. Such is the unintended result of 'compassion' which sub-contracts benevolence to the state.

7. Neo-classical economists are more interested in market institutions than in people. They are intellectuals who do not 'care', as do other social scientists anxious to use the power of the state to ensure welfare for the under-privileged and the disadvantaged.

The economist's chief pre-occupation is in devising institutions that people can use to pursue their *own* freely-chosen purposes rather than to impose his own 'superior' values through paternalist institutions that give them what social scientists think they should have. That may be why he lacks the reputation for compassion and concern of the sociologist, social administrator or social worker who wears his heart on his sleeve to advertise his 'benevolence'. But the social scientist's capacity to improve the conduct of human affairs is hardly to be judged by his intentions. If the test is the ability to devise institutions that will make better use of resources, raise living standards, and make more goods and services available for people who cannot earn enough to pay for the essentials of civilised existence, the economist wins hands down. The micro-economist, in particular, who is interested in *individual* demands, based on income and related to prices, is more concerned with real people and their personal differences than is the sociologist studying relationships between artificial groups. And in refining the economic system to increase its efficiency and devising techniques such as reverse income taxes and vouchers in place of benefits in kind, he would succour the poorest and do more for the dignity of man than the social administrators who are more interested in equality between groups than in the conditions, requirements and preferences of differentiated individuals; that is why they have supported universal benefits and opposed efforts to discover *unequal* needs. The micro-economists do not make the mistake of supposing that equal treatment in social benefits for people in unequal circumstances is equality. Who would strengthen individuals more than economists who emphasise scope for personal choice?

What is surprising, moreover, is the failure of critics of the market to see it as the most powerful agent of equalisation. They have been so intrigued by the imperfections (point 9), that they cannot see the good for the faults, which is about as intelligent as discarding an attractive, loyal, loving wife because she occasionally breaks a saucer.

The market is egalitarian in two ways, 'static' and 'dynamic'. In its day-to-day working it ignores all differences between consumers except the prices they are prepared to pay. Such differences, it should be said at once to anticipate the familiar but fallacious objection, are not solely a reflection of income or wealth. Even if they were, differences or deficiencies in income can be made up relatively easily (by reverse taxes). Prices paid by consumers also reflect their decisions on how they distribute their income, whatever its size. People with £8,000 a year can decide to spend more of their money on motoring or holidays than others with £4,000 a year who spend their money on education or medical insurance.

But the market pays attention only to how much people will pay. It is not interested in their accents, family origins, occupations, social connections, colour (as Professor Hutt showed),[1] political influence. These other conditions or criteria count for much more in politically-directed systems (point 10). But in the market, where every man is as good as his money, all men are equal and, *pace* George Orwell, none is more equal than others. The carpenter, the plasterer and the electrician stand on an equal footing with the publisher, the barrister and the television producer. Economic systems run by the state create more scope for the other forces – personal, cultural, social, political. These non-price inequalities are more difficult, probably impossible, to remove, even if there were a will to reduce them, which there may not be because such systems are run essentially by political influence, decisions, criteria and privilege.

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[1] *The Economics of the Colour Bar* (Polar Paperback, 1964).

The day-to-day levelling of the market is reinforced by its dynamic force in destroying power and privilege. If the market is allowed to work, competition will appear whenever profits or other earnings show up as peaks above the general scene. These are not the 'commanding heights' entrenched by law and political power as in social democratic theology; they are necessary, vulnerable and temporary heights. *Necessary* because they show where new resources are required; *vulnerable* because when new resources are attracted their earnings tend downward to the ruling rate in the economy as a whole; and therefore *temporary*. In a competitive market, power and privilege are not confirmed by political power as they are in a state economy, but sought out and destroyed. That is the equalising force of the market.

This is not an idealised romantic picture of a process that works in theory but never in practice. It is the central truth obscured by four decades of economic teaching that has looked for the flaws in the process instead of its power, actual or potential, to do good, and going back further to Karl Marx who pontificated about 'capitalism' without seeing its dynamic nature. Professor Schumpeter put the truth in his classic *Capitalism, Socialism and Democracy:*

> 'The fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumer goods, the new methods of production, or transportation, the new markets, the new forms of industrial organisation, that capitalist enterprise creates.'
>
> 'This process of Creative Destruction is the essential . . . A theoretical contribution which neglects [it] is like *Hamlet* without the Danish prince.'

8. Neo-classical economists offer only easy solutions for the long term in which all policies become possible and new ideas acceptable because sooner or later technical invention breaks down monopolies, labour becomes more mobile, and even government, except in totalitarian countries, has to bow to the people's preferences revealed by changes in supply and demand. To make a contribution to policy-making, economists have to propose policies that take into account immobilities, inflexibilities, rigidities, vested interests and resistance to new ideas.

It is true that the longer the period envisaged, the more existing investments in equipment, plant and skills can be disinvested and new investments can embody new thinking. But when the neo-classical economist identifies the ultimate goal – for example, the ability of anyone with a new idea for improving the manufacture of furniture to try it out in a free market by raising capital, finding workers, seeking retail outlets to sell it – he does not inevitably envisage a long-drawn-out process of reform. Sometimes it is necessary to think of introducing a reform by gradual stages: changing social benefits from kind to cash might take 3 or 5 years to avoid dislocation. But other reforms are, like surgery, best done quickly. Erhard introduced his new Deutschmark overnight. If he had announced a 5-year plan, the American and British wiseacres would have discovered unanswerable reasons for supposing it was impossible; and the opposition – there are always vested interests who lose from change – would have had time to mobilise their resistance.

The neo-classical economist is right to indicate the ultimate goal by which short-term expedients must be judged. The supposedly sophisticated social scientist who devises policies that will be 'politically possible' – acceptable to the interests – often scores a Pyrrhic victory that eventually takes him further away from the goal. He may win a battle, but he undermines the strength of the economy to win the war to extract from niggardly nature the most in satisfactions for the human race, not least the poorest.

9. Neo-classical economists ignore or under-play the imperfections that make for market failure: manipulation of the consumer by advertising, inequality in incomes, monopoly, and the divergence between private decisions and social consequences, or 'externalities'.[1]

The first source of market failure, persuasion by advertising, was discussed in Chapter II, inequality of income in Chapter IV, monopoly in Chapter V, 'externalities' in Chapter VI.

[1] This was the most substantial economic criticism in a Fabian Tract by David Collard in 1968 (*The New Right: A Critique*, Fabian Society). His later book, *Prices, Markets, and Welfare* (Faber & Faber), 1972, was one of the more impressive critiques of the market as a device in social policy; it could be read with *The Economics of Social Policy*, by Anthony Culyer (Martin Robertson, 1973), another of the outstanding younger economists. Collard contributed to a collection of essays on the economics of immigration in which he differed from Professor E. J. Mishan (*Economic Issues in Immigration*, IEA Readings 5, 1970).

The critics of 'market failure' are impaled on a dilemma they share with the sociologists who provoked it. Both plead widespread and unavoidable monopoly as evidence for their charge that markets simply do not work at all. Yet the sociologists complain that markets work too well – without regard for the dislocation of everyday lives and the disappointment of expectations. And both, paradoxically, call for state action to remove monopoly so that markets can work better and to control markets so that they do not work *too* well – or at all.

10. The market is debilitated by inequality of income, distorted by manipulation, clogged by monopoly, and blinkered by externality. It must therefore be replaced by a mechanism that will allocate according to need, desert or 'social justice', reject manipulation for gain, run monopoloids in the general interest, and replace private by social calculation of costs and benefits.

The final critique is made to sound like a trump card but turns out a busted flush. To state the objectives of the state-directed economy is to reveal its unreality. The logical *non-sequitur* of proceeding from the imperfect market to the perfect (or less imperfect) state is a common flaw in much criticism of the market. This is the 'Nirvana' fallacy. 'Market failure' is easy enough to document from recent or current economic history, although the distinction is rarely drawn between man-made and 'unavoidable' technical sources of failure. But the economics of government is a relatively new department of economics – barely 20 years old compared with the 200 years of market economics. Its neglect explains why we are more familiar with 'market failure' than with 'government failure'.

There can be little doubt that much antipathy to the market is derived from its association with early 19th-century industrialisation and its supposed responsibility for the poverty and immiseration dramatised by the social novelists from the Brontes to the Kingsleys and later. The links between the developing market and 19th-century living standards were discussed by economists and historians in *The Long Debate on Poverty*[1] (1972). An appraisal of the 40 or so

[1] IEA Readings 9.

reviews was written by Professor Norman Gash for a Second Edition in 1974.

The claims for government direction are bold; the argument and evidence are elusive. Demonstration that state-directed economies in Eastern Europe are trying to incorporate market pricing tends to be brushed aside. British critics of the market economy refer to a state alternative that is beyond criticism because it has never taken shape: the extreme form in Russia is dismissed as irrelevant. The new economics of democracy, with its associated economies of bureaucracy, is in its infancy, but so far it indicates blemishes in government control more difficult to remove than such sources of 'market failure' as inequality of income. The critics cannot conduct the debate by alleging 'market failure' but refusing to discuss 'government failure'.

Agenda for action

Inflation, unemployment and economic stagnation are the outcome of the politics of benevolence. All post-war governments have aimed at stable prices, full employment and economic growth, but their methods have been defective and self-defeating.

The major error has been the mismanagement of the monetary system in the name of 'fine-tuning'. Failure has led governments into short-term expedients which may temporarily have relieved symptoms but aggravated the disease.

Mr Healey deserves credit since 1974 for halving the inflation by reducing the rate of increase in the money supply. But instead of cutting government spending to reduce the deficit, he has tried to finance it by imprudent and costly borrowing. If economic employment and growth are to develop without the artificial stimulus of inflation, government spending must be reduced sufficiently to permit both borrowing and taxes to be sharply reduced.

A. INFLATION

Monetary policy set to descending annual increases could phase-out inflation over three or four years. The ending of incomes and price controls would then leave managements and unions with the responsibility to determine by their joint actions in voluntary bargaining the quantum of output and employment consistent with stable prices. To prevent unions employing 'strike-threat' to extort higher wages that must cause unemployment in the absence of permissive monetary expansion, competition in the labour market would require:

(*a*) removal of coercive pressures – closed shop, mass picketing, blacking, etc.;
(*b*) referral of demarcation, manning, apprenticeship requirements to the Restrictive Practices Court;
(*c*) phasing-out over two years of subsidies, sheltered contracts, regional aid to private and nationalised industry;
(*d*) confining 'aid' for industry to the abolition of corporate taxation so as to induce efficiency through competition.

B. Unemployment

To reduce the 'natural rate' of unemployment consistent with stopping inflation, both occupational and geographical mobility of labour would have to be further encouraged by:

(*a*) shortening apprenticeship periods, ending life tenure in official employments, and encouraging the acquisition of new skills through linking redundancy with retraining;
(*b*) phasing-out rent control and offering council house tenants irresistible inducement to buy their homes with immediate freedom to sell and move;
(*c*) relaxing land planning and auctioning development rights to reduce costs of new building;
(*d*) cutting back income tax and reorganising social security so as to raise the cost of voluntary unemployment;
(*e*) encouraging competing employment agencies to improve the labour market and infuse government 'labour exchanges' with similar drive.

C. Government Spending

To combine the reduction in taxes with improvement of welfare services will require a major shift away from indiscriminate subsidisation in cash and kind, to direct support for low incomes through a reverse income tax (RIT). Radical reform would include:

(*a*) charging for nursery, primary, adult education, GP and hospital services, rising to cover full costs over five years and adjusting step-by-step the support for low incomes under RIT;

(*b*) raising present token charges for higher education to cover full tuition and maintenance costs which students could finance through loans repayable from resulting higher incomes;
(*c*) charging for all central and local government services which do not meet the economic criterion of 'public goods';
(*d*) imposing economies on government spending by eliminating prestige projects and foreign aid, and requiring an initial 10 per cent reduction in all administrative costs;
(*e*) requiring all government departments to release unused offices and land both to raise revenue and to reduce pressure of scarcity in the productive sector.

D. Rule of Law

To prevent politicians seeking votes by making short-sighted concessions to sectional interests, the following guarantees should be entrenched by constitutional reform:
(*a*) indexing against inflation of government bonds and all tax threshholds, allowances, capital 'gains', company depreciation;
(*b*) a maximum rate of 50 per cent tax on incomes, which can be exceeded in emergency only by a 'reinforced' majority in Parliament;
(*c*) the right of individuals and corporate bodies to hold savings in the form of foreign currencies or gold.

E. Industry

Further reforms would be required to increase efficiency and consumer choice through competition:
(*a*) the removal of barriers to entry (or import) in the nationalised industries or 'public' corporations, including coal, broadcasting, postal and telephone services;
(*b*) the enforcement of a *per se* rule enforceable in the civil courts against producers or suppliers restricting competition by price agreements, market sharing, discrimination, collusive boycotts;
(*c*) the disbanding of NEDC, NEB, and regional planning councils to mark the restoration of competition in place of collective, corporativist methods.

(*d*) the division of coal, gas, railways and electricity generation into four independent national or regional corporations with shareholdings divided equally among the adult population, thereby converting the fiction of 'public ownership' into the reality of dispersed property rights;

(*e*) in place of politically-inspired measures to impose trade union 'participation' in management, the amendment of company and tax law to remove obstacles to voluntary experiments in co-operative enterprise, profit-sharing, employee partnerships.

A final note

We end on a personal note. From different academic stables – the home of Marshall and Keynes but also Joan Robinson in Cambridge and the home of Cannan and Robbins but also Dalton and Laski at the LSE – we found we shared scepticism both about post-war economic thinking and about post-war economic policy. In this sense we were both non-conformist and radical, agin the government and agin the economic consensus. We set out to examine everything *ab initio*. Nothing was too sacred for economic analysis – from advertising and hire purchase, where we started, through fire, blood and water, to nuclear power, medical care, education, fuel, transport, broadcasting and pollution, even politics itself.

We were surprised in the early years by the unorthodoxy of the solutions reached by the authors and by the reception, both welcoming and hostile. In particular, since we saw IEA *Papers* as offering guidance, perhaps before their time, in the task of improving the economy and raising living standards, we were puzzled by the intensity of uncomprehending criticism from 'the sociologists'.

The purpose throughout has been to clarify the economic aspect of policy in industry and government, the consequences of choosing between alternative courses of action, and the consistency between their aims and outcomes. Slowly in the early years, more quickly in recent years, IEA *Papers* have found an increasing welcome in schools and universities. No doubt the early resistance arose from the contrast with familiar economic thinking in the late 1950s and early 1960s, and the recent acclaim has followed from the increasing vindication of IEA authors by events. On many issues IEA authors were right up to 10 or more years ago – on monetary policy, planning, nuclear power, incomes policy, education, trade unions, high technology (Maplin etc.), indexation, the consequences of centralised forecasting, deficit financing, the financing flaw of the National Health Service, the relationship between unemployment and inflation, the consequences of continued subsidies for housing, the reverse income tax as the best means of helping the poorest, overseas aid, student loans, the relevance of charging for government services, company disclosure, cost-benefit analysis, road pricing, unemployment statistics, the voucher, the charade of macro-economics, air fares, gold, over-taxation, the 'social wage', and the distortion of 'representative' government confronted by muscular pressure groups.

Where some IEA authors may have erred, as Brian Walden the politician charged (back cover), it was perhaps most often in under-estimating how long misguided policies survive their analytical obituaries in 'representative' democracies where governments hold out promises to abolish scarcity by Act of Parliament.

We have put this short history into the *Hobart Paperbacks,* a series concerned essentially with the circumstances that decide whether ideas are translated into policy or are allowed to sink without trace. Our purpose has been to present, primarily for teachers and students, the thinking that others had ignored, or did not understand, or judged untimely. But we end with a question: what else is required in addition to independent, authoritative, documented scholarship, that moreover would create institutions for the people to reach their self-chosen goals, to lift public discussion of policy from short-run expedients that court disappointment to the long-run requirements for stability and prosperity in a free society?

Witness

No way exists to reproduce the feel and full flavour of public opinion in times past, nor to measure how opinion changes as the years go by. So much depends on intangibles – conversations in clubs and pubs, demonstrations by students and others, current affairs programmes on radio and television – as well as on the printed word. Important, too, is the range of topics discussed, or more precisely, the range of topics *not* discussed because they were considered by prevailing opinion to be outside the limits of sensible debate. To re-capture past states of mind is made still more elusive by the unwillingness of those in the opinion-forming business ever to confess the folly of their previous convictions.

It is, therefore, almost impossible to appreciate what has been achieved by IEA authors without first trying to recall the extent of the damage which had already been done to the general understanding of economic principles by 1957 particularly through the obsession with *national* objectives, which corrupted the language and thus the thinking of economics.

In those days the 'overall' objective was, of course, 'full employment', which was to be maintained by 'comprehensive economic planning', including a 'national wages policy', and more investment everywhere, all to serve 'the public interest' at home, and, through a surplus on 'the balance of payments', the public interest abroad, too, presumably.

The appropriate instruments of economic control were to hand, as a legacy (significantly enough) of the war, which also forced the development of national income statistics that have provided the macro-men with their vocabulary. Add to all this the prevailing ideology of the times, described by Walter Lippmann as long ago as 1937 as the assumption that the further progress of mankind could come about only by extending the powers of the state, and the politicalisation of every aspect of life has followed logically, and rapidly. Not only industry, transport and commerce, foreign trade and investment, but education, medical care, housing, art, academia, the honours list, sport and much else have, through policies of inflation and interventionism deliberately pursued by both Tory and Labour governments, come to be dependent on the state, and without exception, to be in trouble. Compared with the British economy in the 1960s the Augean stables must have looked clean. The task before the IEA of economic re-education looked correspondingly Herculean.

Yet even though nations inevitably consist of individuals with conflicting interests, sharing few collective aims beyond defence and law and order, it has been – and still is – an uphill task to clear away the accumulated debris of decades of collectivism, and to insist that what matters is not the growth of an arbitrarily measured national output. What is important is the rise in the standard of living of individuals and the range of choice before them. Moreover 'the' price level and 'the' level of wages are less significant than changes in relative wages and prices, since all prices and wages reflect preferences and available resources in innumerable and inter-linking markets.

Scepticism about the validity of collective goals in a free society led the IEA to study specific aspects of economic life, rather than the economy 'as a whole', In those early days I had already observed the economic scene from inside the Civil Service, the city office of the *Manchester Guardian* and a merchant bank. The first efforts of the Institute out of a tiny shared room in Austin Friars seemed so forlorn that I never imagined they would lead on to 250 further *Papers* selling all over the world and gaining for the IEA an enviable reputation for intellectual achievement – just one more failure of forecasting! IEA *Papers* have for 20 years produced remarkably illuminating results largely because authors have been asked to consider the following three key micro-questions: what is the nature of the market in the provision of this product or service? – does it work well? – if not, why not?

The best result has been to help restore traditional economic analysis to its productive role as 'a method rather than a doctrine, an apparatus of the mind, a technique of thinking which helps its possessor to draw correct conclusions'.

The second result of examining markets is that the individual and his preferences, and the price mechanism through which he exercises them, inevitably come back into the centre of attention.

The third result, which has particularly fascinated me in my ambivalent position as both an insider and an outsider since the IEA began, has been the way the 'method' and the 'technique' have been pushed into quite unfamiliar and, as it once seemed, unlikely areas, such as the supply of blood, water, animal semen, parking, telephones, radio, television, seaside facilities, garbage, crime, music, law and bureaucracy. That there are economic aspects to these problems may seem obvious now, but go back 15 years, and how many can honestly say that they were not intellectually jolted by, for example, the pioneering critical forays of IEA authors against the unlimited provision of all forms of social and welfare services outside the market, as advocated by politicians and economists once so strongly entrenched as to seem invincible?

What was once regarded as outlandish, singular or at best unpopular has frequently become, through an IEA *Paper*, if not received opinion, at least a topic which could again be discussed in reputable academic circles. In this way the 'unthinkable' has often been made 'thinkable' again.

But it has not been made policy. There is a long way to go before the idea of a competitive market order can be set into the legal framework needed to make it effective, and much of this journey lies beyond the boundaries of the IEA. It is already possible, however, to isolate and identify where the centres of resistance will be – the politicians and their dependents, the bureaucrats – because it is their domain which is most threatened by the market economy, and can no longer be defended by further investment in fresh intellectual error.

The centralisation of decision-making in Whitehall, a consequence of the politicalisation of society, has led to an inequality of power between governors and the governed far more sinister than the much more publicised and misrepresented differences in personal wealth. This centralisation of power will not be surrendered easily. But as long as ideas retain their potency, and the work of economic re-education continues, the question is not whether, but when, the centrally directed society of today will give way to a free spontaneous order resting on liberty.

J B WOOD

The IEA Roll of Honour

IEA authors were commissioned separately and were in no sense parts of a collective body of writing. They were selected as having something to say of value on the subjects in which they were authorities. To indicate something of their range and catholicity we have compiled a series of extracts, one for each author, indicating a thought or conclusion or deduction or a message to the late 1970s from the time they wrote.

I have to thank John Wood, Sudha Shenoy, Ken Smith and Christopher Tame for helping me search through IEA *Papers* and press summaries at high speed when time was running out.

A.S.

A

ACTON, H B Competitive markets are likely to do less harm than centralised economic planning and to give more scope for intellectual and moral excellence. A centrally planned economy is bound to monopolise ideas and even to ration them, whereas in a society where competitive markets prevail it is not only trade, but also thoughts and men that are free.—*The Morals of Markets,* 1971

ALCHIAN, ARMEN A The man who enters political life to restrain the growth of public ownership, publicly-operated agencies and services, will find that he must dismantle his major sources of power and wealth once he is in office. His survival chances in political office will diminish compared to those of another man taking the opposite position.—*Pricing and Society,* 1967

ALEXANDER, ANDREW In real terms (that is, allowing for inflation), equity prices at the beginning of 1972 were slightly *below* the peak for 1937 . . . dividends . . . represent a return on capital of about 2 per cent after standard tax deductions. Since inflation is over 6 per cent, equity ownership is more like a tax than an investment.—*Inflation: Economy and Society,* 1972

ALLEN, G C Policy must be directed to the encouragement of those whose aptitude lies in promoting industrial and commercial enterprise. The community must not grudge ample rewards for the successful, and the exercise of high business talent must not be frustrated. Governments must abandon their predilection for supporting the *status quo* in economic life, for curbing the innovators because they disturb entrenched interests.—*The British Disease*, 1976

ALLEN, WILLIAM R (WITH ALCHIAN, A A) The postulates of economic theory do not say that man is concerned only about himself. He can also be concerned about other people's situations.—*The Economics of Charity*, 1973

ALTMAN, WILFRED until commercial television ended the BBC's monopoly . . . 'shortage of wavelengths' and other technical problems formed the basis of repeated arguments in favour first of establishing a single public service, then of sustaining it by preventing competition, and finally of obstructing the development of competitive broadcasting.—*TV:From Monopoly to Competition*, 1962

B

BACON, ROBERT (WITH ELTIS, WALTER) If growing public expenditure and accompanying taxation is allowed to reduce profits to the point where a market economy cannot function effectively, only *dirigiste* Left policies can prevent chaos. So . . . economists must choose. They can support the allocation of investment resources through the market, or they can support policies of higher public spending, but not both.—*The Dilemmas of Government Expenditure*, 1976

BAREAU, PAUL . . . social and political forces have reduced monetary policy to an obedient and even cowardly servant. And the most strident baying orders of command, reducing that servant to a quivering jelly, come from militant, well-organised labour with its successful demands for inflationary wage increases. They are the masters now . . .—*Inflation: Economy and Society*, 1972

BAUER, P T The ineffectiveness of foreign aid as an instrument for development derives ultimately from its inability to affect . . . human factors substantially, at least in a favourable direction.—*Two Views on Aid to Developing Countries*, 1966

BEALES, A C F Nineteenth century humanitarianism and 20th century welfare have consolidated the war on poverty, but the 'choice' released has gone less to the person than to state-channelled administration . . . for social security should have meant a maximising of choice, since human dignity depends upon it, and human dignity is just what education is about. —*Education: A Framework for Choice*, 1970

BEALEY, FRANK If there were an attempt to introduce legislation that was detrimental to the unions they would inevitably have to resort to political action to stop it unless they were prepared to use extra-legal, revolutionary methods.—*Unions in Prosperity,* 1960

BECKERMAN, WILFRED . . . economic growth has been, and is likely to continue to be, the major means by which society will be induced to *reduce* pollution to socially optimal levels. As nations grow richer they become more willing to devote resources to improving the environment. —*Pricing for Pollution,* 1975

BEESLEY, M E Two economic contingencies might . . . make the unions even more unpopular. Export crises [and] another inflationary situation . . . —*Mergers, Take-overs and the Structure of Industry,* 1973

BENHAM, FREDERIC . . . there is wide scope for reductions in public expenditure. This . . . could largely take the form of reducing the scope of the social services by requiring people to pay for them, thus also encouraging them to make private provision. If this were combined with a generous treatment of those genuinely in need, there could be substantial reduction in the costs over the next ten or twenty years and therefore in taxation. —*Agenda for a Free Society,* 1961

BLAUG, MARK Anyone who has been attentive to the recent resurgence of the neo-classical research programme in regional analysis, urban economics, applied welfare economics, cost-benefit analysis, the economics of education, labour economics, the economics of time, the economics of search and information, the economics of crime, the economics of fertility, the economics of marriage, the economics of private property rights – the list is really endless – can hardly doubt that there is life yet in the concepts of maximisation, equilibrium, substitution and all the other tricks of the trade of mainstream economics. Cambridge UK, however it tries, cannot get along without these ideas and in that lies the overwhelming superiority of the neo-classical tradition in economic thought.—*The Cambridge Revolution: Success or Failure?* 1974

BOWLEY, MARIAN Frank acceptance of the probability that even 'enlightened' self-interest will differ from the public social and economic interest from time to time, together with the introduction of appropriate constraints, is more likely to provide a reasonable basis for the utilisation of the resources and initiative of private enterprise in this sphere.—*Private Capital for New Towns,* 1969

BOYSON, RHODES My research into literacy in . . . village schools near Bolton in the 1830s gives surprisingly high rates of literacy . . . It was estimated that in 1870, when there were not enough schools for all, literacy had reached at least 90 per cent. Yet after a century of increasing state expenditure and interference in education it is still estimated that 7 per cent of adolescents are illiterate or near illiterate.—*Education: A Framework for Choice*, 1970

BRACEWELL-MILNES, J B Surtax on investment income, capital gains tax and death duties can probably be cut even if consumption must not be allowed to rise; indeed, if these taxes are cut, consumption is more likely to be reduced than increased. Cuts in taxes on saving can thus provide the resources for further tax cuts extending to consumption and earned income.—*Taxation: A Radical Approach*, 1970

BREMNER, MARJORIE This survey . . . lends little or no support to the assumption that people favour or welcome state paternalism. They suggest the contrary.—*Dependency and the Family*, 1968

BRITTAN, SAMUEL If some control is unavoidable, it is better that it should be through known laws rather than through exhortation or arm-twisting or through giving quasi-governmental powers to the CBI or TUC.—*Government and the Market Economy*, 1971

BROWN, E H PHELPS The economic needs of today can be made unmistakable only by plain speaking [by politicians]. But of this there has been an amazing lack.—*Crisis '75 . . . ?*, 1975

BRUNNER, JOHN . . . no public forecast to which the government is a party can be a genuine 'best guess'. The government can never forget the feelings of the multiple audience, . . . of Scotland or the TUC as well as those of outsiders like the international banking community. An element of wishful thinking, targetry or economic diplomacy is thus always present in official crystal-gazing in public.—*The National Plan*, 1965

BUCHANAN, J M The observed failure of the NHS can be explained by the *structure of the institutions* . . . in their *private or individual choice* behaviour as potential users or demanders of health-medical services, individuals are inconsistent with their *public or collective choice* behaviour as voters-taxpayers who make decisions on supplying these same services.—*The Inconsistencies of the National Health Service*, 1965

BURN, DUNCAN If the aim is to use nuclear energy in Britain to make large quantities of cheap power available quickly the further extension of monopoly in the nuclear industry by the creation of a single design authority would be disastrous.—*The Political Economy of Nuclear Energy*, 1967

C

CAINE, SIR SYDNEY . . . the ideal future system would be one in which all television services, whether provided by the BBC or by commercial contractors, were provided through pay-television receivers and financed by a combination of payment by viewers on the basis of time spent in viewing and the sale of advertising time.—*Paying for TV?*, 1968

CAIRNCROSS, SIR ALEC . . . the price-mechanism works satisfactorily only where bargaining power is limited by the force of competition; and when, as in the labour market, this force is qualified by monopolistic influences, or when the government's commitment to full employment alters the whole context within which individual labour bargains are struck, there can be no guarantee of stability in the general level of wages and prices. —*Wages and Prices in a Mixed Economy*, 1971

CANES, MICHAEL There is need to improve both the accountability of the telephone service to the public and the position of the consumer in the market for telephones. The evidence is that for these purposes a regulated service is superior to a state-operated one.—*Telephones – Public or Private?*, 1966

CARMICHAEL, JOHN We must subject housing to the discipline of market processes, thus avoiding reliance on vast capital outlays which cannot easily be readapted if the original assumptions of the 'plan' prove false and on the need for comprehensive long-term predictions that no individual is competent to make.—*Vacant Possession*, 1964

CARTER, R L . . . basic advice on crime prevention should continue from police crime prevention departments free of direct charge. More detailed advice or assistance should be made available by the police for fees which could help to finance more resources, including civilian specialists.—*Theft in the Market*, 1974

CHALONER, W H He [Engels] was writing a political tract, not a scholarly monograph. He detested the factory system root and branch and was seeking evidence to condemn it.—*The Long Debate on Poverty*, 1972

CHOWN, JOHN The debate on the Committee Stage of the 1965 Finance Bill reveals an obsessive preoccupation on the part of the government with tax avoidance. Indeed, the only argument put forward for the corporation tax which was not considered in this *Paper* is that it will stop tax avoidance. But changes open loopholes as well as close them.—*The Corporation Tax – A Closer Look,* 1965

CLARK, COLIN A large part of the effort of modern politicians is devoted to destroying . . . the sense of responsibility among electors and to spreading the futile and dishonest belief that somehow or other someone else will pay for the good things for which electors are invited to vote.—*Taxmanship,* 1964

CLARKE, W M . . . the true measure of the City's value is not just this invisible income . . . London is still providing the mechanism for a large share of the world's finance and commerce. Surprising as it may seem in a decade in which the pound has remained officially inconvertible, no other financial centre has even attempted to take over the mantle from London. —*The City's Invisible Earnings,* 1958

COATS, A W Despite their justifiable doubts about the efficacy of state intervention in economic and social affairs, the classical economists were neither spokesmen for dogmatic *laissez faire* nor uncritical apologists for the *status quo,* but moderate, humane, and liberal reformers.—*The Long Debate on Poverty,* 1972

COLLARD, DAVID The amount of discrimination practised by individuals (or supported through the ballot box) depends on the imagined 'price' of discriminating as well as on prejudice itself. Education . . . familiarity and so on can do much to reduce the amount of prejudice; but just as important is the dispelling of gloomy economic predictions of its effects.—*Economic Issues in Immigration,* 1970

COLQUHOUN, IAIN . . . restrictive union practices . . . frustrate better methods of working and operate against the long-term interest of employees as well as against the public interest. Yet the proprietors, for mixed motives, have largely acquiesced in their continuance.—*A Prosperous Press,* 1961

COOPER, M H (WITH MAYNARD, ALAN) If any good *economic* reasons for not having 'freedom of the air' have been deduced, they are yet to appear . . . The present structure has little or nothing to recommend it save that it gives governments and airline chiefs a quiet life. Consumers in the Western world, however, are beginning to realise that they are paying too high a price for somebody else's peace of mind.—*The Price of Air Travel,* 1971

CSIKOS-NAGY, BELA . . . we have already started working on the final phase around the end of the 1970s . . . Its essence is to bring about a rational pattern of consumption where prices reflect costs. At present retail price relatives have hardly any connection with costs and this leads to an irrational consumption pattern and curbs economic growth.—*Pricing in Hungary*, 1968

CULYER, A J . . . all that glisters is not gold: noble acts can serve ignoble purposes, just as less noble motives can promote noble ends. Economics . . . does not of itself show how to make a nation 'good'; but whoever would be qualified to operate a social policy or to judge of the means of creating social justice and of liberating the noble soul from his base self, must first . . . be a political economist.—*The Economics of Charity*, 1973

CURTIN, TIMOTHY (WITH MURRAY, DAVID) . . . as time goes by, necessary adjustments will be made, and import substitution will become a reality. We are tempted to conclude that time is the most valuable commodity the Smith regime has at its disposal.—*Economic Sanctions and Rhodesia*, 1967

D

DEAGLIO, MARIO . . . the aspects of IRI which could be imitated by any country wanting to have state intervention without nationalisation are mainly threefold:

> There must be complete separation between economic control and the civil service. Borrowing in the open market must be the main source of financial backing . . . the individual companies should operate under the same legal and commercial rules as comparable private companies.

—*Private Enterprise and Public Emulation*, 1966

DE JOUVENEL, BERTRAND . . . the French example goes to show that rent control is self-perpetuating and culminates in both the physical ruin of housing and the legal dispossession of the owners.—*Verdict on Rent Control*, 1972

DENMAN, D R Compulsory purchase is seldom justifiable except to promote technological advance and even for this purpose it can work an injustice unless the terms of compensation are adequate.—*Land in the Market*, 1964

DONNELLY, DESMOND The task of western countries is therefore clear. It is to use the instrument of trade not only to meet the Communist challenge on neutral territories in Africa and Asia but also to take their own economic challenge into the most remote cities of the Soviet Union itself.—*Trade with Communist Countries*, 1960

DUNNING, JOHN H If the UK insurance industry fails to meet the opportunities of the 1970s, UK institutions may insure more with foreign insurance companies (to the detriment of the British balance of payments); or not take decisions which involve risks they cannot adequately insure; or insure themselves. Either of the last two courses could weaken Britain's competitive position *vis a vis* the rest of the world.—*Insurance in the Economy*, 1971

DU SAUTOY, PETER Curative medicine is expensive, and the cost of a free national health service prohibitive. But . . . 'earthy' people understand that it is worth paying money in order to get proper treatment. Indeed people may often feel that what is 'free' is not good.—*Choice: Lessons from the Third World*, 1968

E

EDEY, HAROLD In a bid or merger, the existence or absence of systematic analyses and quantification by management of the expected advantages and economies, and the degree of investigation that has been undertaken, should be a matter of considerable concern to interested shareholders. This seems to me an area where accountants could make a substantial contribution . . .—*Mergers, Take-overs, and the Structure of Industry*, 1973

ELTIS, WALTER (SEE BACON, ROBERT)

EVANS, SIR LINCOLN . . . [the] legal protection the unions now have was originally provided to redress a balance which tilted against the side least able to defend itself in any dispute about wages and conditions. But so much has the whole pattern of our social and industrial life changed that this protection can and often does sanction an irresponsible use of strength. —*Journey to Coercion*, 1964

F

FERNS, H S The time has come to demonstrate on a large scale and in a sophisticated sphere of human endeavour and necessity that people on their own can meet a community need with no assistance from the state and entirely without state controls other than those designed to preserve the common law rights of individuals.—*Towards an Independent University*, 1969

FISHER, MALCOLM [Britain's] obsession with 'security', by which I mean social measures for reducing hazards arising from unemployment, poverty, illness, etc., has led to the relative denigration of economic progress, without which real security is impossible.—*Crisis '75 . . . ?*, 1975

FLEMMING, JOHN If average wages are about 6 per cent too high, profits are about 25 per cent too low – with serious implications for both inves-tment and employment prospects.—*Catch '76 . . . ?*, 1976

FLETCHER, RAYMOND Inflation . . . is socially disruptive. It transforms an ordered society into an undisciplined mob. This is what happened in Germany in the 1920s and in many countries in Europe after the 1939–45 war. The collapse of the currency symbolised the collapse of practically everything else – authority, morality, even the state itself. But the collapse of these other elements preceded the collapse of currencies . . . the same kind of thing is happening in Britain today, although in slow motion . . . —*Inflation: Economy and Society*, 1972

FOGARTY, MICHAEL P . . . economists and other social scientists in the 1960s will be increasingly concerned not with the welfare state as we have come to think of it but with the institutional structures that could be devised to take its place.—*Agenda for a Free Society*, 1961

FOSTER, CHRISTOPHER . . . the traditional checks and balances – the role of the Treasury in approving major public expenditures, the role of the Cabinet which normally, as in this case, has had to approve the project, as well as scrutiny by both Houses of Parliament – have failed . . .—*Lessons of Maplin*, 1974

FRANKEL, S HERBERT To restrict foreign investment is nothing more nor less than to restrict the power of persons to develop new values – which will accrue in the form of a new or additional income stream. There is no basic difference between the receipt of income from an investment abroad and the receipt of income from a factory which sells its output at home. —*Gold and International Equity Investment*, 1969

FRASER, IAN . . . self-regulation in the City of London continues to be in firm control of the situation. The quotations department and the Take-over Panel will continue to get their share of praise and blame, sometimes from the gamekeepers and sometimes from the poachers. The praise will and should outweigh the blame as long as: Britain has a unified capital market; intangible assets such as credit-worthiness have a real earning power; those who operate the system have the will to hound out the miscreants ruthlessly; the authorities are prepared to lend a hand quickly and responsibly when a hand is needed.—*Mergers, Take-overs and the Structure of Industry*, 1973

FRIEDMAN, MILTON . . . inflation is always and everywhere a monetary phenomenon in the sense that it is and can be produced only by a more rapid increase in the quantity of money than in output . . . A steady rate of monetary growth at a moderate level can provide a framework under which a country can have little inflation and much growth. It will not produce perfect stability; it will not produce heaven on earth; but it can make an important contribution to a stable economic society.—*The Counter-Revolution in Monetary Theory*, 1970

FULOP, CHRISTINA Many planning authorities are out of touch with new retail methods and techniques and often influenced by the antagonism of existing traders towards them. While permission is given for building on traditional sites for orthodox types of retail outlets, there should be more willingness to consider unorthodox schemes which nevertheless accord with shopping needs.—*Conpetition for Consumers,* 1964

G

GASH, NORMAN . . . industrialisation . . . was a vast social and economic movement, unplanned and uncontrollable, with innumerable ramifications and side-effects; . . . that produced exploitation and philanthropy, paternalism as well as militancy; from which the working classes both suffered and profited; which ultimately not only improved their living standards but created the opportunity for them to organise for political purposes and for self-help.—*The Long Debate on Poverty,* 1972

GIBSON, N J Experience in the last three years would seem to support the view that non-bank financial intermediaries are not a serious threat to monetary policy. What is far more important is control of the money supply.—*Financial Intermediaries and Monetary Policy,* 1971

GRAY, HAMISH Government ownership of one-third of the nation's homes cannot be justified on the ground that markets 'do not work' or 'we do not want to return to the 19th century'. Council housing is not necessary to increase the supply of homes, clear slums or eliminate external effects.—*The Cost of Council Housing,* 1968

GRIFFITHS, BRIAN The major concern must be to avoid the temptation to pursue expansionary monetary and fiscal policies as a reaction to growing unemployment. Monetary and fiscal policies should be designed on the basis of a 3- to 5-year view of the economy and unemployment should be tackled by other policies . . . the main reason for optimism at present must be that our creditors, the International Monetary Fund, will simply not put up with continuing financial and budgetary indiscipline.—*Catch '76 . . . ?,* 1976

H

HABERLER, GOTTFRIED The excessive power of labour unions should be curbed. There is simply no synthetic substitute for restoring a larger measure of competition in the labour market and elsewhere.—*Inflation and the Unions,* 1972

HALLETT, GRAHAM . . . free trade in people is easiest when the disparities between the countries are not too wide: in levels of income, economic development and unemployment, and in race and culture.—*Economic Issues in Immigration,* 1970

HANSON, C G No changes in the law on their own can make people or organisations behave better. The traditions and attitudes developed over a century cannot be changed overnight; nor are industrial disputes usually best settled in a court of law. But there must be a law to act as a long-stop for industrial disputes.—*Trade Unions: A Century of Privilege?*, 1973

HARBURY, COLIN D ... the costly government machine, through which so high a proportion of total income passes, achieves so little redistribution via income tax and yet produces significant disincentive effects.—*Catch '76 . . . ?*, 1976

HARRIS, ANTHONY Governments like the British, which believe that the Red Queen laid down the right rules of conduct for a recession – balance yesterday, balance tomorrow, but never balance today – frighten the wits out of the financial markets.—*Catch '76 . . .?*, 1976

HARRIS, RALPH The National Economic Development Council has concentrated on trying to spot the physical bottlenecks to increased output, instead of identifying the institutional rigidities that obstruct the adaptation of supply to changing demand under the stimulus of keener competition. —*Growth, Advertising and the Consumer*, 1964

HARTLEY, KEITH The market for civil aircraft is imperfect. Within the UK there are small numbers of aircraft firms and airlines, with restrictions on new entrants. But the imperfection of this market is a direct result of government intervention rather than any underlying technical characteristics.—*A Market for Aircraft*, 1974

HAYEK, F A It was not 'capitalism' but government intervention which has been responsible for the recurrent crises of the past. Government has prevented enterprise from equipping itself with the instruments that it required to protect itself against its efforts being misdirected by an unreliable money and that it would be both profitable for the supplier and beneficial to all others to develop.—*Denationalisation of Money*, 1976

HEATH, J B There has been a marked tendency in this country to go straight for what was thought at the time to be the ultimate solution, without going through the intermediate stages. We went straight for the computerised telephone exchange, for supersonic air transport (missing out trans-sonic), more or less straight to production-scale nuclear plants. All turned out to be disastrously wrong . . . it is our traditional system of decision-making that has let us down . . . we have a severe . . . management problem in the business of government.—*Lessons of Maplin*, 1974

HENDERSON, R F Looking ahead in 1959 one must remember that only for about two years out of the past twenty have prices been reasonably stable. Naturally, therefore, confidence in future price stability is frail. It would be all too easy for the snowball of expectations of future inflation to start rolling again. A large part of the valuable legacy from the nineteenth century of confidence in the future value of the currency in Britain has now been squandered. The long period of inflation up to September 1957 has so damaged that confidence that a more restrictive policy and one of higher interest rates will have to be pursued by the authorities over the next decade than would have been necessary had the post-war inflation been halted five years sooner.—*Not Unanimous*, 1959

HENDERSON, W O (SEE CHALONER, W H)

HERBERT, A P Royal Commissions and committees of inquiry appointed by the Crown outside the government bodies are *prima facie* evidence of a failure of government.—*Anything But Action?*, 1960

HIBBS, JOHN Everything points to a competitive structure as the best means of securing the maximum choice for the consumer, combined with a real consumer's influence over the facilities with which he is provided. —*Transport for Passengers*, 1971

HICKS, SIR JOHN It is dreadful to think how much of our national deficit is ultimately traceable to local expenditure on 'civic amenities', expenditure which would not have been made if the cost of it had been brought home to those responsible for it.—*After the Boom . . .*, 1966

HICKS, URSULA (LADY) . . . [the] basic long-term cause of . . . malaise [is] that, almost universally, responsibility for the heavy and rapidly expanding social services has been placed on their [the local authorities'] not very broad shoulders. This is an open-ended commitment with new needs being uncovered all the time, and little opportunity of reducing the scope of existing services.—*Catch '76 . . .?*, 1976

HINDLEY, BRIAN People engaged in business *are* likely to be the most competent to judge whether another business could be run more profitably. That is the basis for the market in corporate control. If the managers of a firm are not making full use of the profitable opportunities available to them, or if their firm is for any reason valued at less than its potential, other managers will be the first to know it.—*Industrial Merger and Public Policy*, 1970

HOBSON, SIR OSCAR It is not to be supposed that the ordinary business man, whether trader or manufacturer, will readily respond to subtle and not discernible variations in the 'liquidity structure' of the debt. The one instrument of monetary policy which immediately strikes home to him is the Bank rate. It stirs his imagination, it affects his pocket via his overdraft rate and, as I maintain in face of the Radcliffe Committee's scepticism, it influences his investment decisions. Therefore, I fully expect that in the future the authorities will find the Bank rate to be their most effective instrument of control when any change of monetary policy is thought necessary.—*Not Unanimous,* 1959

HOUGHTON, DOUGLAS (LORD) How do we reconcile unimpeded rise in social expenditure with a severe curb in personal consumption, and a minimal rise in economic growth? The answer may lie in making more social expenditure an acceptable, even a positively welcome, part of personal expenditure.—*Paying for the Social Services,* 1967

HOWARTH, RICHARD W The figures reveal the high degree of agricultural protectionism in the Common Market and the burden it imposes on the remainder of the population. The implication for Britain if we join the EEC is that British influence within the Commission and the Council of Ministers should be exerted towards reducing agricultural guaranteed prices within the Community and re-orientating farm policy towards structural reform as proposed in the Mansholt Plan.—*Agricultural Support in Western Europe,* 1971.

HOWE, SIR GEOFFREY [The] research points towards the conclusion that once market dominance exceeds a certain threshold range . . . roughly . . . a situation in which the four largest suppliers account for 50 per cent of the relevant market, there is a much bigger chance that anti-competitive behaviour will occur. It may be that a somewhat lower figure than a one-third share of a market might be appropriate in new legislation. —*Mergers, Take-overs, and the Structure of Industry,* 1973

HOWELL, DAVID Policy changes, especially those which might require cuts in public spending, have a habit of melting away or being indefinitely postponed once they reach departments, unless there exists in the Cabinet . . . a collective determination that it shall be held within a specific ceiling as a matter of long-term strategic policy.—*The Dilemmas of Government Expenditure,* 1976

HUTCHISON, T W . . . one cannot adequately *understand* the performance of a mixed economy in a democracy without much more knowledge of how electoral forces act on governments and oppositions, how the policy of preferences of the public get expressed, and how far they get distorted, and what these policy preferences really are.—*Markets and the Franchise,* 1966

HUTT, W H The lesson of history, explained by classical economic analysis, is that disinterested market pressures, under the profit-seeking inducement, provide the only objective, systematic discipline that would dissolve traditional barriers and offer opportunities irrespective of race or colour.—*The Economics of the Colour Bar*, 1964

HUTTON, GRAHAM Nations, like individuals, get the kind of life they are prepared to organise and work for. Prosperity comes quickest by freely pulling together. That remains as true for a family as it does for a nation, and for the whole family of nations in the world.—*All Capitalists Now*, 1960

I

ILERSIC, A R . . . if local government services continue to expand, more money will be required than can be raised by local rates; the proposals for supplementing rate revenue that have long been discussed are administratively impracticable or would merely shift the source from rates to taxes, and therefore additional sources of revenue must be discovered. —*Relief for Ratepayers*, 1963

IRELAND, MARILYN J Good thoughts, high intentions, and a noble state of mind too often dominate our thinking. This preoccupation with state of mind frequently obscures the consequences of a given action or rule. In abhoring and ignoring the non-charitable market for blood, both the commentators and courts are guilty of emphasising motives rather than results.—*The Economics of Charity*, 1973

IRELAND, THOMAS R . . . no good society has ever been judged solely by the quality of the beneficiaries of its transfers of income. Some concern should be given to the welfare of those who provide the transfers.—*The Economics of Charity*, 1973

J

JACKMAN, RICHARD (WITH KLAPPHOLZ, KURT) . . . indexation offers governments the means to protect their citizens against inflation. If governments refuse to employ this means, then at best they must be judged ill-informed, and at worst the integrity of their protestations must be questioned.—*Taming the Tiger*, 1975

JACOBY, NEIL H . . . the environmental crisis was generated primarily by tardy responses of the political system, and only secondarily by faults in the market system.—*The Polluters: Industry or Government?*, 1972

JAY, PETER . . . the general influence of collective bargaining can only be removed by offering working people an alternative and better protection than national trade unions can offer. The only potentially acceptable alternative is a change in company law which gives ownership and ultimate control of enterprises to the people employed by them. They would then have to sink or swim in a market environment.—*Employment, Inflation and Politics*, 1976

JEFFERSON, MICHAEL . . . the 'Condition of England' novels of the 1840s and 1850s . . . are generally not . . . sufficiently accurate or representative as economics to have been put to use in economic, social and literary history. —*The Long Debate on Poverty*, 1972

JERVIS, F R The directors of multi-operation firms are navigating in uncharted waters; occasionally they run aground but so far they have been lifted off by the rising tide of inflation. The return of more competitive conditions would show up deficiencies in their commercial seamanship. —*The Company, the Shareholder and Growth*, 1966

JEWKES, JOHN The system of free markets . . . [is] one of the most brilliant institutional inventions of the Western world . . . [It] has been attacked by social scientists who seem to suffer from an irresistible itch to gnaw at any institutional framework in which they happen to find themselves. But [it] has also had its brilliant and robust defenders, scholars and thinkers who are wiser about the institutions through which justice and compassion between men can best be nurtured.—*Growth through Industry*, 1967

JOHNSON, DAVID B Adam Smith's invisible hand . . . might be a much more general and therefore a more useful theory than he, or his followers, realised. Men do not change moral gears as they shift from one type of market activity (private) to another (political or charity); they merely maximise (optimise) different goals. The invisible hand is altered but not negated if individuals optimise social approval instead of profits . . .; the most serious obstacle is the lack of a *Wealth of Nations* describing the mechanism of the invisible, or perhaps visible, hand in the political and charity markets.—*The Economics of Charity*, 1973

JOHNSON, HARRY G We have now reached the stage where it is impossible to tell which industries we are good at and which we are bad at. —*Rebuilding the Liberal Order*, 1969

K

KAHN, LORD The hideous fact is that, on present form, the UK is one of the least successful industrial countries – almost certainly *the* least successful large industrial country – in securing the orders which the oil-producing countries are placing at a rapidly increasing rate.—*Crisis '75 . . .?*, 1975

KELLETT, RICHARD The tax penalties on 'unearned income' should be dropped. If the Government is to recognise the pains people take in amassing saving and the growing risk they shoulder in investment it should extend the tax allowances given on so-called 'earned income' to cover investment income too.—*Ordinary Shares for Ordinary Savers,* 1962

KELLY, TERENCE . . . competition must be an essential ingredient of any remedy for the industry's troubles. It is not the role of the state to prop up private monopoly.—*A Competitive Cinema,* 1966

KLAPPHOLZ, KURT (SEE JACKMAN, RICHARD)

KOGAN, MAURICE . . . the economist's model carries with it empirically unacceptable assumptions and he has attempted to compress complex organisational patterns, concerned with a wide range of values and policies, into a sophisticated but too simple economic model.—Comment on *Bureaucracy: Servant or Master?*, 1973.

L

LACHMANN, L. M. We have no right to assume that . . . aggregates can, over time, lead a life of their own. All the time they will be shaped and re-shaped by forces emanating from the micro-sphere, forces that ultimately stem from human choice and decision.—*Macro-economic Thinking and the Market Economy,* 1973

LAIDLER, DAVID . . . any unemployment rate below the natural rate could be attained only at the unbearable cost of an ultimately explosive inflation.—*Unemployment versus Inflation,* 1975

LEES, DENNIS The attempts to mark off the professions from other forms of economic organisation by appeals to *credat emptor* or the 'difference' of their services turn out to be unconvincing or unfounded. The spread of the professional idea means a retreat to mercantilism, and a serious brake on the emergence of new and more efficient forms of organisation.—*Economic Consequences of the Professions,* 1966

LEIJONHUFVUD, AXEL . . . if one is to be historically accurate (and fair to his contemporaries) one must note that in these debates on policy [Keynes] did not loom head and shoulders over them in the way that we have become used to thinking of him.—*Keynes and the Classics,* 1969

LEWIS, W R ... the choice for the future is between Rome and Brussels: between the law of a Community constitution establishing and reinforcing personal economic freedoms on the one hand, and a new European-scale version of the bureaucratic, national, corporatist, over-centralised style of government on the other.—*Rome or Brussels . . .?*, 1971

LICHFIELD, NATHANIEL ... there is no such thing as a complete private or public enterprise new town, but there is a good prospect for increased participation of private capital in the building of new towns.—*Private Capital for New Towns*, 1969

LINCOLN, JOHN A The ease with which producer groups can exert pressure on governments constantly tends towards a fragmentation of the economy in discrete feudalisms of warring interests which only a free market can prevent.—*The Restrictive Society*, 1967

LUTZ, VERA France's rapid economic expansion since the war . . . owes much to the dynamism of the new post-war generation of entrepreneurs. It has been associated with only mild interference by the authorities with the freedom or natural inducement to locate new businesses in the places which the entrepreneurs have thought best . . .—*Economic 'Miracles'*, 1964

LYNN, RICHARD It has been very difficult to demonstrate any measurable benefit from the very large increases in expenditure on education over the last quarter of a century. I suspect this conclusion might be equally applicable to many other parts of government expenditure.—*The Dilemmas of Government Expenditure*, 1976

M

McCORD, NORMAN ... the record of British society in alleviating poverty during the 19th century . . . official and unofficial attitudes to poverty and its alleviation . . . their apparent close relevance to current political problems and questions of social policy . . . [This] is an area of historical scholarship in which anachronistic judgements are all too easy to make, and in which it is peculiarly difficult to avoid the snare of using 'history' as ammunition in our contemporary political and ideological battles.—*The Long Debate on Poverty*, 1972

McKIE, ROBERT Planners working in urban renewal must be prepared to operate through the motives and preferences of occupiers and developers rather than against them: to be highly skilled technical managers rather than paternalistic ideologists.—*Housing and the Whitehall Bulldozer*, 1971

MACRAE, NORMAN Economically, continuance of a rent control that has fastened like a blight on development in post-war Britain is bound to lead to at least a partial continuance of its major evils: the gross distortions in the use of available accommodation (under-occupation in some cases and over-occupation in others), the inability of landlords to effect the necessary repairs, and the decline of homes into slums.—*To Let?*, 1960

MANSER, W A P It can be seen that undue arrogation of resources by the Government can unbalance and weaken the private sector, and it is perhaps in exerting this effect at the heart of the system that the Government inflicts injury on the balance of payments.—*Britain in Balance,* 1971

MARQUAND, DAVID . . . the pattern of public expenditure is determined, not by conscious choice on the part of the society whose needs that expenditure is supposed to satisfy, and not even by the conscious choice of the elected representatives of that society, but by a haphazard combination of *ad hoc* political pressure, departmental log-rolling and bureaucratic inertia.—*The Dilemmas of Government Expenditure,* 1976

MASEFIELD, SIR PETER On today's evidence it seems clear that there is no case for Maplin on aviation grounds . . . There is a strong case for a sound – and environmentally progressive – improvement of existing airports to meet the traffic requirements, and for a development of regional airports in line with growing and changing public demand.—*Lessons of Maplin,* 1974

MAYNARD, A K (WITH KING, DAVID N) The attempts of governments to achieve more equality in the provision of goods and services have largely failed. A more effective means of achieving this objective could be for government to channel resources to 'deprived' *individuals* rather than to 'deprived' local *governments.—Rates or Prices?*, 1972

MEADE, J E The UK could and should join the EEC if it has real promise of becoming a liberal, outward-looking institution. But she should not join if it is designed as a tight parochial European bloc.—*UK, Commonwealth and Common Market,* 1962

MILLER, HARRY Legislation to remove fiscal discrimination against private businesses is long overdue. Surtax directions on the profits of the family firm should be abolished, and discrepancies should be corrrected in the treatment of shareholdings in private and in public companies for death duty purposes.—*The Way of Enterprise,* 1963

MILLER, MARGARET . . . there can be no doubt of the decisive move away from blind adherence to doctrine, however powerful and long-established, towards a more rational way of ordering economic activity . . . One of the main features of these reforms is the implicit rejection of the belief in the inherent virtues of planning as such.—*The Rise of the Russian Consumer*, 1965

MINGAY, G E Perhaps something of value in the old way of life has been lost – the more closely-linked community, the authoritarian but humane paternalism of the squire, the old country lore and traditions – but on balance industrialisation has been a force making for improvement. —*The Long Debate on Poverty*, 1972

MISHAN, E J In a fully employed economy, such as that of the UK, in which spare capacity is negligible, a constant stream of relatively unskilled immigrant families has an adverse balance-of-payments effect and, if the stream is large, almost certainly has an inflationary impact on the economy for about a decade (longer if the inflow rises over time, smaller if it falls over time).—*Economic Issues in Immigration*, 1970

MORGAN, E VICTOR . . . there is a large and growing body of evidence to suggest that monetary policy is far more powerful than the Radcliffe Committee supposed . . . it is the quantity of money, not interest rate policy or controls over particular forms of lending, that is the centre-piece of monetary policy.—*Monetary Policy for Stable Growth*, 1964

MYDDELTON, DAVID R The currency debasement adjustments, combined with inclusion of 'special' write-offs, show that the main nationalised industries are losing far more than the published accounts reveal – about £5,000 million in total over the last 10 years, compared with published losses of £600 million plus 'special' write-offs of £1,500 million.—*Taxation: A Radical Approach*, 1970

MYERS, ROBERT J It is not inconceivable that reliance on government subsidies for financing a major portion of the cost of the Social Security programme could lead to its collapse or to partial repudiation of benefit obligations.—*Expansionism in Social Insurance*, 1970

N

NASH, E F The removal of the fundamental causes of the frictions and obstacles to mobility responsible for [the] large and continuing differences between the rewards given to the agricultural and non-agricultural populations . . . is probably more dependent on education, the improvement of communications, the dissipation of prejudices and misunderstandings, opportunities for acquiring skill in non-agricultural occupations . . . than on any action specifically directed to agriculture itself.—*Agenda for a Free Society*, 1961

NASH, JOHN E Far from giving the managers of the economy more freedom of action, and precipitating a spurt of 'growth', the lower rate for sterling has reduced manoeuvrability, decreased international confidence and caused the UK considerable net increases in total international indebtedness.—*UK and Floating Exchanges*, 1969

NAYLOR, GUY The joint stock company has for more than 100 years proved a highly successful instrument of economic advance and innovation in Britain. It is a man-made device for marrying brains with bank balances . . .—*Company Law for Shareholders*, 1960

NAYLOR, MARGOT (WITH HARRIS, R AND SELDON, A) Governments should drop the threat of resorting to arbitrary discrimination against hire purchase, and should rely instead on general monetary and fiscal policy to regulate the level of economic activity and avoid inflation.—*Hire Purchase in a Free Society*, 1959

NEAL, SIR LEONARD . . . we have politicians of all shades competing for the attention and support of trade unions by pursuing programmes that are not merely irrelevant, not merely unsupported by the majority but are positively harmful in the long run.—*The Theory of Collective Bargaining, 1930-1975*, 1975

NISHIYAMA, CHIAKI . . . things are essentially decided by every member of the group collectively . . . Direct participation by everybody is a 'must'. While the major policy instrument of Western countries has been fiscal policy, indeed, fiscal deficit policy, that of Japan has been monetary policy. —*The Price of Prosperity*, 1974

NISKANEN, WILLIAM A A bureaucrat's life is not a happy one (tra la!), unless he can provide increasing budgets for his subordinate bureaucrats to disburse in salaries and contracts.—*Bureaucracy: Servant or Master?*, 1973

NOVE, ALEC We cannot consider ourselves doomed by the forces of history in which Krushchev claims to have such faith. In any economic competition we start with formidable advantages. Closer relations may give them opportunities but they give us opportunities too. If it makes them richer, so much the better. Dangerous men, like Cassius, have a lean and hungry look—*Trade with Communist Countries*, 1960

O

OPPENHEIMER, P M British economic policy still tends to lurch from one half-baked expedient to another. It lacks the judiciousness and assurance that comes from a clear appreciation of what government can achieve and what must be left to the economy at large to do.—*Catch '76...?*, 1976

O'BRIEN, DENIS P . . . we have still to live with the after-effects of the disastrous operation of the Industrial Reorganisation Corporation. The spectacular disasters are well-known. In motor-cycles, motor-cars, machine-tools, aero-engines, shipbuilding and instrument manufacture, the chickens have been straggling home to roost.—*Catch '76 . . .?*, 1976

P

PAISH, F W Today an 'incomes policy' is not . . . a vain attempt to hold back the effects of excess demand, but an attempt to extend to labour monopolies something of the control which has been imposed on most other sectors of the economy by such measures as the establishment of the Monopolies Commission . . .—*Catch '76 . . .?*, 1976

PAPPS, IVY There is no necessary conflict between freedom of choice and social concern . . . It is perfectly possible to argue for a free market and more individual choice whilst also demanding a redistribution of income.—*Government and Enterprise*, 1975

PARDOE, JOHN My constituents constantly ask me to spend money, and they do not think of it as their money; and, to be quite honest, I do not always think of it as mine. And so it goes on being spent. Moreover, since there appears to be no rational system of allocating the loot, it depends on who shouts the loudest.—*The Dilemmas of Government Expenditure*, 1976

PARKIN, MICHAEL . . . in an environment of full employment it seems that only a complete abolition of labour unions and any other forms of monopoly would have the effect of guaranteeing a slowing down of the inflation rate.—*Inflation and the Unions*, 1972

PARKINSON, STEPHEN Trade unions must now be seen as organisations capable in full and over-full employment of going far beyond asserting their members' bargaining power to exerting, for good or ill, a powerful influence on the distribution of wage-earnings, the structure of industry, and the course of the economy itself.—*Unions in Prosperity*, 1960

PEACOCK, ALAN T Once composers were rid of the servitude associated with aristocratic patronage, it was natural for them to rely on the business acumen of the publisher to make a living . . . 50 years' copyright protection should not be granted to arrangements and revisions not carried out by the original composer . . . 25 years might be sufficient.—Prelude to *Copyright and the Creative Artist*, 1967

PEARCE, IVOR G . . . every economic miracle in history, including the Russian NEP (New Economic Policy) of 1923, has been brought about not by the systematic erosion of the market economy, but by its re-establishment after a period of disastrous experimentation.—*Catch '76 . . .?*, 1976

PENNANCE, F G The bogey of so-called market imperfections is the nursery rhyme man-on-the-stair of housing analysis; for too long it has been allowed to divert attention from the far more important impediments created by housing policy itself.—*Housing Market Analysis and Policy*, 1969

PEPPER, GORDON T (WITH WOOD, GEOFFREY E) The evidence that there must be a continually excessive expansion of the money supply before continuing inflation can occur is now overwhelming. That statement places us among those economists loosely termed monetarists. But it is not satisfactory to stop at the assertion that excessive monetary expansion is the cause of inflation. We must also ask why the money supply has expanded.—*Too Much Money . . .?*, 1976

PERLMAN, MORRIS If the monetarist's explanation of inflation is correct, which I believe it is, he still has a problem to explain why the government in power keeps increasing the quantity of money.—*The Vote Motive*, 1976

PESTON, MAURICE H . . . we should not abandon the objective of full employment but threaten to do so. In other words, free collective bargaining should be allowed, and full employment pursued, but only if the two together do not lead to excessive price and wage rises . . . Thus we get to the paradox of a commitment to full employment contingent on a willingness to abandon full employment.—*Catch '76 . . .?*, 1976

PETERS, G H . . . because cost benefit analysis almost by definition must encounter difficulties of quantification it cannot be regarded as a technique which can simply be 'switched on' in the hope that it will provide an unequivocal solution to a problem . . . eulogising the technique as the latest and hence the greatest discovery of pure science is foolhardy.—*Cost-Benefit Analysis and Public Expenditure*, 1973

PIOTROWICZ, TERESA M Despite the external variations in [Polish] agricultural policy, the basic aim underlying it has remained the same – that of ultimate socialisation. The change is simply in method, a realisation through experience that big changes are wrought only gradually. It is hoped that sound and healthy collective farms will be formed when – or if? – the peasants accept the ideal of working together in harmony for the common good.—*Communist Economy under Change*, 1963

PLANT, SIR ARNOLD One device for attracting suitable and willing immigrants to speed up economic growth is the indentured labour contract for a fixed period, with or without compulsory or voluntary repatriation on the completion of the contract. On reflection it is strange that the adoption of this system in the former British Empire has aroused so much animosity in this country among self-styled 'humanitarians'.—*Economic Issues in Immigration*, 1970

POLANYI, GEORGE . . . with few exceptions the financial return on investment has been consistently lower in each nationalised industry in every year over the past decade than the average for private industries. The return on investment . . . in nationalised industries has been running at about half that on investment in private companies.—*Comparative Returns from Investment in Nationalised Industries,* 1968

PONSONBY, G J . . . the aim should be to require *all* forms of public transport to act as commercial undertakings by providing services that pay and closing down those that do not. . . . transport services should be priced in accordance with the costs incurred *and be paid for.*—*Transport Policy: Co-ordination Through Competition,* 1969

POWELL, J ENOCH The experts are wrong in alleging that international trade is threatened by a shortage of the monetary means of exchange. In the absence of government interference, an increase in world trade would automatically be financed by a rise in the value of the international media of exchange (e.g. gold).—*Exchange Rates and Liquidity,* 1967

PREST, A R . . . only in the USSR is the proportion of the student body in receipt of government grants comparable to that in the UK – and in that country students are effectively treated as state employees.—*Financing University Education,* 1966

R

RANDALL, PETER . . . one of the main impressions is the lack of a clear objective . . . Dependence on one or two basic industries, as before the war, is undesirable, but equally a completely 'balanced' regional economy which mirrors the national structure hardly seems desirable or possible.—*Regional Policy For Ever?,* 1973

RATCLIFFE, A R N It is not the forecasts, even less the men who made them, which are at fault, but the politicians who dictate the economic assumptions on which the single forecast is based. Here is the Achilles heel in forecasting the cost of social insurance. What is needed is a range of forecasts showing what burden we are putting on the shoulders of our children on various assumptions, optimistic and pessimistic, so that, in deciding what benefits we are going to grant to ourselves, we maintain faith with the generations to come.—*Lessons from Central Forecasting,* 1965

REYNOLDS, D J . . . the major problem in town planning remains that it has been, and is, trying to do too much; in practice it is trying to do the impossible . . . town planners have worked largely through subjective judgement and hunch with little reference to prices, costs, wants or preferences.—*Economics, Town Planning and Traffic,* 1966

RIDLEY, NICHOLAS Whether it is issued through Treasury bills, deficit financing, or however, increased money supply must be the way in which we debase the currency. And it must be therefore the only way ultimately to control inflation, to reduce money supply to those levels which provide the annual inflation you believe tolerable.—*Inflation: Economy and Society*, 1972

RIMMER, DOUGLAS In any economy, processes of change are likely to have a vigorous life independent of the designs of macro-economists, and it is realistic to regard higher average living standards – or any other general measure of progress – as an incidental outcome, rather than the result towards which organised collective effort is consistently directed.—*Macromancy*, 1973

ROBBINS, LORD . . . the trouble nowadays with some economists is that they too have become inflationists and, eschewing the traditional objective of stable money, think that they can determine by mathematics optimal rates of robbing the widows, orphans and other owners of fixed interest securities. Hence my fear is that we have more bad times ahead before we acquire enough wisdom to manage affairs sensibly.—*Economics, Business and Government*, 1966

ROBERTS, B C Trade unions are vitally important institutions in a free society, since they serve as an instrument of democratic self-government. Their right to protect and promote the interest of their members should never be superseded by the state.—*Trade Unions in a Free Society*, 1959

ROBERTSON, D J To talk of buying and selling labour does not mean that people are being reckoned as less than human. But because this approach offers the best way of bringing systematic analysis to the evaluation of different forms of work, it shows how skills and human effort can be most effectively applied to serve the consumer.—*A Market for Labour*, 1961

ROBINSON, COLIN . . . the energy market has changed and policy should change too . . . A much more competitive energy market, though against the prevailing orthodoxy, is an alternative which deserves formal consideration.—*The Energy 'Crisis' and British Coal*, 1974

ROSE, HAROLD . . . the pressure of open competition . . . provides the only workable and continuous solution to the conflict of economic interest and the accountability of management to shareholders is an essential ingredient of a competitive economic system. For the dispersion of economic power and for the efficient allocation of resources the disclosure of relevant information to shareholders is a vital necessity; a new Companies Act must give wholehearted recognition to this principle . . .—*Disclosure in Company Accounts*, 1963

ROTH, G J ... let those who want their cars to use parking space pay the costs arising out of parking, and those who want their cars to move in congested conditions pay the costs arising out of movement.—*Paying for Parking*, 1965

ROUSE, JAMES The temptation of architects or planners or developers is to impose their own bias, their own aspiration, assuming that they know what people ought to want, but this kind of arrogance is brought down to reality by a continuing examination of market voting.—*Private Capital for New Towns*, 1969

ROWLEY, CHARLES K ... services like defence, law and order, municipal works, etc., with strong 'public goods' characteristics, no doubt should remain in the public sector, though subject to strict budgetary control. But all other activities – the nationalised industries, education and medical care are the most important – are now suspect as tolerating inefficiency.—*Catch '76 . . .?*, 1976

RYDENFELT, SVEN ... rent control [in Sweden] results in poorer maintenance, fewer renovations and modernisations and, therefore, in the long run a serious deterioration in the quality of dwellings.—*Verdict on Rent Control*, 1972

S

SANDFORD, C T It is more logical and equitable to tax the benefit received by the living instead of the estate of the dead regardless of its disposition. Moreover an inheritance tax helps to diffuse property.—*Taxing Inheritance & Capital Gains*, 1965

SAWERS, DAVID The control of an important means of communication in a democracy should not be decided by timidity – even less by fear of television or of democracy itself.—*TV: From Monopoly to Competition – and Back?*, 1962

SCIMONE, G The policy of successive [Italian] governments after the fall of Fascism was mainly liberal. At the end of the war the authorities decided to meet the scarcity of goods by facilitating their production and marketing instead of tightening state regulations.—*Economic 'Miracles'*, 1964

SEALE, J R When the basis of the evidence on medical emigration used by government to uphold the reputation of the NHS is found to be so insubstantial, one may be forgiven for wondering how accurate is some of the other evidence used by government to support its claim for the health service – and for many of its other activities.—*Lessons from Central Forecasting*, 1965

SELDON, ARTHUR (on state pensions as incomes rise): the over-ripe apple that hangs on into winter does not improve in beauty or taste; it shrivels up and mocks the tree that gave it life. . . The fetish of averages has come to plague the untypical individual.—*Pensions in a Free Society*, 1957

SENIOR, IAN Public resentment stems in considerable measure from the absence of substitutes for the PO's monopoly of communication.—*The Postal Service: Competition or Monopoly?*, 1970

SEWILL, BRENDON . . . at some stage some government will have to take a stand against accelerating inflation. We may, even on present prospects, face another major strike almost as serious as a general strike. Yet, as we have seen from recent experience, public sympathy is inevitably divided on any issue of pay. There might be more chance of success if the stand were taken on the real constitutional issue.—*British Economic Policy, 1970-74*, 1975

SHAWCROSS, LORD . . . many of those now in control of our affairs are essentially Little Englanders . . . they are quite unaware of how British assets were built up. Even in domestic policy their attitude has encouraged non-productive public expenditure whilst producing a decline in investment in private industry which has brought about a breakdown in confidence likely to condemn this country to a miserably inadequate growth rate for many years to come.—*Overseas Investment or Economic Nationalism?*, 1967

SHENFIELD A A There is no reason to believe that . . . the avoidance of tax has a more distorting effect on business activity than that caused by taxation . . . there are circumstances in which avoidance obviously mitigates the distorting effect of taxation.—*The Political Economy of Tax Avoidance*, 1968

SHENOY, SUDHA To limit price or wage-rate increases by an incomes policy is to freeze a particular set of price and wage-rate inter-relationships while underlying circumstances of supply and demand are continually changing. This is like the 'stability' of a set of defective gauges perpetually pointing to the same set of readings.—*A Tiger by the Tail*, 1972

SIRC, LJUBO . . . the Yugoslav example demonstrates the waste inherent in the Soviet economic model . . . the advantages of a market economy cannot be enjoyed unless the fate of entrepreneurs is bound up with the prosperity of their enterprises . . . the amount of investment is much less important than its economic use.—*Communist Economy under Change*, 1963

SLESSER, SIR HENRY . . . by a process of historical accident, trade unions have come to acquire legal rights and powers that are privileges . . . not allowed to other organisations, indeed denied them, and whose trade practices to some extent in the case of commercial combinations (but not those of workmen) are controlled by post-war legislation on monopoly and restrictive practices.—*Agenda for a Free Society*, 1961

SMITH, HENRY If the communists will go back to what is fundamental in Marx, the insistence that economic freedom can only exist in conditions where capital is plentiful and productivity is high, they will be driven to see that the rising level of productivity in the West *lessens* tension in the world, and that the peaceful development of equipment and education in their own countries is the only permanent foundation on which socialism is possible.—*Communist Economy under Change*, 1963

SOLLY, MICHAEL (WITH HARRIS, RALPH) . . . most discussion of the nature and place of large companies in British industry has been based on an over-simplified abstraction . . . the political conclusions drawn from the NIESR pamphlet [*A Classified List of Large Companies in British Industry*] were based on a misreading of its contents . . . The reality bristles with complexity and diversity that makes . . . generalisation . . . positively misleading.—*A Survey of Large Companies*, 1959

STIGLER, GEORGE Our ruling attitude toward the market place has not changed since the time of Plato. Is it not possible that it is time to rethink the question?—*The Intellectual and the Market Place*, 1963

STREISSLER, E W . . . [there are] two dangers of forecasts: the attempt to forecast in areas not amenable to forecasts; [and] the danger of treating econometric forecasts as anything much more than inspired guesses. If they are supplemented by other guesses, they may be quite useful. But it would be grievously wrong to consider them, just because of their complicated and often costly apparatus, as anything necessarily by far superior to rule-of-thumb guesses.—*Pitfalls in Econometric Forecasting*, 1970

T

TANZI, VITO . . . the British income tax not only possesses several of the characteristics which make it a real impediment to the growth of the economy, but also is more burdensome than those of the other major countries.—*Taxation: A Radical Approach*, 1970

TELSER, LESTER G There is little empirical support for the proposition that the more advertising employed in an industry the less competitive it is likely to be . . . *Advertising is frequently a means of entry and a sign of competition. This agrees with the view that advertising is an important source of information.—Advertising and Competition,* 1965

THOMAS, DENIS Freedom of the air means the right of people to listen to any broadcast of their choice, free from government dictation. To refuse people such freedom simply because unlicensed radio has knocked a hole in the fabric of state protectionism seems an abject denial of consumer wants – and voters' choice.—*Competition in Radio,* 1965

TREASURE, J A P . . . people are greatly concerned about inflation as a factor in their lives and they understand quite clearly that the major cause of inflation lies in the power of labour to affect the economy.—*Inflation: Economy and Society,* 1972

TUGENDHAT, GEORG History provides plenty of evidence that gloomy forecasts about energy have been misleading and usually inaccurate. Experts have invariably exaggerated the increase in demand and under-estimated the growth in supply of both traditional and new sources of energy.—*Freedom for Fuel,* 1963

TULLOCK, GORDON Massive movements of money do occur by the political process, but they are not in the main transfers of funds from the wealthy to the poor, *but transfers of funds among the middle class* . . .the area with the largest taxable capacity and where political power is concentrated in a democracy.—*Economics of Charity,* 1973

U

USHER, DAN Judgements about real incomes are, as Keynes once said of the cost of living, like historical statements such as that Victoria was a good queen but not a wise one . . . We cannot even in principle measure real income in the exact and unambiguous way that we measure the density of a metal or the speed of light.—*Rich and Poor Countries,* 1966

V

VEALE, SIR DOUGLAS It is a curious paradox that in a service which the state has already taken into its sole control – the prison service – the most enlightened administrators are striving to introduce variety where formerly there was uniformity, while in a service dealing with more delicate subjects than the minds of most convicted criminals, the same state is striving to substitute uniformity for variety.—*Education: A Framework for Choice,* 1970

VICE, ANTHONY . . . take-over bids perform a useful function in a free economy where resources, human and other, are allocated by the price mechanism in accordance with underlying consumer preferences. Despite all the recent publicity and controversy, bids are essentially an old-fashioned method of industrial growth in a market economy.—*Balance-Sheet for Take-overs*, 1960

W

WALTERS, A A The rapid increase in the quantity of money that occurred in 1967-68 should not be allowed to happen again – nor the sudden decline of the money stock, such as occurred in 1956. The stock of money should not be merely an incidental to what the Bank and Treasury regard as efficient debt management.—*Money in Boom and Slump*, 1969

WARD, BARBARA . . . half way through the Decade [of Development] . . . the gap between rich nations and poor is greater still, not because the poor have necessarily grown poorer, but because the rich have got richer by so much more.—*Two Views on Aid to Developing Countries*, 1966

WATKINS, J W N I agree [with Hayek] that there is an important difference between being thrown out of work by the blind workings of the economic system, and being thrown into prison at the behest of an oriental despot. One cannot accuse a system of vindictiveness. But one may accuse a government of callousness or stupidity for allowing something avoidable to happen.—*Agenda for a Free Society*, 1961

WELLS, SIDNEY J Britain entered the Kennedy Round in 1963 with a tariff on manufactures that was at least as high as, probably higher than, that of the USA. It was certainly higher than that of the European Economic Community. Part of the explanation for the somewhat surprising fact that the UK, which passed through the industrial revolution earlier than its Continental neighbours, has a higher tariff on manufactures than most of them is the reliance of many Continental countries upon quantitative restrictions and exchange controls in the 1930s, while the UK chose to protect her balance of payments and employment by a relatively high tariff.—*The Shape of Britain's Tariff*, 1968

WEST, E G . . . there seems to be no special inevitability about the continuance of the present type of government role in education. To claim as many do that 'history' supports the prevailing structure because the trend has been unquestionably set in favour of such a public sector in education throughout the world seems to be a surrender of all rational judgement to the simplest type of historical determinism.—*Education and the State*, 1965

WEST, W A Even if one could be convinced that eternal wisdom were vested in planning authorities, and even if there were none of the sinister overtones which emerge from time to time in the probity of the persons empowered to grant these licences to print money – even then one would have serious doubts whether a nation can afford the housing shortages, the office shortages, and above all the costly delay – which can be for *years* – – inherent in any system of planning control.—*Government and the Land*, 1974

WHETSTONE, LINDA The dilemma that faces the dairy industry today is the consequence of fixing producer prices at a uniform level that is on average too high. Politicians, on behalf of consumers, must choose between further controls (of imports, prices and eventually of production) and a freer market.—*The Marketing of Milk*, 1970

WILSON, CHARLES The history of immigration in Britain suggests that evils have multiplied most rapidly where immigrants have been concentrated too much together, where the *rate* of immigration has put too great a strain on the natural conservatism, and often positive xenophobia, of ordinary people, and where some irrational factor – religion, or race or colour – has created an initial but obstinate bar to assimilation.—*Economic Issues in Immigration*, 1970

WILSON, TOM We may . . . need to think the unthinkable: . . . a fundamental reform of the welfare state – a reform which would reduce the flow of expenditure but should do so without imposing hardship on those who are really in need, and without blunting our efforts to reduce inequality of opportunity. This would entail a massive slaughter of sacred cows.—*The Dilemmas of Government Expenditure*, 1976

WINCOTT, HAROLD Throughout the free world democracy is being devalued by politicians. As country after country allows demand to become excessive, employment overfull, so do the politicians funk tackling the problem at its roots – fiscal policy – and put altogether too much strain on monetary policy.—*The Business of Capitalism*, 1968

WISEMAN, JACK . . . the public expenditure problem cannot be explained in isolation from social phenomena not usually considered by economists. For the most part we are arguing about, and concerned with the symptoms of, a much more fundamental problem and, if we can't deal with that, no proposals are really going to succeed.—*The Dilemmas of Government Expenditure*, 1976

WOOD, JOHN B Our standard of living would be threatened by a policy of inflation. The lowest level of unemployment. even if achievable, may not result in the best pattern of employment. Optimal employment and full employment are not the same. We could have virtually zero unemployment and at the same time no growth in the economy and a complete mal-distribution of the labour force, perpetuated by further doses of inflation, administered under political pressure. Optimal employment implies a market in which labour moves between jobs, occupations, and places, to serve the community best and at the same time maximise individuals' earnings. It is the lack of flexibility in the labour market which inhibits its proper working as a distributive mechanism, rather than the pressure of demand, which should be our immediate concern.

To continue to try to reduce unemployment by inflation will not only fail, but seems certain to create hardship for a far larger proportion of the community than those unemployed.—*How Much Unemployment?*, 1972

Y

YAMEY, B S Freedom of contract has never been an ultimate end of economic or social policy. The prohibition of r.p.m. would interfere with the manufacturer's freedom to trade on his own terms. But r.p.m. necessariy interferes with the distributor's freedom . . .—*Resale Price Maintenance, and Shoppers' Choice*, 1960