

SOUND BITE

Robust and razor sharp views





How markets give you...

**VETO
POWER!**

Are employers in free markets more powerful than workers? Are merchants more powerful than consumers? Many people answer “yes.” I answer “no.”

An essential component of a market economy is freedom of contract. And a key feature of freedom of contract is freedom not to contract — to say “no,” which protects each adult from being made worse off by those who offer to deal with him or her.

If I don't like an automaker's price for a car, I don't buy that car. If I don't like a job offer, I reject that offer. By rejecting these offers, I'm not made better off, but nor am I made worse off.

My veto power requires merchants who want my business, or businesses that want me to work for them, to offer me deals that, in my judgment, improve my well-being.

This veto power of mine, in other words, gives me power to protect myself from even the largest, most profitable firms — and it gives them incentives to work to improve my well-being by offering deals that I judge attractive.

My veto power also means third parties are in no position to judge whatever contracts I enter into.

Suppose I accept a job at an hourly wage that a third party judges to be too low. That third party's judgment should be ignored.

My willingness to take that job means that, in my judgment, my well-being is improved by working at that job. I could have rejected the job offer.

But because I accepted it, I obviously believe that, however poor the job offer might be in some objective sense, it's better for me than my next-best alternative.

So, if the third party strips me of this job, he makes me worse off, regardless of his intentions.

It's a myth, therefore, that within markets, firms have power over consumers and workers.

Yet such power can be — and too often is — gained when firms conspire with government to diminish

restriction.

An under-appreciated danger of government action is that, unlike free markets, it frequently forces individuals into situations that make them worse off.

Minimum-wage legislation forces many low-skilled workers into the ranks of the unemployed by denying them the ability to offer to work



competition or to otherwise constrict individuals' options.

If, for example, domestic automakers persuade government to obstruct automobile imports, options that I and other consumers might have found more attractive than those offered by domestic automakers are made artificially unavailable.

I and other consumers become more likely to buy cars assembled domestically. And while those of us who then choose to buy domestically assembled cars are made better off compared to not buying them, we are made worse off compared to buying the imported cars we would have bought in the absence of the import

at hourly wages below the legislated minimum.

They would prefer working at the lower pay to unemployment with no pay, but government arbitrarily strips them of this preferred option. Similarly, damage is inflicted on consumers who buy domestically produced goods “protected” by tariffs.

Any unjust power that firms have over individuals comes not from markets, but from government●

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This article first appeared in the Pittsburgh Tribune



The Great British RAKE OFF

Interest in the idea of a Universal Basic Income (UBI) is growing. A UBI involves citizens receiving an unconditional payment from the government in addition to any income received from elsewhere.

Current interest is linked to fears about widespread unemployment in the wake of coming automation, fears which are probably exaggerated.

But UBI is not really a new concept – it has its origins in the 18th century – and receives support for a variety of reasons.

The Labour Party sees it as a redistributive policy that also offers alternatives to capitalist employment: this is why Shadow Chancellor John McDonnell recently announced that he wants to see a pilot scheme in the Party's next election manifesto. The Green Party has seen it as a way of facilitating more sustainable lifestyles.

The political right has argued that it offers a simplified alternative to the complicated and bureaucratic welfare state - a variant of the negative income tax proposed by

Milton Friedman.

In principle it could reduce or eliminate the 'poverty trap' associated with means-tested benefits.

If a UBI were implemented in the UK on a large scale, what would be the implications?

First, it would be expensive. Naïve schemes are often based on scrapping all existing welfare benefits and using the funds to provide a UBI. But this would not provide enough to live on.

In the UK, we spend about £250 billion a year on broadly-defined welfare benefits (including the state pension). The amount could be slightly higher or lower depending on eligibility criteria, but this sum would suggest a UBI of a little under £4000 per year.

However, 12 million people currently receive state pensions: the basic pension is well over £6000. Nearly 5 million people receive housing benefit, averaging about £5000 per year, while 2.5 million ill or disabled people on Employment and Support Allowance collectively cost about £45 billion

in state support.

It would not be politically possible to deprive all these people of current entitlements, especially when a UBI scheme would give the same flat UBI to billionaires.

In order that no welfare recipients lose out significantly with a UBI, we would have to spend much more than we currently do on welfare – perhaps an extra £100 billion – or else cut back the UBI to a much lower level, when it would achieve very little.

A still more expensive option has been touted by ex-Labour leader Ed Miliband. His proposal for a UBI of £10,000 per year would cost £580 billion.

How would people react to this ‘free’ income? Economic theory tells us that a UBI would produce income effects and substitution effects, both of which suggest that labour supply would be reduced.

Provision of a non-work income is generally assumed to increase the demand for leisure (the income effect), while higher marginal tax rates needed to pay for the UBI make an extra hour of work less attractive (the substitution effect).

If a UBI meant that large numbers of people would want to reduce or abandon paid work, the scheme could rapidly become unaffordable as the tax levied on those still working would have to rise further.

The argument that this could easily be avoided by ‘robot taxes’ or property levies, as people as varied as Bill Gates and Jeremy Corbyn have suggested, is optimistic to say the least.

What would the consequences be for immigration? If available to all residents, a UBI would hugely enhance incentives for people to move to the UK.

But if new immigrants were not entitled to the benefit immediately, there would then have to be a separate back-up means-tested system to prevent destitution.

There are other concerns. One is acceptability

on moral grounds: is it right to oblige people by law to contribute taxes to support those who are under no reciprocal obligation to work or give anything back to the community? We have no experience of what such a society would be like in the long term.

Families or households, rather than individuals, are what we are generally concerned with when discussing poverty. But the UBI focuses on individuals.

There would be millions of pointless transfers: a single earner in a family would pay higher taxes so the state could pay their partner and children. Over time this could undermine the responsibility of people to their

LEN SHACKLETON SAYS UNIVERSAL BASIC INCOME COULD COST BILLIONS

families and increase their dependence on the state.

If the scheme were popular, there might be a constant tendency for politicians to seek electoral support by offering higher levels of payment until the scheme became unsustainable.

Moreover, whatever idealists say, it is difficult to believe that these politicians would easily resist the temptation to impose particular patterns of behaviour as a precondition of receiving the UBI.

Bossy politicians who claim to know what is best for us are thick on the ground, and a substantial UBI would give them more leverage than they should perhaps have ●

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FURTHER READING

S. Davies (2017) ‘Basic Income, Labour and the Idea of Post-Capitalism’ *Economic Affairs* 37,3, iea.org.uk/wp-content/uploads/2017/10/ecaf-oct17-davies.pdf

C. Murray (2008) *Guaranteed Income as a Replacement for the Welfare State* The Foundation for Law Justice and Society, www.fljs.org/files/publications/Murray.pdf

J. R. Shackleton (2018) *Robocalypse Now? Why we shouldn't panic about automation, algorithms and artificial intelligence* Institute of Economic Affairs, iea.org.uk/publications/robocalypse-now/



CEREAL KILLERS

A top-down photograph of a green bowl filled with yellow cornflakes, which are spilling out onto a red wooden surface. The cornflakes are scattered across the right side of the frame, creating a dense trail from the bowl towards the bottom. The red wood grain is clearly visible on the left side.

CHRISTOPHER SNOWDON
on government
efforts to impose
"health by stealth"

Do Coco Pops seem less tasty than they used to be? Are chocolate bars getting smaller? Does the flavour of Ribena seem a bit... different?

You might have noticed that some of your favourite food and drinks are changing - but you may not realise that the government is responsible.

Starting in 2015, Public Health England (PHE) embarked on an ambitious and unprecedented plan to encourage food manufacturers to reduce the amount of sugar in their products by 20 per cent by 2020.

The scheme is technically voluntary but is backed up with the threat of legislation. "Britain needs to go on a diet," says PHE's chief executive, Duncan Selbie, and food reformulation is his way of doing it.

Although the sugar reduction scheme is supposed to be subtle and gradual – it is known as "health by stealth" – social media regularly erupts in fury when popular brands are altered without warning.

The reformulation of Coco Pops, which had 30 per cent of their sugar removed in the summer, is just the start of a radical shake up of the food supply.

Public Health England is now working on a similar programme to reduce fat, salt and calories "in a wider range of product categories and across all sectors, including the eating out of home sector." This includes "restaurants, pubs, takeaways and fast food restaurants, cinemas, cafes, sandwich and coffee shops".

The government's target of reducing calories in popular foods by 20 per cent by 2024 means that Kellogg's

reformulation of Coco Pops will be in vain. Despite reducing sugar content by a third, a bowl of the cereal has only one less calorie than it did before.

No one is opposed to giving consumers healthier options, but the reformulation scheme is not about providing choice.

On the contrary, the aim is to remove full-sugar and full-calorie options altogether. PHE says that "it is important that action

WILL PEOPLE REACT TO SHRINKING CHOCOLATE BARS BY EATING TWO INSTEAD OF ONE?

predominantly focuses on changing and reducing levels in the standard, everyday products that most people buy. Alternatives to the standard product, even after several years on the market, generally only account for a small proportion of sales and this is unlikely to change."

But why is it that low-sugar and low-fat brands are niche products? The simple answer is that most people do not want them and, given that the majority of us are not obese, it is difficult to argue that most people need them.

Even those who would benefit from losing weight could be making a rational decision when they choose the full-flavour brand if they find the reformulated version unpalatable.

Like so much of economics, it is a question of trade-offs. Some people are prepared to sacrifice taste for the benefits of consuming fewer calories. Others are not.

Millions of us do not need to worry about it at all and

some people would benefit from consuming more calories. At the moment, we have the choice. The government's reformulation scheme aims to take that choice away and make the trade-offs for us on the flawed assumption that the whole country "needs to go on a diet".

The unintended consequences could be profound. Will people react to shrinking chocolate bars by eating two instead of one? Will consumers end up having to spend more money to meet their calorie requirements?

Taking a fifth of calories out of the food supply is a dazzlingly simple idea which is devilishly difficult to execute.

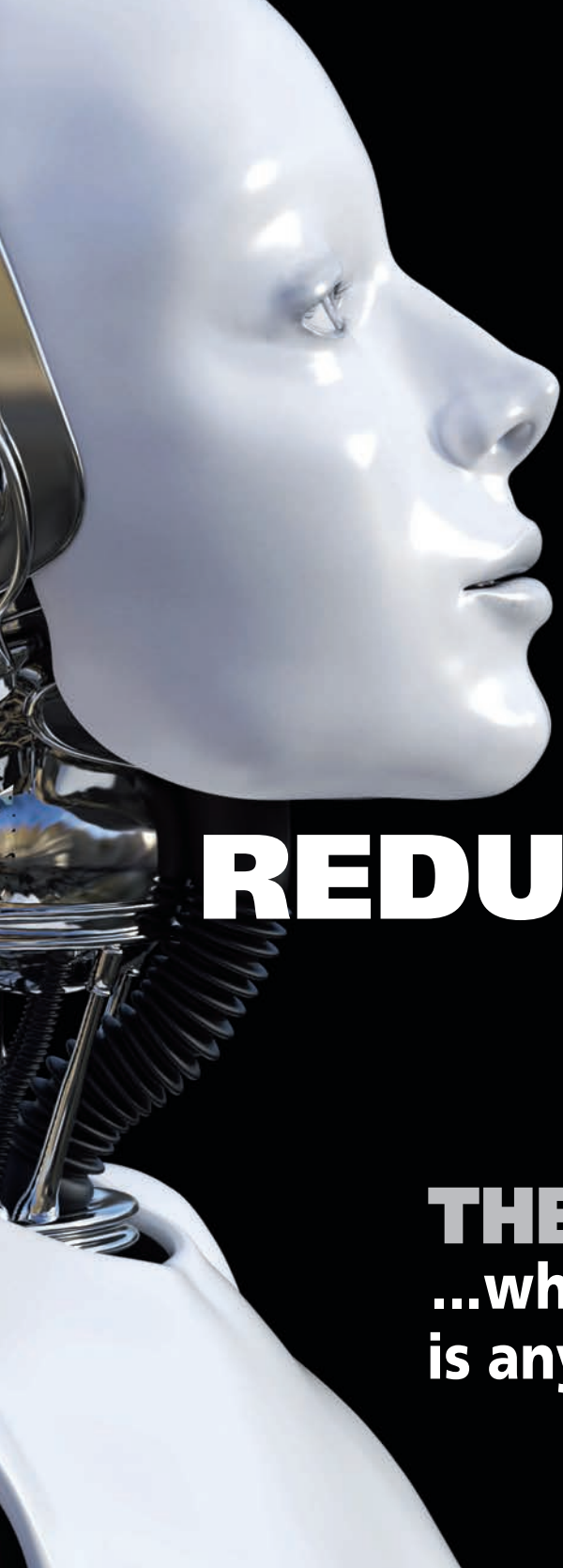
The prospect of being able to gorge on your favourite foods with impunity is appealing, but the idea that the food industry can magically take out a significant number of calories while leaving the deliciousness is the stuff of Willy Wonka.

Food companies, like chefs, do not put sugar, fat and salt in their products for fun. They do it because we like it. The proof is literally in the pudding. If it doesn't tickle our taste buds, we won't buy it.

For good evolutionary reasons, human beings are hard-wired to find calorific food tasty.

In practice, there are only two ways to reformulate a food product with fewer calories. You can make it smaller or you can make it taste worse. That is the trade-off. There is no third way, and arbitrary targets set by the government are not going to change that●

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Will
ROBOTS
make us
REDUNDANT?

THE IEA PODCAST
...where the intelligence
is anything but artificial •