LONGMAN ECONOMICS SERIES

MARKETS, INTERVENTION AND PLANNING

edited by Brian Roper
and Brian Snowdon

311
D121
741

MARKETS, INTERVENTION AND PLANNING

B. Roper and B. Snowdon (editors),
R. Bailey, B. Craven, B. Dick,
P. Holmes, M. McNulty, N. Terry,
A. Walker, B. Wood, G. Wright,
P. Wynarczyk

Longman
London and New York

HC 198 8. 2. 2 1.

Longman Group UK Limited,
Longman House, Burnt Mill, Harlow
Essex CM20 2JE, England
and Associated Companies throughout the world.

Published in the United States of America
by Longman Inc., New York

© Longman Group UK Limited 1987

All rights reserved; no part of this publication
may be reproduced, stored in a retrieval system,
or transmitted in any from or by any means, electronic,
mechanical, photocopying, recording, or otherwise,
without the prior written permission of the Publishers.

First published 1987

British Library Cataloguing in Publication Data

Markets, intervention and planning.
1. Economic development 2. Economic policy
I. Roper, B.A. II. Snowdon, B. III. Bailey, Richard
330.9 HD82
ISBN 0-582-29707-9

Library of Congress Cataloging in Publication Data

Markets, intervention, and planning.

Includes bibliographies and index.
1. Economics – Great Britain. 2. Great Britain – Economic policy. I. Roper, B.A. (Brian A.)
II. Snowdon, B. (Brian) III. Bailey, Richard.
HB103.A2M38 1987 338.941 86-18487
ISBN 0-582-29707-9

Set in Linotron 202 10/12pt Palatino
Produced by Longman Group (FE) Limited
Printed in Hong Kong

Markets, Intervention and Planning

Longman Economics Series
Series editors: Robert Millward, Michael T. Sumner and George Zis

Mathematics for economists
Introductory econometrics: theory and applications
Macroeconomics: an intermediate text
Markets, intervention and planning
Applied demand analysis

此为试读，需要完整PDF请访问：www.ertongbook.com

PREFACE

This book is concerned with the role that governments could, should and do play in economic affairs. Drawing largely, but not exclusively, upon the experience of the UK economy, the book explores the theme of markets, intervention and planning from a variety of theoretical, empirical and ideological perspectives. The genesis of this book lies in our shared realisation that changes in both economics as a discipline, and in economic policy, which have occurred in the UK since the late 1970s, have rekindled discussion of these issues and have served to place them once again at the centre of attention.

The assumed reader of this book will have an introductory background in economics at 'A' level or first year undergraduate level. We assume no mathematical background beyond 'O' level.

Whilst surveying essential theoretical and empirical issues, this is not a textbook. Rather, it is designed to serve as an intermediate level reader to accompany textbooks.

The readers of this book will be studying for degrees in the Social Sciences, Business Studies or Humanities which contain economics, or will be specialising in Economics.

In inviting twelve economists to discuss this theme, one is conscious that unity will not be easily achieved. However, in drawing upon their combined teaching and research experience we are able to demonstrate a common concern over the role of government in economic affairs, an awareness that as markets can fail so too can governments, and a belief that there will remain a continuing role for government in economic activity.

All of the authors are from the School of Economics at Newcastle upon Tyne Polytechnic. In Chapter 1 the editors, Brian Roper and Brian Snowdon, present a survey of the essential theoretical issues and empirical experiences of the British economy. This augments the standard textbook presentation and serves to provide a context for subsequent chapters.

Peter Wynarczyk in Chapter 2 explores the feasibility of a pure market system in the context of the evolution of economic thought, highlighting the works of Smith, Keynes, Galbraith, Lange, Mises and Hayek. This chapter provides a clear statement of the interventionist and anti-interventionist rationale. The role of the new right is then considered as a precursor to a discussion of the minimalist state.

In Chapter 3 Brian Snowdon explains the reasons behind the demise of the Keynesian consensus and the revival of interest in monetarism. Reviewing the rich theoretical controversies by reference to the works of Keynes, Friedman and Lucas, the chapter focuses upon the key macroeconomic policy issues of inflation and unemployment.

Richard Bailey demonstrates in Chapter 4 that the international economy cannot be neatly compartmentalised but is instead an amalgam of interventionist discretion, administered rules and market structures. Within the framework of a sustainable international system he considers managed versus free trade, floating versus fixed exchange rates and integrated versus isolated capital markets.

In Chapters 5 to 10 the authors move to a micro-level discussion of their topics. Grahame Wright and Brian Roper in Chapter 5 consider the major features of post-war industrial policy in the UK and chart the emergence of the view that governments do have a role to play in industrial affairs in peace time. In reviewing the currently burgeoning literature in this field, the chapter focuses particularly upon market failure considerations and issues of organisational control and concludes by considering such current policy initiatives as franchise bidding and privatisation.

In Chapter 6 Michael McNulty establishes the magnitude and special characteristics of the labour market. Emphasis is placed on the role of training and the process of human capital formation. The structure of industrial relations, the role of trade unions and of state agencies are reviewed against the background of deteriorating employment opportunities.

In Chapter 7 Phil Holmes indicates the particular characteristics of the market for housing. Placing housing in the context of social policy in post-war Britain, the chapter explores the relationship between market and government and points to a variety of issues that need to be addressed if provision is to be improved.

Chapter 8, written by Arthur Walker, is concerned with the economic arguments for and against government provision of health care. Drawing upon current literature and international experience, the chapter explores the technical and political issues which surround this vital issue.

In Chapter 9, Barrie Craven, Brian Dick and Barry Wood discuss the provision of education. Consideration is given to failures in public provision, to market-based alternatives and the use of loans and vouchers, to the idea that education is a form of investment in human capital, and the non-economic rationale for education.

Nicholas Terry in Chapter 10 reviews the nature and structure of the tax-benefit system in the UK. The chapter explores the trade-off between equity and efficiency considerations and evaluates governmental redistributive concerns and makes proposals for an integrated tax-benefit system.

In Chapter 11 Brian Roper and Brian Snowdon conclude by restating the key question posed in this book, what is the proper role for government in the economy? The inescapable interweaving of political and economic ideas, the clear (and conflicting) views of leading economists and the possibility that economic systems may be converging serve to remind us of the problems we face in attempting to answer this timely and central question.

In writing this book we have tried to be comprehensive but could not hope to be exhaustive. Frequent selective referencing has been used to further guide the interested reader.

ACKNOWLEDGEMENTS

It is clear that this book is the product of team work. The editors are indebted to the authors and we are all, in turn, indebted to those who helped to produce the typescript. Our thanks then to Leslie Patrick, Glenda Francis and especially to Dawn Smith for her patience and forbearance. Any remaining errors are of course the responsibility of the authors.

We are grateful to the following for permission to reproduce copyright material:

Allen & Unwin Ltd for Table 10.6 based on Table B.3 *The Strategy of Equality* by J. Le Grand; The Controller of Her Majesty's Stationery Office for Tables 1.4, 9.4 *Annual Abstract of Statistics* 1984, 9.1 *Social Trends* 1984, 1.6, 6.1, 6.2 *Social Trends* 1986, 9.6 *Regional Trends* 1985, 9.3 *DES 1977 Survey of Secondary School Staffing* (Cockcroft Report 1982), 7.3 *DoE Housing and Construction Statistics* 1970–80; the Author, Prof. A. Maddison & Banca Nazionale de Lavaro for Table 1.1 *Quarterly Review* 1980; Midland Bank plc for Table 4.4 from *Midland Bank Review* 1983, Winter; National Institute of Economic & Social Research for Table 1.2 from Barker et. al. 'Macroeconomic Policy in Germany and Britain' *National Institute Economic Review* No 114, Nov. 1985; Organisation for Economic Co-Operation and Development (Paris) for Tables 1.3, 1.5 *OECD Main Economic Indicators* 1985, 4.2, 4.3 *OECD Economic Outlook* 1985; The World Bank for Table 4.1 from part Table 3.2 p 45 *World Development Report* 1986. pub. OUP.

CONTENTS

Chapter 1

THE FALL AND RISE OF *LAISSEZ-FAIRE*

Brian Roper and Brian Snowdon

During the post-war boom, a broad consensus was established in the UK concerning the government's role in economic affairs. Both Labour and Conservative administrations accepted the idea of a mixed economy. By mixed economy we mean a capitalist market economy where government assumes and accepts an important role with regard to overall macroeconomic management as well as a more specific responsibility with regard to the provision of certain goods and services. In all the western capitalist nations, governments of various political persuasions play an important and varying part in the economic system. However, the marked deterioration in the economic performance of the major capitalist industrial nations during the 1970s and early 1980s saw a breakdown in this consensus leading to a revival of 'free market' philosophy.

In the UK the declared intention of the new Conservative administration in 1979 was clearly set out in their election manifesto. In the foreword, Mrs Thatcher declared: 'No one who has lived in this country during the last five years can fail to be aware of how the balance of our society has been increasingly tilted in favour of the State at the expense of individual freedom' (*The Conservative Manifesto*, 1979, p. 5).

The 1979 election marked a watershed in economic policy making. The consensus was rejected and the Thatcher administration embarked on a radically different course. Writing in *The Observer* in 1980, Galbraith, a notable critic of free-market philosophy and the orthodox neoclassical 'conventional wisdom' on which it is largely founded, suggested that 'Britain has in effect volunteered to be a Friedmanite guinea pig'. Friedman's championing of the cause of free markets in favour of government intervention is well known. His popular expositions of free-market

此为试读，需要完整PDF请访问：www.ertongbook.com

ideology include *Capitalism and Freedom* (1962) and, more recently, *Free to Choose* (1980). Building on earlier work, the latter book is devoted to explaining how a complex economic system can develop and prosper without central direction, how co-ordination can be achieved without coercion. Friedman does not deny that governments may well have the best of intentions when intervening with market forces but argues that they invariably make matters worse. The adverse consequences of government policies are often the unexpected and unintended by-products of attempts to improve upon market performance. Too often governments fail to look beyond the immediate consequences of their economic policies to the adverse long-run effects. There seems to be little doubt that this Friedmanite philosophy is one which the post-1979 Conservative government would broadly endorse.

In this book we examine the debate concerning the role of government in the functioning of a predominantly capitalist economic system such as the UK. To what extent should the government interfere with market forces? Are the reasons for intervention political or economic? Does the central core of economic theory support interventionism and on what scale? Can unhindered market forces be expected to supply the goods and services in the quantity or quality desired by the population given the resources which are available? If markets do fail, can governments also fail? Is government failure on balance likely to be worse than imperfectly working market forces? Is 'planning' an answer to the economic problems which face the UK economy? In the chapters which follow, the authors address these and other questions within the context of the current debate relating to the role of government in a capitalist market economy.

In the remainder of this chapter the basis and origins of the present debate will be traced. First we must consider some broad features of recent economic performance in the UK.

Recent UK economic performance

From the end of the Second World War until the 1970s the industrial market economies enjoyed a golden age of unparalleled prosperity. Rates of growth of labour productivity and per capita incomes reached historical heights in nearly all developed capitalist economies. The mass unemployment which had tarnished the inter-war period seemed only to be of historical interest as unemployment fell to what now appears to be remarkably low levels. Economists began to ask such questions as 'Is the business cycle obsolete?'

(Bronfenbrenner 1969). But no sooner had the question been asked when the business cycle returned with a vengeance. The 1970s witnessed the emergence of 'stagflation', inflation combined with recession and unemployment. Orthodox Keynesian economic theories were thrown into disarray providing an opportunity for previously unfashionable free-market views to regain the popularity they had enjoyed in the pre-Keynesian era. By 1982 over 25 million people were unemployed in the OECD economies. Full employment, which had for so long been regarded as the norm, came to an abrupt end.

The extent of the deteriorating performance of the advanced capitalist economies can be seen in its historical context by referring to Table 1.1.

The picture which emerges from Table 1.1 is one of a marked slow-down in economic growth combined with rising inflation and unemployment in the major advanced capitalist countries, especially after 1973. By the late 1970s the growth performance was similar to that experienced in the period 1870–1950 when GDP was increasing at an average rate of 2.3 per cent. However, in contrast, inflation during 1870–1950 was only 0.1 per cent. The rise in unemployment is more dramatic if data from the 1960s is compared

Table 1.1 GDP growth, consumer prices[1] and unemployment in 16 advanced capitalist countries, 1950–79

Country	*Growth of GDP %*		*Consumer Prices %*		*Unemployment %*	
	1950–70	*1973–79*	*1950–70*	*1973–79*	*1950–70*	*1973–78*
Australia	4.7	3.1	4.2	12.0	1.9	4.4
Austria	5.4	3.2	4.3	6.4	2.9	1.5
Belgium	4.0	2.4	2.5	8.4	3.1	4.6
Canada	4.9	3.3	2.4	9.1	4.5	6.8
Denmark	4.0	1.8	4.4	10.9	3.0	4.0
Finland	5.1	2.6	5.3	12.8	1.6	3.9
France	5.0	2.9	4.9	10.7	1.9	4.0
Germany	6.3	2.3	2.3	4.7	2.9	3.2
Italy	5.6	2.3	3.5	16.3	2.9	3.2
Japan	9.8	4.0	4.9	10.0	1.7	1.8
Netherlands	4.9	2.5	3.5	4.2	2.0	5.2
Norway	4.2	4.3	4.5	8.8	2.0	1.7
Sweden	4.0	1.6	4.4	9.8	1.7	2.0
Switzerland	4.7	−0.7	2.4	4.0	0.0	0.2
UK	2.8	0.8	4.1	15.4	2.6	4.6
USA	3.5	2.3	2.4	8.2	4.5	6.6
Arithmetic mean	4.9	2.4	3.8	9.5	2.5	3.6

Source: Maddison 1980

[1] Average rates of change in consumer price level

to the 1970s since several economies, notably West Germany and Italy, experienced relatively high unemployment during the 1950s. The 1960s were almost universally characterised by extremely low unemployment levels.

The decline in the growth rate of real GDP has also been accompanied by a decline in the trend of labour productivity growth. In the seven major OECD countries (USA, Japan, West Germany, France, UK, Italy and Canada) average productivity was rising by 4.0 per cent per annum in the period 1960–7. This had fallen to 3.7 per cent in 1967–73 and 1.4 per cent in 1973–80 (*OECD Historical Statistics* 1982). Declining productivity has led to a flowering of ideas related to supply side constraints on the growth potential of the major economies.

The overall picture for the UK during this period is one of a rising trend in inflation and a general slow-down in the growth of living standards (see Table 1.2).

Despite a modest recovery of output in recent years, unemployment remains unacceptably high although there has been a slow-down in the rate of inflation compared to the 1970s. Nevertheless during 1985 prices rose on average by 5.5 per cent in the UK, a rate which remains higher than the UK's major competitors.

During the period 1950–70 there was a steady underlying growth of real incomes in the UK and the business cycle was mild in comparison to the inter-war period. It should be noted, however,

Table 1.2 Historical statistics, UK 1971–84

Year	*GDP growth rate* %	*Industrial production growth rate* %	*Unemployment* %	*Inflation rate* %	*Real wage growth rate* %
1971	2.7	−0.7	3.7	9.4	2.8
1972	2.3	1.8	4.0	7.1	6.2
1973	7.9	9.0	3.0	9.2	3.4
1974	−1.1	−1.9	2.9	16.0	1.0
1975	−0.7	−5.4	4.3	24.2	4.7
1976	3.8	3.3	5.7	16.5	2.8
1977	1.0	5.1	6.1	15.8	−9.6
1978	3.6	3.0	6.0	8.3	9.2
1979	2.1	3.8	5.1	13.4	1.4
1980	−2.3	−6.7	6.6	18.0	−0.7
1981	−1.4	−3.4	9.9	11.9	−1.8
1982	1.5	1.9	11.4	8.6	−1.4
1983	3.4	3.6	12.6	4.6	1.0
1984	1.8	1.2	13.0	5.0	2.5

Source: Barker *et al.* 1985

that even during the golden age, economic growth in the UK was slower than that experienced in other western European countries, the USA and Japan (see Peaker 1974). Perhaps the most worrying feature of UK economic performance emerges when making international comparisons. Although slower growth, faster inflation and rising unemployment since 1970 have been features of the international economy and not confined to the UK, it does appear that, relatively, the UK has experienced these problems in a more severe form than many of the other advanced capitalist nations. By the fourth quarter of 1983 the percentage of unemployment in the UK had risen to 13.1; this was higher than the USA (8.4), Italy (10.0), France (8.2), West Germany (7.6) and Japan (2.6). Of these nations, only Italy has had a poorer record with regard to inflation, and the UK had the weakest performance in terms of economic growth (see Pratten 1985: 18). The recent overall performance of the major seven OECD countries is summarised in Table 1.3.

It is obvious that the poor record of the UK economy must be viewed within the context of international developments which have affected all advanced capitalist market economies since 1970. However, the relatively poor performance of the UK is evident by comparing data in Tables 1.2 and 1.3 which indicate that either the inherent weakness of the UK economy has made it particularly vulnerable to adverse international developments, or domestic policies have been conducted in such a way as to make matters even worse than they otherwise would have been. Let us now briefly consider the reasons which have been suggested for the dramatic turn-around in the economic performance of major industrial nations in recent years.

Maddison (1979, 1980) has identified several special characteristics which contributed to the 'golden age' of economic performance in the period 1950–70 (see also Ch. 3 and 4). These were as follows:

1. Increased liberalisation of international transactions.
2. Active governmental promotion of buoyant domestic demand.

Table 1.3 Inflation, unemployment and growth in the seven major OECD countries 1979–84

	1979	*1980*	*1981*	*1982*	*1983*	*1984*
Inflation (consumer prices) (%)	9.3	12.2	10.0	7.0	4.4	4.5
Unemployment (%)	4.9	5.6	6.4	7.8	8.2	7.7
Growth of real GDP (%)	3.0	0.0	2.1	−0.7	4.2	4.7

Source: OECD Main Economic Indicators 1985

3. Favourable circumstances and policies which contributed to producing low inflation in conditions of very buoyant aggregate demand.
4. A backlog of growth possibilities following the end of the Second World War.

The break-down of the 'golden age' occurred in the early 1970s. Maddison distinguishes four major contributing factors:

1. The ultimate collapse of the Bretton Woods adjustable peg exchange rate system.
2. The emergence of strong inflationary expectations as a key determinant of prices and wages.
3. Two major supply side shocks associated with the OPEC manipulated rise in oil prices in 1973–74 and again in 1979. This had an enormous effect on inflationary expectations, the trade balances of non-oil-exporting nations and investors' confidence. A huge problem of structural adjustment emerged.
4. A weakening of governmental commitment to demand management policies along Keynesian lines combined with a resurgence of monetarist ideas and influence.

There is no doubt that all of the above factors have had an important influence on the break-down of the post-war boom. Since 1979 the government in the UK has adopted a neoclassical monetarist interpretation of recent events. This school of thought lays stress on the detrimental impact of excessive government intervention and regulation in market economies as a major cause of the deterioration in growth rates. Predictably non-monetarists attribute the severity of the recent recession in the UK to deliberate acts of government policy (Barker 1980). The causes of the recession which has so severely affected the UK economy during the early 1980s are a matter of considerable controversy. According to Worswick, this recession cannot be attributed to international factors (Worswick 1984). Unlike the 1930s, world trade has 'faltered but not collapsed', and the UK economy 'plunged into recession in the middle of 1979 well before the turn-down in any other major economy' (Worswick 1984: 223). Major international developments have checked the expansion of all economies. Critics of the strategy followed in the UK since 1979 draw attention to adverse domestic developments as an explanation. According to Coutts *et al.*:

> The cause of sudden, high unemployment in the UK is a backlash against the consensus post-war economic policies of demand management to maintain near full employment, of support for industry and of

income maintenance and the provision of social welfare services–policies which were developed in response to the experience of the inter-war years. The Thatcher Government has embraced a doctrinaire monetarist strategy for controlling inflation and a *laissez-faire* approach to the supply side of the economy without attempting to moderate the social impact of these policies (Coutts *et al.* 1981: 81).

Those economists and politicians who have faith in the market mechanism attribute much of the difficulties now facing the UK economy to the misguided interventionist strategies followed by both Labour and Conservative governments during the 1950s and 1960s. In their view, policies which had short-run appeal have produced long-term disaster. Only by turning the tide against big government can the nation's economic health be restored. Prosperity depends on fostering enterprise and effort. An enlarged role for the state by diminishing the role of the individual can only damage the long-run vitality of the economy. These views have gained ground in the past decade to the extent that they form the basis of the monetarist-inspired economic strategy of the Thatcher government. The rediscovery of *laissez-faire* philosophy and ideas combined with deteriorating economic performance allowed the critics of the post-war consensus to gain extensive influence over economic policy decisions in the period after 1979.

To what extent can free markets, unhampered by government intervention, provide the goods and services people desire? It is to this question that we must now turn. First it is necessary to understand the nature of the economic problem facing all economies and the possible ways society can organise itself in an attempt to solve this problem.

The nature of the economic problem

What is Economics about? It is perhaps ironical, given the reputation of economists for disagreement, that they would all accept that there is no single formal definition of the subject. In the west a majority adhere to the mainstream neoclassical view that economic analysis centres on the issue of the scarcity of resources in relation to a society's many and various wants as the fundamental economic problem (see Lipsey 1983; Begg *et al.* 1984; Whynes 1983). When an economy's resources are insufficient to meet all the demands placed upon them, choices must be made. As Whynes has recently noted: 'Economics exists when the resources of an individual or group are insufficient to meet the demand objectives

此为试读，需要完整PDF请访问：www.ertongbook.com