

VOLUME 7

THE COLLECTED WORKS OF ARTHUR SELDON

The IEA, the LSE, and
the Influence of Ideas

THE COLLECTED WORKS OF ARTHUR SELDON

- VOLUME 1 The Virtues of Capitalism
- VOLUME 2 The State Is Rolling Back
- VOLUME 3 Everyman's Dictionary of Economics
- VOLUME 4 Introducing Market Forces into "Public" Services
- VOLUME 5 Government Failure and Over-Government
- VOLUME 6 The Welfare State: Pensions, Health, and Education
- VOLUME 7 The IEA, the LSE, and the Influence of Ideas
(includes an index to the series)

VOLUME 7

THE COLLECTED WORKS OF ARTHUR SELDON

The IEA, the LSE, and the Influence of Ideas

ARTHUR SELDON

Edited and with a New Introduction
by Colin Robinson



LIBERTY FUND, Indianapolis

This book is published by Liberty Fund, Inc., a foundation established to encourage study of the ideal of a society of free and responsible individuals.



The cuneiform inscription that serves as our logo and as the design motif for our endpapers is the earliest-known written appearance of the word “freedom” (*amagi*), or “liberty.” It is taken from a clay document written about 2300 B.C. in the Sumerian city-state of Lagash.

New Robinson Introduction © 2005 by Liberty Fund, Inc.

All rights reserved

Frontispiece photo courtesy of the Institute of Economic Affairs

“The Essence of the IEA” from *The Emerging Consensus? Essays on the Interplay Between Ideas, Interests and Circumstances in the First 25 Years of the IEA* © 1981 Institute of Economic Affairs and reprinted with permission.

“New Hope for Economic Policy in a Changing Polity” from *Agenda for Social Democracy* © 1983 Institute of Economic Affairs and reprinted with permission.

“Recollections: Before and After *The Road to Serfdom*” from *Hayek’s “Serfdom” Revisited: Essays by Economists, Philosophers and Political Scientists on “The Road to Serfdom” After 40 Years* © 1984 Institute of Economic Affairs and reprinted with permission.

“Economic Scholarship and Political Interest: IEA Thinking and Government Policies” from *Ideas, Interests and Consequences* © 1989 Institute of Economic Affairs and reprinted with permission.

“From the LSE to the IEA” from *Economic Affairs* 18, no. 1 (March 1998) © 1998 Institute of Economic Affairs and reprinted with permission.

The Making of the Institute: A Selection of Arthur Seldon’s Prefaces 1960–1992 © 2002 Arthur Seldon and reprinted with permission.

Printed in the United States of America

09 08 07 06 05 C 5 4 3 2 1

09 08 07 06 05 P 5 4 3 2 1

Library of Congress Cataloging-in-Publication Data

Seldon, Arthur.

The IEA, the LSE, and the influence of ideas/Arthur Seldon; edited and with a new introduction by Colin Robinson.

p. cm—(Collected works of Arthur Seldon; v. 7)

Includes bibliographical references and index.

ISBN-13: 978-0-86597-548-4 (alk. paper) ISBN-10: 0-86597-548-5 (alk. paper)

ISBN-13: 978-0-86597-556-9 (pbk.: alk. paper) ISBN-10: 0-86597-556-6 (pbk.: alk. paper)

1. Great Britain—Economic policy—20th century. 2. Economics—Great Britain—History—20th century. 3. Institute of Economic Affairs (Great Britain) 4. London School of Economics and Political Science. I. Title.

HC256.I43 2005

338.941'009'045—dc22

2005045185

LIBERTY FUND, INC.

8335 Allison Pointe Trail, Suite 300

Indianapolis, Indiana 46250-1684

CONTENTS

Introduction by Colin Robinson ix

THE ESSENCE OF THE IEA 3

NEW HOPE FOR ECONOMIC POLICY IN A CHANGING POLITY 19

RECOLLECTIONS: BEFORE AND AFTER *THE ROAD TO SERFDOM* 29

**ECONOMIC SCHOLARSHIP AND POLITICAL INTEREST: IEA THINKING
AND GOVERNMENT POLICIES** 43

FROM THE LSE TO THE IEA 69

**THE MAKING OF THE INSTITUTE: A SELECTION OF ARTHUR
SELDON'S PREFACES 1960–1996**

The IEA Papers: Subjects and Authors 79

Introduction 83

I. Prefaces to Hobart Papers 87

II. Prefaces to Hobart Paperbacks 233

III. Prefaces to IEA Readings 259

A Last Word 279

Index 281

Index to The Collected Works of Arthur Seldon 287

INTRODUCTION

The seventh and final volume of *The Collected Works of Arthur Seldon* brings together six works in which Seldon discusses the role of the Institute of Economic Affairs (IEA), the London-based think tank where he spent most of his working life, and in which he explores his own relationship with the IEA. Seldon worked together with Ralph (later Lord) Harris from 1957, when the institute began operating after its founding in 1955, for about thirty years in a remarkably fruitful partnership that was of great significance in reviving classical liberal thinking and applying it to economic policy.¹ Many of the liberal market think tanks in the United States and other countries were established by Antony (later Sir Antony) Fisher, the founder of the IEA, and were modeled on and took their inspiration from the IEA. The regard with which the IEA and sister think tanks came to be held is clear from the following quotation from *The Economist* in December 1993: “Governments in search of advice looked to think tanks such as the Institute of Economic Affairs in Britain and the Heritage Foundation in the United States rather than to Oxford or Harvard.”

F. A. Hayek, who regarded himself as partly responsible for the creation of the IEA (see page 84), was very much aware of its influence. For example, when the Cato Institute, now in Washington, D.C., was being formed in 1982, Hayek advised it to study the IEA’s publications catalogue: “The IEA has become the most powerful maker of opinion in England. Bookshops have a special rack of IEA papers. Even people on the Left feel compelled to keep informed of its publications.”² Seldon has always emphasized the power of ideas to change society, and the writings gathered here provide an insight into how he saw the place of the IEA, and his own role within the IEA, in

1. Further details are in the introduction to volume 1 of these Collected Works.

2. Arthur Seldon, *The Making of the Institute* (London: Economic and Literary Books, 2002), the final work in this volume, page 84.

the market for ideas in which he and Harris were complementary entrepreneurs.

In 1981 the IEA published a collection of essays titled *The Emerging Consensus*, in which a number of distinguished scholars discussed the Institute's work in the previous quarter century. Some were academics, not all completely sympathetic to classical liberal ideas, one was a senior civil servant, and another was an industrialist. Seldon wrote a preamble to the collection, "The Essence of the IEA," which sets out the Institute's "central approach" and reveals how he set about his task of commissioning and editing publications. It is the first work in this volume.

Seldon explains that dissatisfaction with the Keynesian and collectivist consensus led the IEA to muster and present "in modern dress the truths of classical political economy"—that government cannot possess the information required to produce the desired use of resources, that only individuals can derive such information, and that effective use of the information requires their "coming together as buyers and sellers in markets" (p. 4). The essence of the IEA approach, says Seldon, is to question the belief that "government could deal with any and every economic problem by regulation or direct management" (pp. 4–5), starting instead from the view that, except in some specific circumstances, such as where there are genuine "public goods,"³ economic and social problems are best solved by individual, voluntary action. The Institute unleashed a barrage of papers that "refined and applied old truths to new subjects in contemporary circumstances" (p. 6). A feature of Seldon's editorship was his insistence that authors "apply economic analysis ruthlessly," paying no regard to the "administrative practicality" or the "political impossibility" (p. 6) that so often provides excuses for delay or inaction.

Seldon goes on to illustrate the IEA approach by reference to its publications, explaining, for example, the "indispensable role of price," before, in the final section of his preamble, coming to the vexed questions of whether ideas triumph over interests (as Keynes believed) or Marx was right in arguing that vested interests rule the world. The IEA's experience, argues Seldon, shows the power of ideas: the Institute's papers have clearly influenced thinking. Ideas, however, though necessary, are not sufficient to change policy. For that purpose, the "conspiring circumstances" identified by John Stuart Mill are required. The "battle of ideas is being won in the mind" be-

3. For an explanation of the public goods problem see the introduction to volume 1 of these Collected Works, note 3.

cause “IEA ideas increasingly synchronised with the developing disillusionment with the false wartime and post-war macro-economic consensus; they opened men’s minds to new thinking, unconventional diagnoses and unfamiliar policies” (p. 14). The obstacles to reform are still formidable because of obstruction from vested interests, but, in the end, those interests will find it difficult to resist change. Despite its failings, Seldon says, “the market remains the best hope of mankind” (p. 16).

The second work in this volume consists of the opening chapter from a book, *Agenda for Social Democracy*, published by the IEA in 1983 (Hobart Paperback 15). Seldon’s chapter is titled “New Hope for Economic Policy in a Changing Polity.” The book was published at a time when a realignment in British politics appeared to be taking place. Some prominent members of the Labour Party had left the party to form the Social Democratic Party (SDP), which had then allied itself, for electoral purposes, with the Liberals. The intention of the book is to explore the meaning of “social democracy.” Both Harris and Seldon contributed chapters, and there were seven other authors, mainly academic economists.

Seldon argues that the incipient realignment in British politics opens the way for new thinking on the scope for the market and other voluntary institutions. The new elements in the 1980s, he says, are the “questioning of [the] efficacy of the state by influential public men and women” (p. 22) who had previously accepted that efficacy, and the related view that prosperity requires the increased use of decentralized institutions. Seldon then poses ten questions that must be addressed if the maximum scope for voluntary market exchange is to be achieved, with government confined to its necessary functions and with a smooth transition to the new regime. He predicts a bright future for the British economy if, in contrast to the previous thirty-five years, it is governed by alternating political coalitions, “both of which accept the verdict of history that voluntary co-operation, in the market or outside it, is not only compatible with social equity but essential to achieve it” (p. 24). Both Britain’s major political parties now accept the benefits of using markets (even if acceptance within the Labour Party is still somewhat grudging). The free market reforms of the Thatcher years are still mainly in place and the more flexible economy that has ensued has significantly enhanced economic performance relative to other European Union countries whose governments are reluctant to accept the central place of markets.

The following year, 1984, the IEA published a tribute to Hayek’s *Road to Serfdom*, on the fortieth anniversary of its publication. The book, *Hayek’s*

“*Serfdom*” *Revisited* (Hobart Paperback 18), contains six chapters by classical liberal scholars and an introductory piece by Seldon, “Recollections: Before and After *The Road to Serfdom*.” Seldon’s paper is the third work in this volume of his Collected Works.

His recollections of Hayek are of particular interest, as Seldon is the only author in the IEA volume to have known Hayek personally. In his chapter he describes the influence Hayek had on him, first at the London School of Economics and Political Science (LSE) in the 1930s and later at the IEA. That influence began as a teacher-student relationship in 1934, when Seldon, as an undergraduate at the LSE, attended Hayek’s lectures on industrial fluctuations. It continued at the LSE to 1941, when Seldon was a research assistant to the classical liberal Professor Arnold (later Sir Arnold) Plant. Many of the LSE staff were socialists, but Seldon drew his inspiration first from the leading classical liberal economist, Lionel (later Lord) Robbins, who brought Hayek to the LSE, and then from Hayek, who reintroduced Austrian economics to the LSE after it had “almost fallen out of sight” (p. 34).

Hayek’s influence on Seldon and, in part through Seldon, on intellectual thought in Britain continued through a surprising combination of circumstances. Seldon describes (p. 34) how Fisher, who was concerned at the prevalence of government planning in early postwar Britain and was contemplating a career in politics, went to see Hayek after reading the *Reader’s Digest* summary of *The Road to Serfdom*. Hayek advised Fisher against becoming a politician and suggested that Fisher find a means of appealing directly to intellectuals. Fisher, who did not then know Seldon, responded some years later by incorporating the IEA in 1955 and appointing Harris, one of the few economists of the time with strong promarket views, as general director. Harris worked with Seldon as editorial director,⁴ providing Seldon with a platform from which to express, both in his own writings and in the works he edited, the Austrian ideas that Hayek had done so much to revive and that Seldon had absorbed from Hayek and LSE classical liberals such as Robbins and Plant in the 1930s. Seldon aptly describes his work in the post of editorial director of the IEA from 1957 onward as “the fulfilment of my post-graduate hopes of 1938–39” (p. 34). Moreover, in his IEA role he was able to collaborate productively with his intellectual mentors. Hayek wrote for the IEA and was helped by Seldon’s editing to produce papers accessible

4. For further information on this period see the general introduction to these Collected Works.

to a wide audience that were one of the key elements in the revival of classical liberal ideas from the late 1970s onward.⁵

The fourth paper in this volume was written after Seldon had retired from his post as IEA editorial director, a year before *Capitalism* (volume 1 of these Collected Works) was published. In June 1989 the IEA held a symposium, supported by Liberty Fund, on the influence of ideas on policy. The six papers given at the symposium were published later in 1989 as *Ideas, Interests and Consequences*, IEA Readings 30, edited by Cento Veljanovski, the new research and editorial director of the IEA. Seldon's paper, reprinted here, is titled "Economic Scholarship and Political Interest." In this paper Seldon explores the impact on policy of ideas, interests, and circumstances, using the experience of the IEA over its (then) thirty years of existence and developing the views expressed in the first work in this volume. The IEA's approach to the application of economic principles to policymaking, according to Seldon, was "based on classical liberal political economy, refined, as I saw it, by developments in 'Austrian-Hayekian' market process, Buchanan-Tullock public choice, and, later, Muth-Minford 'rational expectations' (people learn from their mistakes)" (p. 44). Seldon sets out fourteen reflections on the theme of the influence of ideas. He argues, for example, that a change in the intellectual climate is a precondition for policy change and that whether particular ideas are "adopted or adapted" depends on "their confluence with interests, chance, and the accident of exceptional individuals" (p. 45). Ideas flourish better when there is "political competition for new solutions to unsolved problems," he says, and they have to "chime with public sentiment" if government is to adopt them (p. 45). Seldon advises scholars that they should beware of providing politicians with "dangerous toys"—academic advice should "reflect the motivations, feasibilities and limitations of the political process" (p. 46). He concludes that the main lesson from the previous thirty years, and especially from the previous ten, is that "ideas in the general public interest can be obstructed and emasculated by the interests of capital, the professions, or labour generated by corporatist policies" (p. 46). Seldon is particularly concerned about this kind of obstruction and pleads for more discussion among scholars of means of neutralizing the rent-seekers who delay change.

5. In *Denationalisation of Money—The Argument Refined*, published by the IEA in 1990, Hayek acknowledges Seldon's help both with that paper and with earlier IEA publications of his: Seldon's "beneficial care has already made much more readable some of my shorter essays published by that Institute."

One of the interesting issues Seldon addresses is how an organization such as the IEA can obtain finance. Given that “an idea requires support from the interests it would benefit,” how can the dispersed interests that would gain from the greater use of markets be mobilized? Finance was a serious problem for the IEA in its early days. The Institute decided, on principle, to accept no funds from government or its agencies, and it also refused to be confined to recommending policies that appeared “politically possible.” As a charity, it could offer no specific benefits in return for donations. It deliberately aimed for a relatively large number of small donations to avoid undue influence from particular organizations or individuals. Despite these handicaps, it eventually succeeded in convincing a sufficient number of donors that they had more to gain than to lose from the introduction of free markets.

Seldon concludes his chapter with the observation that the economic system has been unable to produce its best results because existing political processes produce governments that escape “close supervision by the citizen between elections” (p. 65). Economic liberals should attempt to devise disciplines that prevent government from overtaxing, overcentralizing, and oversubsidizing and from depreciating the value of money. Fundamental reform is required that replaces “political by market sovereignty for the common consumer” (p. 65).

The fifth work in this volume is a short paper published in *Economic Affairs*, the journal of the IEA, in March 1998, in which Seldon amplifies his reflections in earlier articles on the influence of the LSE on the IEA. The article, “From the LSE to the IEA,” emphasizes that the intellectual origins of the Institute “lie in a merger of the classical British and Austrian schools of liberal political economy. They reinforced each other in the mind of the naturalised-British Austrian economist at the London School of Economics (LSE) in the 1930s, Friedrich Hayek” (p. 69). Seldon traces the British-Austrian link back to the time of Edwin Cannan (1861–1935) at the LSE, early in the twentieth century. Cannan was a liberal market economist admired by Hayek, whose views echoed those of Austrian Eugen von Böhm-Bawerk.⁶ Cannan’s influence was still evident in the teaching of economics at LSE, for instance by Robbins and Plant, when Seldon was a student there in the 1930s. Cannan, Seldon points out, had recognized the imperfections of the political process long before public choice theory had been formalized, and his

6. One of Böhm-Bawerk’s classic works was *Macht oder Ökonomisches Gesetz* (Political power or economic law). It is frequently quoted in Seldon’s writings.

former LSE students, such as Robbins and Plant, transmitted Cannan's skepticism about government action to their own students, including Seldon. When Seldon went to the IEA he imbued its publications with a similar skepticism, thus providing a link with the LSE of the 1930s and the eminent figures who were then members of its faculty.

Seldon contrasts the intellectual rigor of the LSE of his student days with the "tracts of intellectual desert over the Houghton Street buildings of the LSE in the 1990s," as many LSE teachers "sadly continue their hopes of politicised industry and welfare" (p. 74). Cannan would have been dismayed at the state of the LSE, says Seldon, though he would have approved of the IEA and the influence of 1930s LSE that lives on there.

The final work in this volume is a selection of Seldon's prefaces to IEA papers, published in 2002 by Economic and Literary Books in association with the IEA, under the title *The Making of the Institute*. Seldon begins the book with an introduction that explains, inter alia, his view of how he and Harris divided the task of running the IEA: Seldon recruited authors and edited their work, while Harris carried the free market message to the outside world and raised funds.

Included in the book are prefaces to books in three of the IEA's main series—fifty-six Hobart Papers, eight Hobart Paperbacks, and four Readings⁷—and, at the end, Seldon's well-known letter to *The Times* ("Socialism Has No Future") of August 6, 1980.⁸

Seldon's prefaces are much more than standard introductions to books that summarize the author's conclusions. They are works in their own right. Each one is a carefully considered and crafted attempt to place the book in the context of the main body of economic thought and, in particular, to show how it fits within free market thinking, cross-referencing it as necessary to other IEA publications. Seldon never assumes that readers of IEA papers are familiar with classical liberal thought—many of them are, after all, students just becoming acquainted with economic principles. Therefore he explains how and to what extent the text he is introducing is consistent with classical liberalism, how it helps to advance free market ideas, and what are its policy implications. The reader is left in no doubt that the book Seldon is introducing is part of a bigger publishing program designed to explain

7. The IEA's other series during the period of Seldon's editorship were Occasional Papers and Research Monographs. He plans to publish his prefaces to these series separately along with some further prefaces to Readings (p. 85 of *The Making of the Institute*).

8. See the general introduction to these Collected Works.

how markets work and how they can help to solve economic and social problems and raise living standards.

Reading these prefaces, intended as they are to introduce the work of others, provides a clear guide to Seldon's own thought as it developed over the thirty years from the late 1950s onward. The authors he so carefully selected to write IEA papers generally shed new light on some part of the economy or society, providing evidence of the problems caused by excessive government intervention and showing how greater use of markets would prove beneficial. As Seldon explains, in the last preface he wrote during his time as editorial director:

In choosing authors for IEA Papers over 30 years, often with the assistance of the academic advisers, I sometimes felt like the manager of a cricket team putting the best players in to "bat" against the opposing sides. Historians will judge the effects of the long academic debate on public and political opinion, as seen in the intellectual and cultural revolution between the 1950s, when the market was anathema, and the 1980s, when it is being offered by every political party, old and new (p. 231).

Seldon, in his prefaces, seizes on the conclusions reached by his authors, demonstrates their significance, and places them in a wider context. In this way he reinforces their messages, emphasizing their consistency one with another and transforming individual texts into integral components of a formidable publishing enterprise that proved to be a major influence on government policies in many countries. That enterprise, in addition to his own books and articles, is one of his great legacies.

7 October 2003

THE ESSENCE OF THE IEA

The Essence of the IEA

This collection of essays, most by economists, historians of economic thought, economic and political historians and a sociologist of a wide range of philosophic sympathies, assesses the IEA and its work over 25 years against a background of changing economic thinking and public policy. An introduction to the essays may also serve as a short re-statement of the IEA's central approach, from which some IEA authors will differ.

The essays range over British history to consider the interactions between the influence of ideas, emphasised by J. M. Keynes as ruling the world, vested interests, singled out by Karl Marx as the dominant element, and "circumstances," identified by J. S. Mill as deciding which ideas would influence events. The classic illustration is Lenin who spent a lifetime of proselytizing before the First World War provided the "circumstances" for his ideas. (*Pace* Marx, "interests" were secondary or remote.) Four mainly historical chapters, by Professor T. W. Hutchison, Dr. Ian Bradley, Dr. Colin Clark and Professor Norman Gash, re-examine the past century for parallels with earlier efforts to educate by research and dissemination the general public and the men of ideas and of action who evolved and applied economic thinking. Professor Hutchison further discusses the IEA's dual emphasis on a general economic diagnosis with detailed proposals suited to the institutional conditions of the times.

Five essays analyse more closely and appraise the products of the IEA, with reservation as well as approval from Professors Denis O'Brien, Anthony Culyer and David Collard and Mr. Kenneth Judge, and with suggestions for further development from Professors J. M. Buchanan and Gordon Tullock. Two chapters judge the IEA's work as seen by Lord Croham from inside government and by Mr. Eric Sharp from inside industry. Mr. Graham Hutton, an early stalwart, discusses the pre- and post-war thinking on economics that dissatisfied the Founding Fathers of the IEA and induced them to examine its errors and consequences in industrial and public policy.

4 The Essence of the IEA

These essays are for readers to judge in the light of the IEA's work over 25 years. Any credit must go largely to the 300 economists, political scientists and other authors and to the advisers who were ready with suggested names of possible authors and subjects. Although the IEA staff have contributed to this published output, most of the Papers, etc., are the work of British economists in British universities. The IEA drew on a wide range of academic authority (and philosophic sympathy) without which it could not have maintained the flow of writing that has made it the largest source of concentrated but digestible economic expertise in Britain.

The IEA may perhaps claim to have created the post-war focus for the demonstration that market analysis was indispensable for understanding and solving economic tasks and problems. Its authors included economists sophisticated in mathematical macro-economic models of the economy as a whole (not least Colin Clark, who privately pioneered national income statistics), but IEA Papers showed that macro-economic analysis of national (or average) behaviour had to be explained by micro-economic analysis of individuals moved by changes at the margin of effort or reward. In particular, because we at the IEA were unconvinced from the outset by the Fabians, Keynes, Beveridge and Titmuss, we systematically mustered and presented in modern dress the truths of classical political economy: that government could not assemble the information required for the desired use of resources; that only individuals could derive the information from their local, voluntary, private lives; that they could reveal and apply the information only or most effectively by coming together as buyers and sellers in markets.

The New IEA Approach

This indeed was and is the essence of the IEA approach, and why it struck early observers as a fundamental break from the dominant but misguided post-war consensus (below). Although the approach has a noble intellectual lineage in the English and Scottish classical economists and philosophers from David Hume and Adam Smith, it had been overshadowed if not obliterated by the emphasis on national ("macro-economic") policy from the Great Depression of 1929–31 to the apparent effectiveness of Keynesian demand management in mastering unemployment before the Second World War and inflation after the war. From these apparent successes the belief developed that government could deal with any and every economic problem

by regulation or direct management: not only in defence, law and order, and the supply of money but also in fuel and transport, education and medicine, housing and pensions, local services and everywhere else.

The IEA approach was very different. It began from the very opposite end of the economic pyramid: the large number of individuals organised in families, voluntary groups, co-operative organisations, one-man businesses, partnerships or firms. It recognised that some goods or services—the so-called “public goods”—had to be supplied by government, national or local, and financed by taxes or rates, because they could not be refused to people who refused to pay and who would otherwise batten on those who did pay by taking “free rides.” But for the rest it opened up questions that had lain dormant for decades. Why should this or that service be supplied by government? Why could it not be supplied by people coming together in “markets” where those who wanted things could choose between those who offered them? If markets were not feasible, was that because choice for buyers or competition among suppliers was impracticable, or because government itself was putting legal or other obstacles in the way of individuals with goods or services to exchange?

If markets were impracticable, what other method of co-operation between buyers and suppliers was feasible? Was it better to construct state monopolies—as in fuel or transport, education or medicine—and try to arrange that they served buyers faithfully and efficiently? Or did such organisations have their own weaknesses of political and impersonal control, bureaucratic inflexibility, high taxation and restriction of choice between suppliers? If markets were practicable, how could the obstacles to them be removed?

In opening up these prospects the IEA released a shoal of questions that to many early observers seemed closed and settled. The very first Paper in 1957 asked not how the state could best finance its “national insurance” pensions but why pensions had to be supplied by, or rather through, the state at all: why should they not gradually move from the state to the market, where suppliers were developing a wide variety of schemes to suit individuals and firms with much more flexibility than the state could arrange? That the state may have considered it desirable, on the grounds of poverty in 1908 or the high cost of approved societies in 1925, to develop state pensions was no reason for continuing and enlarging them in 1957. Yet the Labour Party was proposing to extend state pensions in 1957 and the Conservatives extended them in 1961.

Some Fundamental Economic Truths

And so on in scores and hundreds of Papers on many more services and activities. A barrage of IEA Papers refined and applied old truths to new subjects in contemporary circumstances. Authors were asked to apply economic analysis ruthlessly, with recognition of current conditions but without regard for “administrative practicability,” because that could not be ascertained except by practical trial, or for “political impossibility,” because that could be a pretext developed by politicians or bureaucrats who resisted reform that did not suit them however good the argument, and in any event because reasoned ideas could themselves make the “impossible” possible.

In pursuing these new/old approaches to new subjects IEA Papers illustrated from contemporary events and developments the fundamental truths of economics that had been often lost in the preoccupation with post-war monetary or fiscal measures to control inflation or unemployment. Production takes place for consumption (derived from the Scot Adam Smith), not the other way round. Value is measured not as an average but at the margin (the Englishman W. S. Jevons, the Frenchman Leon Walras, and the Austrian Carl Menger). The cost of producing a commodity or service is not the labour required (the German Karl Marx) but the commodity or service thereby lost (the Austrian Friedrich von Wieser). The instinct of man is to “truck and barter” in markets (Adam Smith). He will find ways round, under, over or through restrictions created by government (the Austrian Eugen von Böhm-Bawerk). There is no such thing as absolute demand (for education, medicine or anything else) or supply (of labour or anything else) because both vary with price (the Englishmen Alfred Marshall, Lionel Robbins and many before and since). Not least, without the signalling device of price, man cannot spontaneously and voluntarily co-operate for prosperous co-existence (the Austrian Ludwig von Mises and the Austrian-born but voluntarily-British Friedrich Hayek).

Otherwise sophisticated laymen in government and industry often find difficulty with fundamental economic truths. Demand and supply are not absolute, fixed in amount; they can be elastic in response to changes in price and income—an increased demand for private education will eventually expand supply. Unemployment is not an immutable technical total; the lower the cost of labour the higher the demand for it would rise: and unemployment will fall. Cuts in government expenditure will impair government services; that is not a reason for not cutting: the economist asks whether the money would do more good elsewhere—its opportunity cost and marginal

utility. Competition is the environment—the *only* environment—in which commodities or services can be judged by *comparison* with alternatives; if there is only one, how can it be judged? And competition is the *only* effective method of defending the consumer by making every seller his ally against every other seller.

The Indispensable Role of Price

The post-war ills of the British economy derive ultimately from the neglect of these and allied truths. Government is grossly inflated. Inefficient state monopolies hamper competitive private industry. Unnecessary growth in taxation discourages risk-taking and investment. Rampant trade unions resist the monetary mastery of inflation, the modernisation of industry, and the movement of men. Activities in which people spend other people's money and are unaccountable to them have multiplied. Unemployment is concealed by workers in the wrong jobs, in the wrong firms, in the wrong industries, in the wrong regions, because *relative* wages do not move to attract them to the right jobs, in the right firms, in the growing industries, in new regions.

The divorce of supply or demand from price in electricity, gas, rail, road, education, medicine, housing, a host of local government services, not least in labour by incomes policies, has produced massive, de-stabilising, simultaneous wastes of surpluses and shortages. The suppression or distortion of price in the public sector has annihilated the information on relative values and scarcities of resources in alternative employments without which rational or efficient use is unlikely or impossible. Government policy has fastened on the income effects and ignored the price (rationing) effects of its policies in taxation, nationalised industries, the public corporations, welfare and local government. For decades the British economy has been unhinged from the sources of grass-roots information. The repression of price is the genesis of the economic weakness, by concealing reality. Such is the case for restoring markets, where possible, in public as well as in private economic life. It is the argument for charging in public services where possible and taxing only where necessary.

Not least, the welfare state has developed, as IEA authors said in the early 1960s, into an uncontrollable monster with an insatiable appetite for tax finance and incestuous administrators. It denies choice. It substitutes incorrigible differences in cultural power which determine access in the state for corrigible differences in purchasing power which determine access in the

market. It demands increasing coercion as incomes rise, as in the suppression of private education and medicine. And it is largely unaccountable and therefore irresponsible because it is run by men spending other men's money. Economists and sociologists who emphasise the external benefits of state welfare strangely overlook its external costs in tax disincentives, resistances to reform, diminished personal liberties, weakened family cohesion, and social conflict where political consensuses are enforced on minorities, groups or individuals.

The Challenge to the Economic Establishment

Many economists helped to build the IEA's reputation. Among others, Professor B. S. Yamey's (first) *Hobart Paper* on resale price maintenance in 1960 is generally thought to have prompted the debate that led to the Resale Prices Act of 1964. Colin Clark in 1961 showed the superficiality of "growth-manship." The *Choice in Welfare* surveys from 1963 went over the heads of politicians who said reform was "politically impossible" and revealed high and growing demand for choice in education and medical care. The late Professor F. G. Pennance's original study of making housing subsidies "mobile" followed in 1968. John Brunner destroyed the theoretical foundations of the 1965 National Plan. Research Monographs in 1967 rebutted the consensus on "universal" social benefits. Professor H. S. Ferns's 1968 Paper elaborated the unassailable argument for an independent university. In 1972 nine economists and historians rejected the Marxist link between capitalism and poverty. Two Papers by John Wood in 1972 and 1975 introduced price into the discussion of unemployment and revealed the micro-unrealities in the official macro-totals. Not least, market analysis was applied to unlikely products like blood, water, fire-risks, refuse removal, animal semen, employment exchanges, charity (10 authors), sport, and the family. And several studies examined methods of supplementing low incomes, the most recent by Colin Clark in 1977.

To list these few is to be conscious of omitting hundreds of other IEA authors. The IEA was first in Britain to publicise studies in the economics of politics, government and democracy or "public choice" (the American originators Professors Buchanan and Tullock, the British A. T. Peacock, Charles Rowley and Jack Wiseman) and of bureaucracy (Professor W. A. Niskanen). Two Papers challenged the plausible but vulnerable claim—now repeated in protests at cuts in government expenditure—that "external benefits" justify untold expenditure on unimpeachable causes but