

VOLUME 2

THE COLLECTED WORKS OF ARTHUR SELDON

The State Is Rolling Back

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)



Arthur Seldon

VOLUME 2

THE COLLECTED WORKS OF ARTHUR SELDON

The State Is Rolling Back

Essays in Persuasion

ARTHUR SELDON

*Edited and with a New Introduction
by Colin Robinson*



LIBERTY FUND, Indianapolis

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INTRODUCTION

Volume 2 of the Collected Works of Arthur Seldon comprises one book—*The State Is Rolling Back*, published in 1994 by Economic and Literary Books in association with the Institute of Economic Affairs. *The State Is Rolling Back* assembles fifty-four of Arthur Seldon’s shorter articles, taken from 231 such articles that he wrote in newspapers and periodicals, including the *Times*, the *Daily Telegraph*, the *Sunday Telegraph*, the *Economist*, the *Spectator*, the *Financial Times*, the *Times Higher Education Supplement*, *Crossbow*, the *Building Societies Gazette*, and *New Universities Quarterly*.

The articles appear in six sections and, within each section, in the order in which they were published. Each article has a short explanatory note by the author that puts it in the context of the time when it was written and, in some cases, comments on subsequent developments. The first paper appeared in 1937, and the last in 1992. Cumulatively, the papers represent fifty-six years of publishing in this particular genre—namely, in which the author addresses himself, without any technical jargon, to audiences that are far more numerous and far broader in terms of interests and prejudices than any academic paper, or even any think tank paper, can ever hope to reach.

In his prologue to the book Seldon points to the changes in “mood and style” of the essays from

the severely clinical in the early and middle years to the impatient and in a few cases, I confess, the mildly contemptuous as they survey the repeated excuses and subterfuges of intelligent and informed politicians to explain away, rather than explain, their failures (p. xxxiii).

It is true that some of the later pieces display a degree of understandable impatience, particularly with the very slow pace of reform of the welfare state under the Thatcher governments and with the failure of those governments to reduce significantly the size of the state.

Through its description of and comment on events, the book is an impressive catalogue of government failure over more than fifty years. Rather

than merely examining the proximate causes of the economic and social problems it analyzes, the book addresses the underlying reasons for those problems and the likely long-term consequences of actions taken by governments with short-time horizons.

It is unusual to have so long a record of the development of a scholar's thought as in *The State Is Rolling Back*. In these short articles, virtually all the major elements of Seldon's ideas and his proposals for reform emerge. The book demonstrates, in particular, how long-standing and how fundamental have been Seldon's criticisms of the welfare state, and well over half the articles in *The State Is Rolling Back* are about the welfare state. Early in the post-war years, long before most people had woken up to the distortions and difficulties that would result from state provision of "welfare," Seldon foresaw these problems.

Seldon constantly emphasizes the tensions inherent in representative political systems such as those in the United States and Britain.¹ "Shopping in open markets" gives more influence to ordinary people than does voting. The search for the optimal size of government is vain: it will always be too big or too small. Over-government is the greater risk because big government will inevitably suppress the "natural recuperative powers of a free society." A democracy should therefore take a risk on under-government. But politicians find withdrawal difficult because it would be a confession of failure, and it would mean dissolution of the empires they have built.

But, despite the problem of persuading politicians to withdraw, Seldon's prologue (written in 1994) is optimistic. All the doctrines that "rested on the supposed power of government to right wrongs—communism, socialism, social democracy—have collapsed like packs of cards in a few years" (pp. xxxvi). Moreover, the power of politicians is in decline. They cannot control markets, which have become more important as free trade has spread and as technology has advanced. People have discovered they can escape from government to private suppliers, to suppliers overseas, and to the "underground" economy.² The state is rolling back and will continue to do so.

In part I, entitled "The Battle of Ideas for the Good Society," Seldon explains the dangers of collectivism and the virtues of competitive markets. The first paper, written when Seldon, then twenty, had only recently gradu-

1. As he did in later writings. See, for example, volume 5 of these Collected Works (forthcoming), especially *The Dilemma of Democracy and Government: Whose Obedient Servant?*

2. For a longer discussion of these "escapes," see *The Dilemma of Democracy*, in volume 5 of these Collected Works.

ated from the London School of Economics (LSE) and published in the LSE students' journal in March 1937, has already been referred to in the general introduction to these Collected Works.³ It is a piece that sets the scene for the rest of the book because, like so many of Seldon's writings, it is in advance of its time. Given the intellectual climate of the late 1930s, Seldon would probably have found few sympathizers, among his fellow students, for the ideas he sets out. In the article, Seldon reviews a book, *Economists and the Public*, by W. H. Hutt, and takes the opportunity, in academic style, to compare and contrast communist and capitalist systems, at the same time stressing the virtues of competition. Seldon describes consumers' sovereignty as the "ruling principle" of a liberal society that might be "more efficient and less restrictive" than communism as well as requiring no "revolutionary upheaval."

The other eight articles in part I of the book continue the theme of "The Battle of Ideas for the Good Society." Two more early papers, from 1938 and 1940, warn (in the first) of the dangers of dependence on "the favours of the State" and (in the second) of the incompatibility of collectivism, as advocated in this case by H. G. Wells, and political liberty. In a 1955 paper Seldon reviews six lectures on the contribution of economists to policy, pointing out—in an early statement of the views he later developed about the welfare state—that rising incomes mean there should be increasing private provision of services such as health and education. He concludes his review by noting the deficiencies of contemporary economic analysis. Because the "eternal verities of the classical economists" have been forgotten, "we are poorer materially and spiritually than we need be" (p. 27).

A 1958 article again praises the "fathers of English classical political economy," who would have understood the error of welfare statist who wanted to supply everyone with a state pension. Seldon generalizes his argument into a critique of the welfare state—"a vast State machine for taking from some who need it in order to give to many who do not" (p. 30)—and of the ideas of Richard Titmuss, one of the intellectual founding fathers of Britain's welfare state. In a 1968 piece on "The Perpetual Welfare State," Seldon launches another powerful attack on Titmuss for his lack of understanding of economic forces and his inability to adjust his ideas from wartime conditions to the freedom of peacetime.

Part I of the book is completed by another 1968 article that criticizes the

3. See volume 1 of these Collected Works.

British Conservative Party for its failure to be radical in restoring freedom and, in particular, for its unwillingness to accept classical principles of liberty, decentralization, and limited government; by an attack, made in 1979, on governments for supplying goods and services which could be supplied privately; and by a 1980 analysis of the “prevailing ethos” of British higher education, which then was (and to an extent still is) Left inclined, in which Seldon proposes that competing centers of classical teaching be established.

In part II Seldon shows how classical economic thinking can be applied to a variety of practical issues. It begins, appropriately for someone who started his career as an economist in the brewing industry, with two articles from the 1950s that argue for reform of the restrictive British licensing laws for the sale of alcoholic drinks that hindered the industry from adjusting to market forces.⁴ A 1963 article then comments on the failure of a consumers’ advice magazine, pointing out that the consumer’s “best friend” is “choice in competitive markets free from inflation” (p. 76).

An article about the welfare state, from 1966, which foreshadows Seldon’s later work on charging for “public” services,⁵ describes the rising costs of “welfare” and argues that markets in welfare should be established, beginning with government charges for such services and choice for consumers in the form of vouchers that would be provided for low-income families. In similar vein, a 1971 article puts the case for abolishing “national insurance” contributions, which paid only a small proportion of state pensions, most of which were financed by taxation. The “collectivist anachronism” of the state pension should be abolished and people should be encouraged to save for retirement in ways that best suited them.

Inflation, which impoverishes savers and distorts price signals, is a more serious problem than unemployment, says a 1972 article. After an article on charging for police services, written in 1977, Seldon returns to the unemployment issue, then perceived to be near the top of the political agenda. “The Truth About Unemployment” (1982) argues that the total number of people in unemployment is less important than its duration: governments could, in any case, reduce unemployment by, for example, attacking mon-

4. Seldon was economic adviser to an association of brewing and food-catering companies, chaired by Air Marshal Lord Tedder, deputy to General Eisenhower in the wartime invasion of continental Europe. During this period, Seldon wrote reports on the industry, which later yielded material for articles in *The Economist*, *The Times*, and other journals, about Britain’s restrictive licensing laws.

5. In particular, *Charge* (1977), in volume 4 of these Collected Works (forthcoming).

opolies (including trade unions), reducing social benefits and rent subsidies for “public” housing, and reducing taxes on earnings.

The final paper in part II, written in 1986, sets out Seldon’s views—by then well formed—about the problem of over-government.⁶ The British government, he says, has unintentionally created an “underground” economy by overtaxing its citizens. “Tax rejection has become part of the culture” (p. 100). Legal repression will not work; only sizable tax cuts will restore the law-abiding nature of the British.

The next three parts of the book, parts III through V, consist of twenty-five articles addressing problems of the welfare state and the reforms required. Long before most other commentators, Seldon saw the incipient tensions in the government welfare system and criticized the flaws in the then conventional wisdom about state welfare. Clearly and forcefully, over many years, he emphasized the advantages of replacing this universal regime—which required ever-mounting taxes to provide state handouts for the middle classes as well as for the genuinely needy—with a system that provided choice for consumers of health and education services, pensions, and other aspects of “welfare.” His critique of the state pensions system, dating back to the 1950s, is perhaps his greatest contribution. Only recently, with the system widely perceived to be approaching the kind of “crisis” Seldon predicted nearly fifty years ago, have British governments begun efforts to reform the pensions system and to increase private provision for it.

Many of the other aspects of state interventionism attacked by Seldon and authors writing for the IEA fell before their intellectual onslaught: privatization of state-owned industries, reform of labor laws, and abolition of exchange control were all features of the programs of the Thatcher governments of the 1980s. But, for many years, the British welfare state seemed impervious to criticism and immune to reform. Governments recognized the intellectual strength of the criticism but were unsure whether the electorate would punish them for attempts at reform, especially if it involved privatization. Conservative governments in the 1990s took some tentative steps, for example, toward increasing the role of private pension provision; however, only since the advent of the New Labour government in 1997 and the growing evidence of serious problems in health, education, pensions, and welfare generally, have there been signs that reform is beginning, albeit grudgingly.

6. For his later papers on this subject, see volume 5 of these Collected Works.

The two articles that begin part III, from 1957 and 1958, address the pensions issue. “A Private Welfare State?” examines whether private pension rights should be transferable on a change of job, concluding that “we may, in fact, see a private Welfare State grow within industry not to avoid taxation but to reproduce the differentials which high taxation has tended to wipe out” (p. 105). “Why State Pensions?” shows that these pensions are being financed more and more from taxation, suggests that their basic rates should be frozen, and proposes a largely privatized pension system. “State pensions are a part of [the welfare state] that could gradually be wound up as the conditions that gave them birth pass away” (p. 109). Two other articles on pensions, written in 1960, also propose that the government should encourage private pension provision: there is no need to force people to “do the wise thing *through the State*” (p. 118, italics in original).

Articles from 1961 and 1962 on the social services echo the argument in the 1955 paper referred to above (p. xiii) that, with rising incomes, people will be more able to provide for themselves and that state spending on welfare should decline. High state spending has weakened personal responsibility, raised taxation, and impaired incentives; universal provision of benefits has hindered the ability to help the genuinely needy. In another paper, written in 1962, Seldon points out the dangers—only widely accepted early in the twenty-first century—of making the universities dependent on state finance and therefore subject to increasing state interference. In a 1963 article Seldon reverts to social insurance, explaining the errors of William Beveridge, the architect of Britain’s postwar social insurance scheme.

Part III ends with two papers, from 1963 and 1964, about state intervention in the housing market. Seldon criticizes the rent controls that, at the time, more or less paralyzed the market for rented residential property and, more generally, describes the welfare state as “a vast machine for shovelling out equal benefits” (p. 151). He also castigates the building societies for their lack of entrepreneurship. At the time, these societies provided most of the finance for household mortgages and were paternalistic institutions that ran an interest-rate cartel.

Part IV contains some of Seldon’s articles on the welfare state in the period 1965–70, when, as he says, the attack was mounting. A 1965 article in a popular newspaper sets out the argument for welfare vouchers, provided by government, so that people could choose between buying from the State or from private suppliers, thus enabling the private suppliers to come forward in competition with state services. The building societies are again criticized in another 1965 article in which Seldon says they have been too ready to ac-

cept political supervision and have shown too little interest in competing. Welfare privatization is the theme of another 1965 article. Seldon argues that the political process should be reinforced by the profit motive to provide improved and better-directed “welfare” services such as vouchers, direct payment of fees, and the use of insurance.

In a 1966 paper, Seldon foresees the time when the people of the (then) Soviet Union would expect political freedom. The early Soviet economic reforms were just becoming apparent in the mid-1960s, but in Britain, says Seldon, politicians still persisted with their paternalistic attitude toward the population. People would not for much longer be willing to be treated as “servile, cap-in-hand supplicants” at state schools, doctors’ surgeries, and hospitals (p. 178). They would demand choice. Another 1966 paper explains the indiscriminate nature of many state benefits and argues for the taxation of social benefits, whether provided in cash or in kind. A 1967 article on a similar theme makes the case for selective social benefits, concentrated on the needy, and proposes adoption of a reverse income tax. A paper written in 1969 claims that workers are rejecting state welfare: again Seldon urges giving them choices through tax rebates, grants, or vouchers.

The final article in part IV, entitled “Roll Back the State,” encapsulates much of Seldon’s economic philosophy. He quotes Tocqueville on the dangers of “benign” government and argues that state provision of goods and services has gone far beyond the necessary provision of public goods and minimal redistribution of income to aid the disadvantaged. In a controversial statement for the time (1969), Seldon says state industries should be privatized, the “fraud” of national insurance should be wound up, industrial subsidies should cease, and private welfare provision should be encouraged. The state should concentrate on the provision of genuine public goods and help for the truly disadvantaged. The result would be a leap to safety out of the then economic and social quagmire.

Part V turns to the first tentative steps in reform of the welfare state (which in Britain is only hesitantly under way even in the early years of the twenty-first century).

First, there is a 1970 article about “The Great Pensions Swindle,” the title of a book by Seldon⁷ in that year, which like the article, argued against the then prevailing view that private pensions could never cover more than a minority of employees. The reverse income tax reappears in a 1971 article as a

7. See volume 6 of these Collected Works (forthcoming).

possible means, despite its difficulties, of concentrating aid where it is most needed. Another 1971 article describes some early measures to improve the operation of the welfare state and explains what more should be done; it asks, however, whether the British civil service will stand in the way of reform and whether there is scope for competing advice from outsiders. In 1972 Seldon was rebuking the Conservative Party—too intent on seeking consensus, too concerned about the media, and too much in thrall to the civil service—for its timidity in reforming the welfare state.

In an article written late in 1978, as the 1979 general election campaign (won by Mrs. Thatcher) was about to begin, Seldon chides the then Labour government for throwing taxpayers' money at problems that should be dealt with at a family level. The state was crowding out the natural tendency for parents and children to look after each other: the state has "replaced the natural paternalism of parents by the political paternalism of government" (p. 223). A 1980 article again makes the case for introducing market forces into higher education and reducing the universities' unhealthy dependence on state finance. A paper written late in the Thatcher years, in 1988, argues that despite the progress made during her governments the problem of over-government remains. Very little has been done to cut back the oversized welfare state, and radical reform is needed in education, health, pensions, and housing.

Part VI of the book consists of eleven articles on "The Excesses of Over-Government." In the first three articles (1969, 1972, and 1979), Seldon launches into hard-hitting criticism of civil servants, who claim to be pursuing a "public interest" that they have no means of defining and that they would have little incentive to follow even if it could be defined. They put a brake on reform: perhaps a new government should renew the top layers of bureaucracy with political appointees, as in the United States. The number of civil servants should be reduced because "half or more of what government is doing it should not be doing at all" (p. 253).

Giving more influence to parents in the education of their children is urged on the government in a 1980 article. It is, says Seldon, "immoral for government to misuse [taxpayers'] money by locking them and their children into State schools" (p. 259). Another 1980 article points to the deficiencies in opinion polls that ask questions about satisfaction with the welfare state without presenting alternatives or attaching prices to welfare services.

In 1983 Seldon was writing about the "New Right" and urging Mrs. Thatcher, who had already "begun to educate the nation out of its producer

obsession” (p. 266), to proceed boldly rather than incrementally toward economic and social reform. The “New Left” figures in a 1988 article in which Seldon offers advice about a proposal, then current, for a left-of-center think tank modelled on the IEA: it should, he says, adopt the IEA’s injunction to its authors to take each analysis to its logical conclusion, undeterred by thoughts about what might or might not be “politically possible.”

A 1986 article summarizes *Corrigible Capitalism, Incurable Socialism*⁸ and reiterates Seldon’s prediction⁹ that China will go capitalist, Soviet Russia will not survive the century, and Labour “as we have known it will not govern Britain again” (p. 275).

A short journal article, written in 1988, emphasizes the damage done by academics who temper their advice to politicians, restricting it to what they regard as “politically possible.” Academics should model themselves on W. H. Hutt (the subject of Seldon’s first paper, in 1937), who “was never seduced into offering politically easy solutions” (p. 286). The collapse of communism provides the starting point for a 1990 article that, like several earlier papers, draws the conclusion that over-government is a more serious risk than under-government. Government should concentrate on the “irreducible minimum of goods and services that cannot be supplied in the market” (p. 289).

The final article in *The State Is Rolling Back*, written in 1992, is a powerful indictment of government action, especially its creation of the welfare state in the twentieth century: people would have been better off if they had used their own money on health, education, pensions, and other services, now “public.” Politicians still control more resources than the people do, even after “a decade of Conservative government that set out to roll back the State” (p. 291). Seldon ends the book with a plea, following Winston Churchill, to “set the people free—*laissez-faire*—to produce, to exchange their surpluses, to enrich themselves and one another” (p. 296). That plea admirably summarizes the principal message of the articles in this book.

Colin Robinson
17 March 2003

8. See volume 1 of these Collected Works.

9. See the General Introduction in volume 1 of these Collected Works.

VOLUME 2

THE COLLECTED WORKS OF ARTHUR SELDON

The State Is Rolling Back

*I dedicate this book,
severely critical of the political process
in modern democracy,
to the politicians
who wanted to roll back the State*

Rhodes Boyson

Ian Gow

Douglas Houghton

Geoffrey Howe

David Howell

Keith Joseph

Nigel Lawson

John Moore

Enoch Powell

Nicholas Ridley

Norman Tebbit

Margaret Thatcher

Elliott Dodds, Liberal

Desmond Donnelly, Labour MP

Ray Fletcher, Labour MP

Jo Grimond, Liberal MP

John Pardoe, Liberal MP

Brian Walden, Labour MP

Ray Whitney, Conservative MP

Woodrow Wyatt, Labour MP

For thirty years, as Editorial Director of the Institute of Economic Affairs, Arthur Seldon was instrumental in producing a stream of high-quality publications which changed the intellectual climate in Britain.

Beginning in the 1950s, when planning was in vogue, and continuing through to the Thatcher administrations which put into effect some of the ideas which Arthur had championed, his influence was remarkable. Arthur selected subjects, found authors, edited their work ruthlessly no matter how eminent they might be and told them when their conclusions were unclear or lacked logic. By the time he “retired” (he is, of course, still extremely active in the IEA), academic authors were only too delighted to have their work published by the Institute which had become a very prestigious publishing organisation. That contrasts with earlier times when academic colleagues would look askance at those of us who published with the IEA.

Throughout the period when Arthur and Ralph Harris co-operated to compete so successfully in the market for ideas, Arthur was a prolific author. Most IEA readers will be familiar with his longer works. They will also have read some of his newspaper and other shorter articles. But they will probably not have been aware, until the appearance of this book, of three important features of his output of shorter pieces: the first is how numerous they are, the second is how right he almost always was, and the third is how consistent they are from the beginning. Few of us can claim to have stated our views on such important topics (especially on the Welfare State) so clearly, consistently and forcefully over so many years.

To check for consistency, readers should turn to the first piece reprinted in this volume—an article from *The Clare Market Review*, commenting on Hutt’s *Economists and the Public*, published in 1937 when Arthur was twenty, and almost twenty years before the IEA was conceived. It does, I suppose, show some signs of Arthur’s youth—if he were writing it now I suspect he would edit out a few of the words! But otherwise, it deals with the same basic