

The Economics of Social Problems

The Economics of Social Problems

The Market *versus* the State

SECOND EDITION

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Introduction

This book is an extensively rewritten and expanded version of our *Economics of Social Problems* which first appeared in 1976. We have taken the opportunity to incorporate numerous changes and extensions suggested by colleagues, students and reviewers who have used and commented upon the original edition. Our ideas have also been sharpened through writing a US version of the book in which problems similar to those faced in Britain are often resolved within a very different institutional framework. However, our basic approach to the analysis of social problems remains the same. Indeed, we believe that this approach – which is designed to encourage systematic analysis of alternative methods of economic organisation within the social policy area – is of even more relevance now than when we first wrote the book. Since then, privatisation proposals in health care, housing, education, etc. – which we discussed originally as possibilities suggested by academic inquiry – have, with the election of a radical right-wing government, assumed a central position on the policy agenda. As such, the topics covered here are of considerable contemporary concern.

The basic aim of the book is to introduce students to certain key economic concepts and methods of analysis through the study of a range of contemporary social problems. It is our deliberate intention to move away from the more abstract theoretical approach that is a feature of many introductory economics textbooks and instead try to provide a book that emphasises ‘learning-by-doing’. This is done through the simultaneous development of the relevant theory and its application to particular social issues. The success of the first

edition of the book has shown this approach to be both popular and effective.

All the relevant concepts and theories are explained in the text, and so no prior training in economics is required. Accordingly, the book may be used as a basic text for an introductory economics course. If it is used in this way, the student will acquire many of the basic skills of economic analysis that are usually obtained in a rather less appealing manner from a more conventional introductory textbook. Alternatively, it may be used as a supplementary text to provide students with an appreciation of the relevance of economic analysis to a range of intrinsically interesting social problems not normally dealt with in introductory textbooks. We believe that the book will prove of interest and value not only to students who will go on to specialise in economics but also to students in other disciplines, such as sociology, politics and social administration who would like to consider the contribution that economics can make towards understanding some of the pressing social problems that confront us today.

Although the book has been designed primarily for use at the introductory level, we hope that it may also be of interest to those with a more extensive background in economics and/or the problem areas studied. We believe that the approach we have adopted for the study of each topic is a useful way of clarifying the issues involved and has some claim to originality. This approach is discussed more fully below.

The Topics Chosen

We have called the issues discussed in this book ‘social’ problems, so as to distinguish them from the more conventional ‘economic’ problems (such as inflation, unemployment and economic growth) that are usually dealt with in introductory principles books. This is not a distinction we would seriously defend – all problems faced by a society, including economic ones, are presumably social problems by definition – but we feel that it has some support from popular usage. A more important common feature of the areas studied is that they are all amenable to a similar analytic approach, as explained in the following section.

Structure and Approach

In the process of teaching the material on which this book is based, we have learned a great deal about the difficulties that the study of our topics involves when used at the introductory level. In particular, we have found that students usually lack any framework that would enable them to introduce some order into their inquiries about particular problems. Teachers whose earlier education has provided them with such a framework sometimes forget the sense of confusion that the student feels when confronted with highly complex issues. For this reason we believe it to be imperative that a consistent approach for examining problems should be used throughout. This is a key feature of this book and its main claim to originality. We have not produced a set of separate essays on individual topics or a discursive examination of 'Some economic aspects' of each of the problem areas. Instead we have adopted an integrated and systematic framework for studying each problem in a consistent way.

Thus the reader will find that each chapter contains three basic sections. *First*, we ask what are society's objectives in the area concerned. In most cases we decide that these objectives can be conveniently summarised under two main headings: the achievement of *efficiency* and of *equity*. Efficiency considerations refer to the provision of the quantities of housing, hospitals, schools, roads, and so on that yield the greatest level of aggregate (net) benefit to the community. Equity issues are concerned with the justice or fairness of the way that these goods and services are divided between different members of society – for example: Who receives a university education? How should health care be divided between different patients? Which areas of the city should receive different amounts of policing? Who should receive council housing? However, while we concentrate upon efficiency and equity, there will be other objectives that society will also wish to pursue. The preservation of freedom or liberty and the promotion of altruism, for instance, are two others that figure in some of the areas in this book. Consequently, attention is drawn to them when it is considered relevant to do so. Having so specified society's objectives we can say that a social problem exists

whenever the existing system fails to meet the objectives set for it.

Once we have defined a society's objectives, the next question to ask is: 'What kind of system could meet these objectives?' Since the private market system is the dominant means of providing the goods and services that we use in our everyday lives, it is the obvious place to begin an examination of alternative systems. In some of the areas we examine, the market is the main means actually used (housing and energy, for example); in others, the market has been either replaced or stringently regulated (education and health care, for example). Hence, the *second* main section of each chapter considers the arguments for and against the use of the market system as a means of allocating and distributing the good or service in question. Then in the light of certain shortcomings of the market, in the *third* section we examine the desirability of government intervention. Although we consider numerous forms of public policy, ranging from minor adjustments in the market's operation to its complete replacement, we show that they all fall into one or more of three general categories: that is, tax or subsidy policies, market regulation or direct public provision. But each of them is shown to be subject to the same tests of efficiency and equity that were relevant to the private market.

The first and last chapters do not have this structure since they are not concerned with specific problem areas; but they are none the less an integral part of the whole approach. Before students begin to study a particular problem, we feel it is important that they have at their disposal some general discussion of society's objectives and their relationship to the operations of the market system. Chapter 1 is an attempt to provide this. Students will find it useful to look at this chapter before they consult the one dealing with the area in which they are interested. The last chapter, Chapter 12, is an attempt to pull together the links between all the previous chapters. In the context of a general discussion about the merits and demerits of market and non-market allocation systems, it draws attention to the common elements in the discussions of each problem area and to their wider implications.

We believe that this format has two advantages. First it has

the unity of approach that, as we emphasised above, is essential for the student to obtain a good understanding of the generality of economic analysis and indeed of the specific problems themselves. Second, it does in fact enable us to cover most of what economic analysis has contributed to these subjects. Much of the debate between economists has been about market versus non-market systems of allocation. Hitherto, however, the contributions to this debate have been dispersed among countless books and journals. As far as we are aware no one has previously brought together the disparate strands of this debate in a single integrated study. By doing so, at the introductory level, in the context of social issues of wide concern, we hope to make accessible to the maximum number of readers a systematic critique of market and non-market economic systems.

Note to the Teacher

Each of the chapters is largely self-contained and hence can be read quite separately from one another. This feature – which is deliberate – has involved some repetition in the later chapters of theoretical material that appears in the early ones; however, our experience suggests that when students are ‘learning-by-doing’, repetition is no bad thing. Within each chapter, sections and sub-sections have been carefully indicated so that, if necessary, they too could be read independently. Moreover, each chapter contains suggestions for further reading and a set of questions for discussion. Some of the questions relate directly to material presented in the relevant chapter, whereas others are designed to extend discussion beyond the limits of the chapter. Those familiar with the first edition of this book will note that many of the chapters have been extensively rewritten in order to incorporate more up-to-date material and current issues – and, in some cases, to tighten the analytical structure – and that two extra chapters on crime and energy have been added.

If a full course is to be taught from the book, the following advice as to the order of topics might be helpful. We have found that it is useful to begin the course with a brief

examination of society's objectives and the operations of the market, as in Chapter 1, then to continue with health and education – the discussions of which have strong analytic similarities and which also arouse passionate debate (and hence student interest). Poverty, as one of the fundamental issues underlying the discussions of most of the other topics, is a good subject with which to culminate the course; if there is time, it can be followed by a summary session, along the lines of Chapter 12, reviewing the first week's discussion of the market system in the light of subsequent course work.

Notes and References

When reference is made to an article or a book, we have simply specified the author's surname and the date of publication. A full bibliography is provided at the end of the book. Thus William Baumol and Alan Blinder's book, *Economics: Principles and Policy*, published in 1982, is referred to in the text as Baumol and Blinder (1982).

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*Julian Le Grand
Ray Robinson*