

THE ECONOMICS OF SOCIAL PROBLEMS

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First published 1976 by
THE MACMILLAN PRESS LTD
London and Basingstoke
Associated companies in New York Dublin
Melbourne Johannesburg and Madras

ISBN 978-0-333-19531-4 ISBN 978-1-349-15632-0 (eBook)
DOI 10.1007/978-1-349-15632-0

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To our parents

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ACKNOWLEDGEMENTS

Many people have helped us with this work. Particularly we would like to thank the following, each of whom read and commented on some or all of the chapters: Roger Berry, Graham Crampton, Michael Dunford, Nigel Houghton, Nancy Osher, Elke Schreckenber, Roger Vickerman, Peter West and David Winter. All remaining errors are almost certainly due to the fact that we did not always take their advice. Yvonne Wood and the secretarial staff of the School of Social Sciences did a superb job of meeting the typing needs of perfectionist authors; our particular thanks to Sue Pyper, who types flawlessly and – seemingly – instantaneously, and who bore most of the work. Our families put up with our disappearances at evenings and weekends with remarkable tolerance. But perhaps our deepest debt is to the successive generations of Sussex students who suffered patiently in tutorials and seminars while we and they tried to sort out the ideas contained in this book.

INTRODUCTION

The Purpose of This Book

The book has its origins in a course taught to first-year undergraduate social science students at the University of Sussex. Although some of them were prospective economics majors, the rest either had no background in economics or were not going on any further in the subject. The aim of the course was to introduce them to some of the distinctive features of economic methods of analysis through the study of a range of contemporary social problems. It was our deliberate intention to move away from the more abstract theoretical approach that was a common feature of many introductory economic courses at the time, and instead to try to provide a course which emphasised 'learning-by-doing' through the simultaneous development of a body of theory and its application. The success of the course prompted us to try to do something similar for a wider audience by writing this book.

The purpose of the book, therefore, is to introduce its readers to certain key economic concepts and methods of analysis through their application to some current social issues. All the relevant theory and concepts are developed in the text and no prior economics training is needed. We hope that the book will be of interest and value not only to students who are beginning their education as economists, and who wish to relate their studies to some of the major problems of the day, but also to a much wider readership of other social science students who wish to consider the contribution that economics can make to some of the problems that they study from a rather different perspective.

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 studied in first-year economics texts – such as inflation, economic growth, the balance of payments and

unemployment. 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 all are amenable to a similar analytic approach; this is explained in more detail below.

Structure and Approach

In the process of teaching the course on which this book is based we have learned a great deal about the difficulties the study of our topics involve when used at the introductory level. In particular, we have found that students usually lack any framework which would enable them to introduce some order into their enquiries 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 to examining problems should be used throughout. This is a key feature of this book. We have not produced a set of separate essays on individual topics, but have tried to adopt an integrated, systematic framework for studying each problem in the same way. We do not claim that the framework we have adopted is the only one we could have used or even the best one. We are only too well aware of its shortcomings. But if it serves to assist the student in developing his powers of systematic analysis in the context of an awareness of the issues that affect the welfare of everyone within our society, we shall be well satisfied.

The reader will find the following common approach in the chapters dealing with specific problem areas. Each chapter has three basic sections. In the *first* we ask what society’s objectives are in the area concerned. In most cases we decide that these objectives can be conveniently summarised under two headings: the achievement of efficiency and of equity. Efficiency considerations refer to the provision of the quantities of housing, hospitals, schools, roads and so forth that produce the greatest levels of benefit to the community. Equity issues are

concerned with the justice of the distribution of these goods and services among the different members of society – for example, who receives what housing? Which people should obtain a university education? How should medical treatment be divided between different patients? 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. This brings us to the second feature of the approach.

Having defined a social problem as existing where society's objectives are not being met in a particular area, the next question to ask is what kind of system could meet those 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 studied, the market is the main means actually used (housing for example); in others, the market has been largely superseded in the United Kingdom, but not always in other parts of the world (for example health care and education). Hence the *second* section of each chapter is concerned with the desirability or otherwise of using the market system as a means of allocation and distribution in the area concerned. Then, in the *third* section, we examine the desirability of state intervention in the market. We examine various forms of government policies, ranging from minor adjustments to the market's operations to its complete replacement. Finally, each chapter has a summary at the end, followed by suggestions for further reading. (There are two small exceptions to this. For reasons explained therein, the second and third sections are reversed in Chapter 6 on urban congestion. The economic inequality discussion was too long to fit into one chapter: accordingly, it has been split into two, the first (Chapter 8) dealing with objectives and the market system, and the second (Chapter 9) with government policies.)

The first and the 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 the reader begins to study a particular problem, we feel it is important that he has at his 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.

Readers will find it useful to look at this chapter before they consult that dealing with the area in which they are interested. The last chapter, Chapter 10, 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 the market system, it draws attention to the common elements in the discussions of each problem area and to their wider implications.

This format has two advantages. First, it has the unity of approach which, as we emphasised above, seems essential to the students' obtaining 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 those subjects. Much of the debate between economists in these areas has been concerned with market versus non-market systems of allocation, and hence, by concentrating on this issue, we can get a good overview of the 'economics' of these areas.

A possible disadvantage is that, by focusing upon such questions as the desirability or otherwise of market allocation, the authors' own preferences cannot be eliminated. In the chapters on each problem we have tried – although perhaps with limited success – to present both sides of the case as impartially as possible. But it is only fair to the reader to point out that we do have reservations about the ability of the market system to achieve both efficiency and equity in many of the areas discussed; we give vent to some of them in the concluding chapter.

Note to the Teacher

Each of the chapters are 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 which 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 marked, so that, if necessary, they too could be read independently.

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 term 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). Inequality, as one of the fundamental issues underlying the discussions of most of the other topics, is a good subject with which to culminate the term; if there is time, it can be followed by a summary session, along the lines of Chapter 10, reviewing the first week's discussion of the market system in the light of the term's work.

Notes and References

When reference is made to articles or books, we have adopted the procedure of specifying in the text simply the author's surname and the date of publication, and giving the full details in an alphabetical listing at the end under *References*. Thus A. B. Atkinson's book, *The Economics of Inequality*, published in 1975, is referred to in the text as Atkinson [1975]. If two works were published by the same author in one year, they are distinguished by the addition of 'a' or 'b' to the date: thus Royal Commission on the Distribution of Income and Wealth [1975a], [1975b]. Notes are to be found at the end of each chapter to which they apply.