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THE EDINBURGH QUESTIONNAIRES

Section 4  
WOS

THE WORKINGS OF THE MARKETPLACE

The following questions are about the economy. In the 18th century Adam Smith argued that since even the wisest men could know only a few of the consequences of taking alternative decisions, and that instead of relying on government decisions some way of cumulating the many bits of information known to different people was needed. He thought this could be provided by creating a free market economy. He believed that since everyone knows something about the issues which affect them, the best way to use these pieces of information was to let everyone influence what happened by offering them a choice between competing goods and services. Prices would be determined by, on the one hand the costs of raw materials, labour and capital resources required to make the goods or offer the services: i.e. the efficiency with which they were provided - and, on the other by how much consumers valued the goods and services and were therefore willing to pay. Unfortunately since the 18th century it has proved extremely difficult to create the conditions necessary for a "free market" of this sort to function effectively. From the questions which follow we would like to find out whether you are familiar with some of the problems which arise when applying market theory in today's world.

For each question, answer in columns A and B:

COLUMN A: Until you read it here, were you aware of this argument?

- I was very aware of this.....1
- I was vaguely aware of this.....2
- I was unaware of this.....3

COLUMN B: I agree with the conclusion.....A  
I partly agree/partly disagree.....A/D  
I disagree with the conclusion.....D

1. Traditional methods of pricing do not include the costs of dealing with environmental problems such as pollution, or overcoming the destruction of soil, seas and forests. When these become serious the government and ultimately all tax-payers must foot the bill, otherwise the problems are left for future generations to remedy.

It follows that "costs" as conventionally calculated seriously underestimate true costs.

2. Production and distribution costs are assessed only on the value of the capital, labour and resources consumed. Many other costs are ignored in the pricing calculations. These costs, paid for by the rest of society, include the wear and tear on the road systems and treatment of ill-health and pollution caused by manufacturing processes. Market theory does not take account of all the costs involved in production.

A large, independent body which would calculate these costs and charge manufacturers accordingly is therefore necessary to ensure that society is not compelled to foot the bill.

3. Approximately two thirds of the price charged for most goods and services goes on distribution and marketing. It must be possible to invent alternative ways of providing choice and variety which would cost less.

The belief that the free market offers an efficient means of providing variety and stimulating development is therefore ill-founded.

4. Modern customers are not typically people voting with pennies to express their preferences, but corporate giants such as health services, airlines or military alliances, purchasing on behalf of hundreds or millions of people. Thus the concept of a "customer" has come to stand for something very different from what it meant when economic theory was developed, and indeed from what it still does in common sense.

In this way both classical economics and everyday thought mislead us in our thinking about economic processes.

5. The quality of our lives depends on many things: the quality of the urban environment, education and transport systems, safety standards, crime control and the inventiveness of the society in which we live. Most of these are best provided collectively, and many cannot be purchased individually. In other words, the quality of life in modern society is mainly dependent on the quality of managerial decisions taken by public servants.

The belief that the marketplace offers an effective way of organising provision in the areas of our lives which are most important is therefore mistaken.

6. Often people cannot influence the quality of provision which crucially affects them through the economic marketplace. People who live in city centres have little influence on commercial developments. Likewise, it is difficult to influence the nature and quality of our defence spending.

Thus, while commercial decisions markedly affect the quality of people's lives, those most directly affected can often exert little influence through market mechanisms.

7. It is often said that the sum of everyone working in their own interest leads to the collective good. However, there are many situations in which the opposite is true. A classical example is provided by a community which grazes sheep on a common. It is in each individual's interest to put out as many sheep as possible. This results in over-stocking and reduces the fertility of the common, which is bad for everyone. But it is in no one person's interest to reduce the number of sheep he puts out to graze.

Two conclusions follow from this:

i) Economists are wrong to argue that the common good is best achieved by everyone pursuing his own interests.

ii) Considerable government regulation is required to ensure that people act in the common interest.

8. The free market does not satisfy real needs unless they are backed by money. These include many of the basic needs of the poor, and also many people's needs for such things as companionship, opportunities to make useful contributions to society, and the need for personal and national security.

It follows that a marketplace which deals only in money is incapable of organising activities which satisfy many of the most common and important needs in society.

9. Many important activities without which society could not function lie outside the marketplace. These include the activities undertaken "free of charge" by relatives, friends and voluntary organisations. This creates serious anomalies when, for example, wives work and then buy "takeaway" or convenience foods and child-minding services. Given current accounting practices, both the wife's income and the services she has purchased now show up in the national accounts as increased wealth when it should be, at best, only the difference between the two that counts.

This example illustrates that monetary accounting fails to acknowledge the importance and contribution of many activities which enhance the quality of life and are truly wealth-creating.

10. Many services in modern society benefit everyone, not just those who use them. One example is education: society can only make use of modern technology if most people are literate and numerate. Another example is health care: everyone is worse off if there are many sick people who are unable to contribute to society and require others to care for them.

These examples illustrate that there are many services which benefit society as a whole, but which market theory states should be paid for by the individuals receiving them.

11. The free market caters badly for needs arising in situations of distress - such as when legal disputes arise or people lose their income through illness, accident or unemployment. One reason for this is that people do not have the information they need to prepare for such eventualities because they do not know which ones will arise. Another reason is that it is not in the interest of insurance companies to insure those who are a high risk and therefore most likely to need help. Yet the needs which arise from accident, illness and unemployment are among the most important in our society.

The operation of the marketplace is therefore least effective in areas in which it is most important to have good provision.

12. It is often argued that even goods and services which are being purchased collectively through the public service can be provided more efficiently by private enterprise. This argument is used to justify privatisation and putting work out to contract. However, the cost savings which sometimes follow are achieved by paying lower wages, sacking the higher paid, long-serving employees, foreclosing on pension agreements and evading social security legislation. Much of the apparent efficiency is therefore achieved at the expense of the workforce on one hand and taxpayers on the other.

For these reasons the apparent efficiency of private enterprise is often illusory.

13. When we speak of a purchase we usually think of a single item such as a washing machine. However, many individual purchases are a complete package of provisions such as a health insurance scheme or an educational programme. It is difficult for individuals to influence any particular aspect of these provisions through the market mechanism: they can take their business elsewhere but are likely to find that the alternative contains different undesirable elements. The marketplace does not provide variety such that customers are able to satisfy their particular needs and give clear feedback to producers.

What is needed, therefore, is explicit study and improvement of the quality of provision.

14. Consumers need many other things besides money to exercise their sovereignty of choice. For example, many people purchasing consumer goods lack the time and resources to visit any other than local shops, the knowledge to argue with salesmen or resist the claims of advertisers, and the information on the long term personal and social consequences of purchasing each of the alternatives. In the case of housing they do not have the legal clout and collateral to obtain their rights even if they know what these are.

Market theory, in treating money as the main source of power, ignores the importance of other sources of power such as time or knowledge.

15. In all E.E.C. countries, taxes make up approximately two thirds of the price of goods and services. Thus, the most important component in prices is taxation, not the cost of resources, land, labour or capital.

Two conclusions follow from this:

i) The competitiveness of an individual manufacturer's products within a country is more dependent on the arrangements made by the firm's accountants for tax relief and grants than on its "efficiency" as conventionally understood.

ii) The international competitiveness of a country's goods and services is more dependent on the ingenuity and inventiveness of the public servants who determine taxation arrangements than on the efforts of management and workforce.

16. By fixing prices at which their subsidiaries in different countries sell to each other, multi-national corporations ensure that they only make profits in countries where taxes are low. In this way they defraud countries of considerable revenues.

If modern economies are to work effectively, free market mechanisms must be replaced by extensive monitoring, regulation and information-based intervention.

17. The combined activities of the International Monetary Fund, the multi-national corporations and the international marketplace have, in many Third World Countries, led to the replacement of traditional agriculture and industry by short term foreign currency earning activities. This has destroyed the social fabrics of the countries concerned, causing debt and poverty. Many less-developed countries lack the structures required to monitor events, and the information and understanding to dispute with the I.M.F. and control the multi-nationals.

What these countries need is, therefore, a public management structure which will ensure that relevant information is collected and that public servants act on the basis of that information in the public interest.

18. Most of the debt on which 3rd World countries are struggling to pay interest has been incurred because the leaders of these countries, encouraged by the West, borrowed money which they spent on armaments in order to protect their own positions.

What these countries need, therefore, are mechanisms which enable those who live there to ensure that their leaders act in the public interest.

19. Part of the prosperity of Western economies stems from political (non-market) intervention in the affairs of Third World countries. The International Monetary Fund gives these countries the choice of selling commodities and cash crops at well below their true costs or handing over their assets to the multi-national corporations. The main benefactors in these interventions are shareholders in Western banks, manufacturers who export products (mainly armaments) to the countries concerned and Western consumers who get cheap food and raw materials.

It follows that the success of Western economies is not - as is widely believed - due to the adoption of market mechanisms.

20. The arguments presented here show that the realities which lie behind central words in market theory such as "money" "customer" "product" and "producer" are quite different from what they were when market theory was developed, and from what they are commonly taken to be.

For this reason the continued use of the theory leads to mistaken conclusions.

21. The free market often acts against the public interest. For example, the health of the population would be improved by urban planning policies which resulted in people living closer to work. This would reduce stress, accidents and pollution caused by long journeys. By changing food and agricultural policy, the government could reduce the consumption of fattening and carcinogenic foods. Since these policies cannot be promoted through market mechanisms, the marketplace has operated to overrule them: Thus it has failed to stimulate new urban planning policies and encouraged the development of a society based on extensive car travel, the production of damaging foodstuffs and the development of health policies based on expensive drugs.

These examples illustrate that reliance on market mechanisms often leads to policies which are expensive, individually damaging and socially destructive.



22. It is commonly argued that "subsidies" designed to disperse jobs around the regions of the country are uneconomic. However, the costs of not intervening in this way are underestimated. For example, someone who is moving to a developing area only has to pay his removal costs and is unaware of how much the move costs the community. These include building new roads, sewerage systems and schools. Overlooked costs include treating the symptoms of isolation commonly experienced when people move to new areas. The bulk of both these sets of costs are typically spread, through taxation, over the entire population - including those who live in the areas from which those concerned have migrated and in which provisions of these kinds have become "surplus to requirements". This leads to a situation in which those who continue to live in declining areas, and those who, because of the way community life is organised, live in ways which make minimal demands on the national exchequer, have to pay for those who live in wealthy growth areas.

Two conclusions arise from this argument:

- i) Firstly, a collective decision to move work to the declining areas would be more economic than it would appear, from cost-benefit calculations, to be.
- ii) Secondly, in modern society market costs and prices are a poor guide to action.

23. The provision of pensions and insurance through the marketplace has led to the creation of giant financial corporations which own most British manufacturing and service companies and land, as well as the largest portfolio of overseas interests of any country in the world except Japan. Because their sole concern is maximising profit they specialise in moving assets from company to company and are reluctant to fund the research and development required to promote innovation, believing that they can sell firms which have outlived their usefulness and buy those which are successful innovators. They have little interest in the long term development of the individual firms they own and believe that provision for the long-term welfare of workforces is an unnecessary drain on resources.

Market provision of commodities can therefore stifle the very innovations which the marketplace is commonly thought to encourage, every bit as much as direct government ownership.

24. The international competitiveness of a country's products depends on:

- a) Whether the standards (environmental, safety, quality) which producers are required to maintain have to be paid for by the producers themselves or by the whole community.
- b) How taxes are collected. For example, if VAT is high, exports to international markets can still be relatively cheap because VAT can be deducted. However, if the country concerned raises the same revenue through income taxes, exporters cannot deduct it from the price of their exports which therefore become expensive.
- c) Whether arrangements are made to enable an individual firm (or the firms of a particular country) to avoid taxes imposed on competitors by creating "enterprise" zones within which firms do not have to pay tax.

The general conclusion to be drawn from these examples is that the competitiveness of goods and services in the international marketplace is as much dependent on the way taxes are levied as on relative levels of taxation.

25 The nature of money has changed dramatically since Adam Smith's time. Within their own countries, banks now lend up to nine times their total assets. A nominal interest rate of 15% therefore amounts to nine times that: i.e. 135%. When banks lend to the Third World there is no limit on the amount they may lend. The true rate of interest is therefore infinite: no real assets have been lent and no money has been withdrawn from other potential uses. The result of these processes is that the amount of money in circulation today amounts to 32 times the total value of the world economy. Despite this, the International Monetary Fund uses the nominal debts of Third World countries as an excuse to interfere in their affairs.

Two conclusions follow from these observations:

- i) There is no moral justification for the I.M.F.'s interventions to perpetuate 3rd world debts. If they were to cancel them the banks concerned would not have lost anything except their usurious returns.
- ii) Statements by the government that "we do not have the money" to do whatever needs to be done have no real meaning as the money could always be created through the process described.

26 The arguments presented here show that the realities which lie behind central words in market theory such as "money" "customer" "product" and "producer" are quite different from what they were when market theory was developed, and from what they are commonly taken to be.

For this reason the continued use of the theory leads to mistaken conclusions.