The British Economy: What will our children think?

Also by Chris Hawkins

Capital Investment Appraisal (*with David W. Pearce*)
The Theory of the Firm

Also by George McKenzie

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Chris Hawkins

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To Susan and Sandy

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Introduction

The British economy is in dire straits. Industrial output has fallen to below its level in 1969; unemployment has soared to over 3 million; industrial profits have collapsed and bankruptcies have reached an all-time high. In the past our economic problems have seemed shortlived and have responded quickly to reflationary measures by governments. Now, our problems are more deep-rooted, seem almost intractable, and are widely expected to continue for a decade at least. Our problems are likely to become our children's problems.

We have prepared this book in the belief that economists must set out to explain the framework of the real economic debate before it is too late. This is not another of those bluffers' guides to economics. Each chapter aims to bring a clear and forthright viewpoint to bear on the British economy.

A well-known academic told us: 'No one should write economics for laymen [i.e. non-economists]. You either have to simplify it till it is no longer true in order to be understood, or you make it so complex to make it true that no one not trained in the subject can follow it.'

The writers might well have agreed if they had not given a course for non-economists through Southampton University's Department of Adult Education. Somewhat to our surprise, and relief, those who took the course said they found it interesting and understandable, that it grappled realistically with major economic issues of interest to most people, and that they found the level more satisfying than that in the average daily paper. For our part we found it challenging to present our subject to non-specialists. In a democracy we progress largely by persuasion, by convincing others with rational argument. Britain's economic problems are serious and touch all our lives, whether through unemployment, inflation, or cuts in expenditure on schools, universities and health. There is at least some reason for believing that if more people understood our

economic problems we would be better able to solve them. To understand the problems and the causes may put us at least halfway towards accepting and helping with the cures. Or is that perhaps too much to hope?

At the very least, we believe there is a sizeable minority of people who, although they do not want to study economics as an academic subject or who do not have the time, would none the less like a more detailed look at Britain's economic problems than can be expected from the daily paper. It is for them that this book is written.

The basic format of the book is that in the first half we have chapters by various specialists who look at the performance of the economy as a whole. In Chapter 1 Chris Hawkins outlines the major strands of economic theory needed to understand our problems and our government's policies. Readers may find it helpful to read this chapter first, to pick up the economic theory needed for the chapters that follow. In it Hawkins looks at Keynesian economics, which appeared to work so well till the late 1960s, and at the growth of monetarist theory and policy which have now replaced Keynesianism as the prime policy of so many countries. In Chapter 2 he looks at the progress (or lack of it?) of monetarism when applied to the British economy and asks how best we can go forward from here. The case for incomes policy is made. He also calls for a major reform of the mortgage system. In Chapter 3 David Rowan also analyses the problems of monetarism in the British economy – though from a somewhat different standpoint – and he goes on to look at the major economic forecasters' views on how we will progress to 1984 and beyond.

In Chapter 4 Michael Wickens surveys a range of major theories and tackles the question: 'How much do we really know about how the economy behaves?' He makes the case against undue reliance on the government to solve economic problems.

We conclude the first half of the book with an unusually optimistic view of Britain's progress by Kenneth Hilton. He argues in Chapter 5 that if we look back over a reasonably long time period the economy has not behaved half as badly as many of us might think. Living standards have risen appreciably over the last twenty years or so. Only in the last decade does growth appear to have faltered or ceased.

The second half of the book looks at a number of major special topics – all relevant to the British economy. In Chapter 6 David

Heathfield looks in detail at unemployment, the extent to which it is voluntary or involuntary and how we might improve the present tragic situation; David Heathfield and Ivor Pearce, in Chapter 7, put forward a revolutionary scheme for controlling inflation – create a new kind of money altogether and take its production out of the hands of the government; George McKenzie (in Chapter 8) analyses the banking system in some detail, the ways in which banks create money and the manner in which bank activities tend to offset monetary policy; in Chapter 9 Barry McCormick examines the role of North Sea oil in Britain and the significant effects it has had on our economy for good and sometimes for ill; and in Chapter 10 Alan Hamlin looks at the thorny question of Britain's membership of the European Economic Community (EEC).

Our economic problems have probably never seemed more intractable than now. Probably that is why there seems to be such an upsurge of interest in how the economy works, what its problems are and what cures for them are available. Within the limits of space the aim of this book is to outline what is known about how the economy works and how it sometimes fails to work. We have tried not to conceal what economics does not yet know about the complex and ever-changing systems we are studying. In line with this policy we have made no attempt to try and force a consensus and offer apparent unity.

Indeed, such an effort would defeat one of our objectives: to explain why economists appear to differ in their prognostications. In many areas differences are due to a lack of certain knowledge about how the economy really works: in the absence of knowledge we must speculate and hypothesise. At other times differences of view reflect competing political beliefs. One economist may favour a more free enterprise, market forces solution to a problem – another might favour more state intervention and control. Both viewpoints are represented and we try to give enough information and economic analysis for readers to make their own judgements and choice of policies in line with their own political beliefs.

We would like to thank Dr Stuart Drummond of the Education Faculty at Southampton University for suggesting the lecture series which has led to this book. We also thank the secretaries in the Department of Economics and the Department of Accounting and Management Economics for carefully typing this manuscript under tight deadline conditions: Miss C. Brown, Mrs J. Gerrard, Mrs M.

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Southampton University
May 1982

CHRIS HAWKINS
GEORGE MCKENZIE