

ECONOMIC POLICY

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and

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Introduction

Economics as an academic discipline has had a long period of gestation. Economic debates stretch back over the millenia, but it is common to date the beginning of the subject in a recognisably modern form to the eighteenth century. With a certain irony, the father of economics is often said to be another Adam. The author of the frequently quoted *Wealth of Nations* (1776), Adam Smith, is credited with the foundation of classical economics, from which the current economic orthodoxy has developed.

The influence of economic theories and ideas has been enormous in the last two centuries and even without consciously recognising the fact, many policy-makers have had their ideas shaped by economists. A famous quote from John Maynard Keynes makes this clear:

The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. (Keynes, 1936, p. 383)

This book takes as its central theme the outcomes of economic policy-making in recent times. Economic policy-making does not take place in a political vacuum, but is subject to a range of forces, not least of which is political ideology. Politicians select the ideas of those economists whose views most neatly conform with their ideologies and then promote them as being self-evidently correct. The UK has developed as a predominantly capitalist economy and the economists whose ideas have been most influential in policy-making reflect this. The economic orthodoxy which has been in the ascendant throughout the twentieth century has been based on neo-classical reasoning. This reasoning gives the market the central role in the allocation of resources and stresses cost minimisation as a production necessity. Whilst the period from the 1950s to the 1970s saw some modification in the role of the market as an allocative mechanism in policy-making, the bedrock of orthodox

theory remained. Since the 1970s policy-making has become even more firmly based on orthodox economic reasoning and the role of the market has been asserted more strongly than at any time since the Second World War.

In writing this book we have attempted to set economic policy in the context of the underlying economic principles that support it. We aim to be critical, as the authors feel a common disquiet with much that has occurred in the policy-making arena in recent years. Wherever possible we suggest that there may be alternatives, and point the reader in the direction of alternative literature. Although one would not think so in reading most mainstream theory and policy texts, there is a wide range of alternative economic thinking, stretching from Marxian political economy, Post-Keynesian, Institutional, Evolutionary to Austrian Economics, to name but a few. Each of these approaches has different policy implications and outcomes. It is our intention to foster debate and enquiry and to encourage the student to seek the alternative that best suits her/him.

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