Chapter 11

Property, Planning and the Market

Introduction

At almost every level, politics is intertwined with economics. Election results are often thought to be determined by economic factors: at times of prosperity, governments are likely to be re-elected, but during recessions they face defeat. It is little surprise therefore that party politics is invariably dominated by economic issues. Parties compete against each other by promising higher rates of economic growth, increased prosperity, lower inflation and so forth. The influence of economics has been no less significant in political theory. For almost two hundred years, ideological debate revolved around a battle between socialism and capitalism, a clash between two rival economic philosophies. This struggle was regarded as fundamental to the political spectrum itself, left-wing ideas being broadly socialist, right-wing ones being sympathetic towards capitalism. In effect, this tendency reduced politics to a debate about the ownership of property and the desirability of one economic system over another. Should property be owned by private individuals and be used to satisfy personal interests? Or should it be owned collectively, by either the community or the state, and be harnessed to the common good?

Questions about property are closely related to conflicting models of economic organization, notably the rival economic systems that dominated much of twentieth-century history: central planning and market capitalism. At times, politics has been simplified to a choice between planning and the market. Forms of planning have been adopted in a wide range of countries, but the principle was applied most rigorously in orthodox communist states. What are the strengths or attractions of the planning process? But why, also, has planning often failed or been abruptly abandoned? In many respects, the rival idea of the market has been in the ascendency since the late twentieth century, being championed not only by liberal and conservative thinkers but by a growing number of socialists as well. What is it that has made market-based systems of economic organization so successful? But why, nevertheless, has there been a continual need for government to intervene in economic life to supplement or regulate the market?

Property

The most common misunderstanding in any discussion of property is the everyday use of the term to refer to inanimate objects or 'things'. Property is in fact a social institution, and so is defined by custom, convention and, in most cases, by law. To describe something as 'property' is to acknowledge that a relationship of *ownership* exists between the object in question and the person or group to whom it belongs. In that sense, there is a clear distinction between property and simply making use of an object as a possession. For example, to pick up a pebble from a beach, to borrow a pen, or drive away someone else's car, does not establish ownership. Property is thus an established and enforceable claim to an object or possession; it is a 'right' not a 'thing'. The ownership of property is therefore reflected in the existence of rights and powers over an object and also the acceptance of duties and liabilities in relation to it. From this point of view, property may confer the ability to use and dispose of an object, but it may also involve the responsibility to conserve or repair it.

The range of objects that can be designated as property has varied considerably. Primitive societies, like those of the Native Americans, may have little or no conception of property. In such societies, inanimate objects, and especially land, are thought to belong to nature; human beings do not *own* property, they are at best its custodians. The modern notion of property dates from the seventeenth and eighteenth centuries and stems from the growth in Western societies of a commercialized economy. As material objects increasingly came to be regarded as economic resources – as the 'means of production' or as 'commodities' capable of being bought or sold – the question of ownership became absolutely vital. The natural world was turned into 'property' to enable it to be exploited for human benefit. Nevertheless, property has not only been restricted to material objects. Human beings, for instance, have been thought of as property, most obviously in the institution of slavery but also in legal systems which have regarded wives as the 'chattels' of their husbands. However, different forms of property have developed, depending upon who or what was entitled to make a claim of ownership: private property, common property and state property. Each form of property has radically different implications for the organization of economic and social life, and each has been justified by reference to very particular moral and economic principles.

Private property

So deeply is the notion of private property embedded in Western culture that it is not uncommon for all property to be thought of as 'private'. Nevertheless, private property is a distinctive form of property, defined by

C.B. Macpherson (1973) as the right of an individual or institution to 'exclude others' from the use or benefit of something. The 'right to exclude' does not, of course, necessarily deny access. Someone else can use 'my' car – but only with my permission. The notion of property as 'private' developed in the early modern period and provided a legal framework within which commercial activity could take place. Private property thus became the cornerstone of the growing market or capitalist economic order.

Liberal (see p. 29) and conservative (see p. 138) theorists have been the most committed defenders of private property, but its justification has taken a number of forms. One of the earliest arguments in favour of private property was advanced in the seventeenth century by natural rights theorists such as John Locke (see p. 268). A very similar position has been adopted since the mid twentieth century by right-wing libertarians such as Robert Nozick. The basis of this argument is a belief in 'self-ownership', that each individual has a right to own his or her own person or body. If, as Locke argued, each person has exclusive rights over his or her self, it follows that they have an exclusive right to the product of their own labour – that is, what they personally have crafted, produced or created. Property

Robert Nozick (1938–2003)

US academic and political philosopher. Nozick's major work, *Anarchy, State and Utopia* (1974) is widely seen as one of the most important modern works of political philosophy, and has had a profound influence upon New Right theories and beliefs.

Nozick's work is often interpreted as a response to the ideas of John Rawls (see p. 298), and is seen, more broadly, as part of a right-wing backlash against the post-1945 growth in state power. He developed a form of libertarianism (see p. 337) that draws upon the ideas of Locke (see p. 268) and was influenced by nineteenth-century US individualists such as Spooner (1808–87) and Tucker (1854–1939). At its core is an entitlement theory of justice that takes certain rights to be inviolable, and rejects the notion that social justice requires that a society's income and wealth be distributed according to a particular pattern. In particular, Nozick argued that property rights should be strictly upheld, provided that wealth has been justly acquired in the first place or has been justly transferred from one person to another. In short, 'whatever arises from a just situation by just steps is itself just'. On this basis, he rejected all forms of welfare and redistribution as theft. Nozick nevertheless supported a 'minimal state', which he believed would inevitably develop from a hypothetical state of nature. Some of the conclusions of *Anarchy, State and Utopia* were moderated in *The Examined Life* (1989).

rights are therefore based upon the idea that inanimate objects have been 'mixed' with human labour and so become the exclusive property of the labourer. This argument justifies not only exclusive property rights but also unlimited ones; individuals have an absolute right to use or dispose of property in whatever way they wish. This is evident in Nozick's theory of distribution, discussed in Chapter 10. According to Nozick, providing property has been acquired or transferred 'justly', there is no justification for infringing property rights, whether in the cause of social justice or in the interests of the larger society. Such a position, for example, sets very clear limits to the capacity of government to regulate economic life or even to tax its citizens.

Often linked to the idea of natural rights is the justification of private property as an incentive to labour. Found in Aristotle (see p. 69) and developed by utilitarian (see p. 356) and economic theorists, this defence of private property is based less upon moral principles than it is on the promise of economic efficiency. In short, it is only the possibility of acquiring and consuming wealth, in the form of private property, which encourages people to work hard and develop the skills and talents they were born with. Economists point out, moreover, that through the mechanism of market competition private property ensures that economic resources are attracted to their most efficient use, ensuring a productive and growing economy. Such an argument is based upon the belief that human beings are self-seeking and that work is regarded as essentially instrumental. In other words, work is at best a means to an end. The driving force behind productive activity is simply the desire for material consumption. Individuals will be encouraged to devote their time and energy to work only if there is the compensating prospect of acquiring material wealth.

Private property has also been linked to the promotion of important political values, notably individual liberty. Property ownership gives citizens a degree of independence and self-reliance, enabling them to 'stand on their own two feet'. By contrast, the propertyless can easily be manipulated and controlled, either by the wealthy or by government. Thus, even political theorists who feared the emergence of economic inequality, such as Jean-Jacques Rousseau (see p. 242), the anarchist Pierre-Joseph Proudhon (see p. 367) and modern social democrats (see p. 308), have been unwilling to contemplate the abolition of private property. This argument has, however, been put particularly forcefully by free-market economists, such as Friedrich Hayek (see p. 338). In *The Road to Serfdom* ([1944] 1976) Hayek portrayed property ownership as the most fundamental of civil liberties, and argued that personal freedom can reign only within a capitalist economic system. In his view, government intervention in economic life necessarily escalates to the point where all aspects of social existence are brought under state control. In effect, any encroachment upon private property contains the seeds of totalitarian oppression.

In addition to its economic and political advantages, private property also brings social and personal benefits. Private property, for instance, promotes a range of important social values. Property owners have a 'stake' in society, an incentive to maintain order, be law-abiding and behave respectfully. Conservatives have, as a result, praised the notion of a 'property-owning democracy'. Such an idea underpins the radical proposal by Ackerman and Alstott (1999) that all young Americans should be given a financial stake in society in the form of a capital sum of 80 000 dollars (the estimated cost of a four-year education at a top US university). This attempt to establish a 'stakeholder society' clearly rejects the idea that property is an individual right based upon merit or just transfer. Indeed, it seeks to counter the unfairness that results from rights-based property ownership, which allows for wide and entrenched inequalities in the distribution of wealth, and so in life chances, resulting from the inheritance of property or its 'just' transfer. By contrast, the stakeholder justification for private property is that asset ownership would engender freedom and responsibility, widening opportunities for young people in particular, and encouraging people to think and act in accordance with longer-term considerations. In the process, it would also reduce dependency upon the welfare state and public services.

A final justification for private property sees property not as an economic resource or as consumable wealth, but rather as a source of personal fulfilment. Property has been seen as both a source of personal security and as an extension of an individual's personality. Property provides security because it gives people 'something to fall back on'. However, the enjoyment and satisfaction which property ownership brings is as much a psychological fact as it is an economic one. There is a sense, for instance, in which people 'realize' themselves, even 'see' themselves, in what they own – their cars, houses, books and the like.

The case against private property has usually been advanced by socialists, though modern liberals and conservatives have also at times recognized the need to limit property rights. The most common approach has been to view private property not as the cornerstone of liberty, but as a fundamental threat to it. One version of this argument warns that unfettered property rights can lead to a grossly unequal distribution of wealth, allowing property to become a means of controlling, even enslaving, others. This idea was expressed most graphically in Proudhon's ([1840] 1970) famous dictum, 'Property is theft'. What Proudhon meant by this was not so much that individuals have no right to property but simply that the accumulation of wealth in private hands can allow the rich to exploit and oppress the poor. The Marxist argument, however, is more radical. Marx (see p. 371) adopted a labour theory of value, based upon the writings of Locke. This implied that the value of a good reflects the quantity of labour expended in its manufacture. Whereas Locke believed that property rights could be traced to an initial act of labour, Marx saw a stark distinction between those who own wealth, the bourgeoisie, and those whose labour is responsible for its creation, the proletariat. In the process of accumulating wealth, the bourgeoisie extracts what Marx called 'surplus value' from the labour of the proletariat. In other words, private property inevitably leads to exploitation and class oppression. In *The Communist Manifesto* ([1848] 1976), Marx and Engels were therefore able to sum up the theory of communism in a single phrase: 'Abolition of private property'. Short of abolition, socialists, liberals and even conservatives have, in different ways, accepted the need to regulate private property in order to counter the tendency towards social inequality and in recognition of citizens' wider social responsibilities.

Common property

Despite the common misconception of property as private property, the common or collective ownership of wealth has a history which long predates modern socialist thought. Plato (see p. 21) recommended that amongst the philosopher-kings who should be entrusted to rule, property should be owned in common; and Thomas More's *Utopia* ([1516] 1965) portrays a society without private property, in some respects pre-figuring ideas later developed in *The Communist Manifesto*. Whereas private property is based upon the right to exclude others from use, common property can be defined, in Macpherson's words, as 'the right not to exclude others'. In other words, a right of access to property is shared by the members of a collective body and no member is entitled to detach a portion from the common wealth and exclude others, thereby establishing 'private' domain over it. This does not necessarily mean, however, that no one is excluded from use of common property. The right of common ownership may be restricted to the members of a workers' cooperative, a commune or locality. For example, access to common land may be restricted to people designated as 'commoners', 'non-commoners' being excluded, just as the free use of 'public' facilities like libraries, museums and schools may not be extended to 'non-citizens'. In other cases, common ownership may be universal in the sense that no human being is, or can be, excluded from use, as has sometimes been advocated in the case of land. Although a modern corporation or joint stock company exhibits one of the characteristics of common property, being owned by a collective body, its shareholders, it is nevertheless better thought of as an example of institutionalized private property. Since shares can be bought and sold, an individual can detach his or her portion from the whole, something which common property does not allow.

The case in favour of collective property has usually been advanced by socialists, communists and communitarian anarchists. At the heart of this usually lies a theory of labour, but one very different from Locke's. Locke believed that the right to private property could be traced to the labour of an independent and specifiable individual. Supporters of common property, on the other hand, have typically regarded labour as a social and collective activity, depending in almost all cases upon group cooperation rather than independent effort. It follows, therefore, that the wealth so produced should be owned in common and should be used to promote the collective good. Any system of private property simply institutionalises robbery. Common property has also been justified on grounds of social cohesion and solidarity. When property is owned in common, anti-social instincts like selfishness, greed and competition are kept at bay, while social harmony and a sense of collective identity is strengthened. Plato, for instance, believed common ownership to be essential because it would ensure that the class of rulers would act as a united and selfless whole. Socialists have typically seen common property as a way of ensuring that *all* citizens are full members of society, in which case it harnesses the collective energies of the community rather than the narrow and selfish drives of the individual.

Common property has also been sternly criticized. Critics allege that in robbing the individual of a 'private' domain of personal possessions, common ownership creates a depersonalized and insecure social environment. Some socialists have implicitly acknowledged this problem in drawing a distinction between productive property, the 'means of production', which they believe should be collectively owned, and personal property, the 'means of consumption', which can still remain in private hands. Others argue that common property is inherently inefficient in that it fails to provide individuals with a material incentive to work and to realise their talents. A final problem with collective property is that it embodies no mechanism for restricting access to scarce resources, except a reliance upon natural good sense and cooperation. This is sometimes explained by reference to what is called 'the tragedy of the commons'. Before the enclosure of land, all commoners had an unrestricted right of access to it, being able to graze as many animals as they wished. The problem was that in many cases land was over-grazed and became unproductive, a tragedy which affected all commoners. Systems of private property ownership get round this problem by allowing the market to ration scarce resources through the price mechanism. Where systems of common ownership have been introduced, however, access to scarce resources has usually been restricted by the imposition of some form of political authority. Thus common ownership has often in practice taken the form of state ownership.

State property

The notions of common property and state property are often confused. Terms such as 'public ownership' or 'social ownership' appear to refer to property owned collectively by all citizens, but in practice usually describes property that is owned and controlled by the state. 'Nationalization' similarly implies ownership by the nation but through a system of state control. Nevertheless, state property constitutes a form of property distinct from both private and common property, though, confusingly, it exhibits characteristics of each. The resemblance between state property and common property is borne out by the fact that unlike private corporations the state acts in the name of the people and supposedly in the public interest. A distinction is sometimes made therefore between the ownership and control of state property: ownership, nominally at least, is in the hands of 'the people', while control clearly rests with the government of the day. In other respects, however, state property is more akin to private property. Ordinary citizens, for instance, have no more right of access to state property such as police cars than they do to any other private vehicle. Moreover, state institutions like schools, public libraries and government offices guard their property no less jealously than private corporations. However, the extent of state property ownership varies considerably from society to society. All states own some range of property to enable them to carry out their basic legislative, executive and judicial functions, but in some countries state property may encompass an extensive range of economic resources and even entire industries. In the case of state collectivization, as found in orthodox communist regimes such as the Soviet Union, all economic resources – the means of production, distribution and exchange – was designated as 'socialist state property'.

Arguments for state property have often drawn upon those which also favour common ownership. For instance, if state property is regarded as 'public' it reflects the fact that collective social energy was expended in its production, and, unlike private property, it promotes cooperation and cohesion rather than conflict and competition. However, state property may also be said to enjoy advantages to which common property cannot aspire. In particular, the state can act as a mechanism through which access to, and the use of, scarce resources is controlled, thereby avoiding 'the tragedy of the commons'. In the case of state property, however, the right of access to economic resources is limited not for private gain but in the long-term interests of the community. Moreover, unlike common property, state property can be organized along rational and efficient lines. This is usually made possible by some form of planning system, capable both of establishing economic targets and of allocating resources so as to ensure that these targets are met. The nature and merits of planning are considered in greater depth in the next section.

State property is, however, also subject to severe criticism. Advocates of common ownership normally point out that state property is neither 'public' nor 'social' in any meaningful sense. When resources are controlled by state officials they may engender precisely the same alienation as occurs in the case of private property. There is little evidence, for example, that workers in nationalized industries feel in any way closer to the service they provide, or more in control of the process of work, than do those who work for a privately owned company. In addition, state property has often been linked to centralization, bureaucracy and inefficiency. Whereas private property leaves the organization of economic life to the vagaries of the market, and common ownership relies upon the sociable and cooperative instincts of ordinary people, state property places its faith in a centralized and supposedly rational system of economic planning. However, all too frequently planning systems have become hopelessly unwieldy and inherently inefficient. Massive numbers of state officials are needed to direct the economy and there is a strong tendency for them to get out of touch with both the needs of the economy and the wishes of the consumer. Furthermore, there is the danger that the state can develop interests separate from those of the people themselves. In such cases, state property can be used to benefit bureaucrats and state officials rather than advance the common good. Collectivist regimes have therefore sometimes been portrayed as examples of state capitalism.

Planning

The need for some kind of economic organization arises out of the simple fact of scarcity: while human needs and wants are infinite, the material resources available to satisfy them clearly are not. In a world of abundant wealth and general prosperity economics would be irrelevant; but in circumstances of scarcity economic issues threaten to dominate all others, political ones included. As already noted, the heart of the economic question has traditionally been posed as a choice between two fundamentally different economic systems – socialism or capitalism – and therefore between two rival mechanisms for allocating resources within the economy: the plan or the market. However, the idea of planning is often poorly understood, being linked in many people's minds to the machinery of central planning once found in the Soviet Union. Yet planning has assumed a wide variety of forms, having been employed by developing countries in the third world as well as by some advanced industrialized states. Moreover, although some have argued that historical developments have entirely discredited the planning process, it is difficult to see how economic activity can be undertaken without some element of planning.

The planning process

To 'plan' is to draw up a scheme or devise a method for achieving a specified goal. In effect, it is to think before one acts. All forms of planning must therefore have two essential features. In the first place, planning is a purposeful activity; planning presupposes the existence of clear and definable objectives, something that it is desirable to achieve or accomplish. These goals may be highly specific, as in the case of the output targets set in Soviet-style central planning, or they may be broader and more generalized, for example, an increase in economic growth, a reduction in unemployment and so on. Second, planning is a rational activity. It is based upon the assumption that economic and social problems are capable of being solved through the exercise of human reason and ingenuity. At the heart of economic planning therefore lies a belief that the problem of scarcity can best be overcome by a rational mechanism for allocating resources, geared to established human goals. This 'rational mechanism' undoubtedly involves the exercise of some kind of control over economic life, the production, distribution and exchange of goods and services. However, the means for doing this and the range of control exerted over the economy differs considerably from one system of planning to the next.

The idea of planning has traditionally been associated with socialist economics, and particularly with Marxism (see p. 82). However, Marx never laid down a blueprint for the organization of a future socialist society and, believing that it was impossible to envisage in detail how a historically different society would work, he restricted himself to a number of broad principles. His central belief was that private property should be abolished and replaced by a system of collective or social ownership. In Marx's view, capitalism was a system of 'commodity production', in which goods and services were produced in response to market pressures, a system of 'production for exchange'. By contrast, a socialist economy would be based upon the principle of 'production for use', and would dispense altogether with market transactions and indeed the need for a money economy. In other words, under socialism the economy would serve the material needs of society, a requirement that presupposes some kind of planning arrangement. Unfortunately, Marx did not specify what form that arrangement would take. What is certain, however, is that neither Marx nor Engels envisaged the emphasis upon central control and large-scale production which characterized the planning process in the Soviet Union. Marx consistently supported broad popular participation at every level in society, and his prediction that the state would 'wither away' as full communism was established suggests support for common property and self-management rather than for state collectivization.

There is little doubt that the planning process reached its highest stage of development in the Soviet Union, a model later adopted by state socialist regimes in Eastern Europe and elsewhere. In his famous phrase Lenin (see p. 83) described communism as 'Soviet power plus electrification', indicating a broad commitment to modernization and the task of bringing the economy under democratic control. This vision, however, was not realized until the launch of the First Five Year Plan in 1928 and the collectivization of Soviet agriculture which started the next year. This led to the construction of a centrally planned economy. With the exception of private plots of land, supposedly for the personal use of peasants, all economic resources came under the control of the state. Under Stalin a 'command economy' was established, which involved a system of so-called 'directive planning' operating through a hierarchy of party and state institutions. Overall control of economic policy lay in the hands of the highest organs of the Communist Party, the Central Committee and the Politburo. A complicated network of planning agencies and committees, operating under Gosplan, the State Planning Committee, was responsible for drawing up Five Year Plans. Soviet-style central planning placed unquestioning faith in the notion that society could be organized on rational lines, and was prepared, when necessary, to imitate US capitalism. For example. the giant steel town of Magnito Gorsk was modelled upon Gary, Indiana, and work in Soviet enterprises was organized on the basis of Taylorism, according to the pioneering time-and-motion studies undertaken by F.W. 'Speedy' Taylor of the Bethlehem Steel Corporation.

In other countries, however, planning has been seen as a way of supplementing the market rather than replacing it. In such cases, a system of so-called 'indicative planning' has developed in which plans do not establish directives instructing enterprises what to produce and how much to produce, but rather seek to influence the economy indirectly. Economists sometimes refer to this form of government intervention as economic 'management' to distinguish it from Soviet-style 'planning'; nevertheless, it still seeks to exercise a purposeful and rational influence over the organization of economic life. After 1945 state intervention became increasingly commonplace in the West as governments sought to meet a broad range of economic objectives: maintaining a high level of economic growth, controlling inflation, boosting international trade, ensuring full employment and a fair distribution of wealth, and so forth. In countries such as the UK and France this led to the nationalization of strategic industries and the construction of mixed economies, allowing government to exert growing influence over economic life.

Formal systems of planning were also set up. In the UK, faltering steps were taken in this direction under the National Plan, drawn up in 1966 by the ill-fated Department of Economic Affairs. However, in France and the Netherlands in particular, more developed and far more successful systems were introduced. A form of planning was also applied in Japan, clearly distinguishing it from the free-market model of economic development found in the USA. The 'economic miracle' Japan experienced in the 1950s and 1960s was overseen by the Ministry of International Trade and Industry, which guided the investment policies of private industry, helped to identify growth industries and targeted export markets. A similar system of careful government intervention to promote export-led growth was adopted elsewhere in East Asia, notably in Hong Kong, Singapore, South Korea and Taiwan. India, however, developed a system of planning that drew unashamedly from Soviet experience. Shortly after independence in 1947, an Indian Planning Commission was set up which, with the assistance of expert institutions such as the Ministry of Finance and the Reserve Bank of India, drew up Five Year Plans. Although these gave the Indian government considerable influence over investment and trade, they did not amount to direct control over the private sector of the economy. Moreover, all plans were subject to approval and amendment in the Indian parliament, the Lok Sabha.

Promise of planning

The attraction of planning rests upon economic, political and moral considerations. Central to these arguments is the fact that planning is a rational process, implying that no economic problem is beyond human ingenuity to solve. In short, planning places the economy firmly in human hands, rather than leaving it to the impersonal and sometimes capricious whims of the market. This is particularly important in establishing overall economic goals – what to produce, and how much to produce. Being relieved of the drive for profit, planners are able to organize a system of 'production for use' geared to the satisfaction of human needs, instead of a system of 'production for exchange' that responds only to market forces.

Although human needs are highly complex and infinitely variable, especially in the areas of consumer taste and popular fashion, there is broad agreement about what constitutes the basic necessities of life. These surely include shelter, a subsistence diet, primary health care and basic education. Unlike capitalist countries, state socialist regimes orientated their economies around the satisfaction of such needs. Although the central planning systems employed in the Soviet Union and throughout Eastern Europe failed dismally in their attempt to produce Western-style consumer goods, they were nevertheless successful in eradicating homelessness, unemployment and absolute poverty, problems which continue to blight the inner cities in some advanced capitalist countries. Despite chronic economic backwardness, Cuba, for example, has a literacy rate of over 98 per cent and a system of primary health care that compares favourably with those in many Western states. Such achievements require not only that economic resources are channelled into the construction industry, agriculture and the building of schools and hospitals, but also that the prices of basic necessities are subsidized and controlled by the planning process, delivering cheap food and affordable housing, as well as free education and health care.

'Planning for need' also offers the prospect of efficiency. Having decided what to produce, planning offers a rational solution to the problem of how to produce, distribute and exchange the goods and services that are desired. In this respect, planning draws on the experience of capitalist firms which have long organized production on rational lines. Although private corporations respond to external market conditions, their internal organization is planned and directed by a team of senior managers, whose task is to ensure the efficient use of resources. In a sense, Soviet planning was an attempt to transfer this mechanism of rational control from the private corporation to the entire economy. This was evident in the eagerness of Soviet planners to apply management techniques such as Taylorism which had developed in the capitalist West. In this way, planning was able to avoid some of the irrationalities of market capitalism. For instance, planning systems can avoid the scourge of unemployment and the gross waste of economic resources which this represents. Unemployment means that the most vital of all resources, human labour, lies idle while important social needs, such as the building of houses or the improvement of schools and hospitals, go unmet.

A system of planning also means that the economy can be organized in line with long-term goals rather than short-term profit. This has been particularly important in developing economies where market pressures can seriously distort economic prospects, as the dependence of many third world countries upon cash crops clearly demonstrates. Soviet economic development in the 1930s was based largely upon the priority planners gave to building up heavy industries and the steel industry in particular, seeing these as the basis for both national security and future economic progress. By 1941, the central planning system had created a sufficiently strong industrial base to enable the Soviet Union to withstand the Nazi invasion. Similarly, in the 1950s, Japanese planners rejected the advice of economists to concentrate resources in traditional, labour-intensive industries like agriculture in which Japan had a 'comparative advantage', but instead promoted capital-intensive industries like steel, automobiles and electrical and electronic goods, which they believed, correctly as it turned out, were to become the industries of the future.

The political case for planning largely rests upon the prospect of bringing the economy under political and therefore democratic control. Market capitalism strives to separate economics from politics in the sense that the economy is driven by internal, market forces not by government regulation. The economy is therefore accountable to the owners of private businesses, in whose interests decisions are taken, rather than to the public. Planning, by contrast, can be seen as a means of creating a democratic economy. Undoubtedly, the image of planning has been tainted by its association with the authoritarian political structures of orthodox communism. Planning has thus been portrayed as a step towards the construction of a Soviet-style 'command economy'. However, it would appear that there is no necessary link between planning and authoritarianism. Indicative planning, as has been practised in countries such as France, Germany and the Netherlands, is carried out in stable parliamentary democracies in which economic decisions are open to genuine public scrutiny, argument and debate. From this point of view, planning can perhaps be seen as a means through which the anti-democratic tendencies of the market can be tamed.

A moral case can, finally, be made out in favour of planning. As an alternative to private enterprise, planning, in whatever form, attempts to serve public or collective interests rather than particular or selfish ones. That actual systems of planning have failed in this respect, notably the Soviet system of central planning, may have more to do with political circumstances than with the planning process itself. If the planning mechanism is subject to open and democratic accountability and thus addresses genuine human needs, it will give all citizens a 'stake' in their economy. Planning can therefore foster social solidarity and strengthen the bonds of community, in contrast to capitalism which encourages only self-striving and avarice. There is, moreover, a clear link between planning and egalitarianism, which helps to explain why planning has been so attractive to socialists. Planning goes hand in hand with the collective ownership of wealth, ensuring that a planned economy is not debilitated by class conflict which pits the interests of property owners against those of the masses. A planned economy is also likely to be characterized by a more egalitarian system of distribution, as material rewards start to reflect social needs rather than individual productivity. In this sense, planning is based upon a theory of motivation quite foreign to advocates of market capitalism. Insofar as planning strengthens social bonds and counteracts selfishness, it creates a moral incentive to work based upon the betterment of the community rather than the well-being of the private individual.

Perils of planning

Despite its attractions, planning undoubtedly has a number of serious drawbacks. Indeed, planning has never stood alone as a principle of economic organization, but has always been sustained by market 'impurities'. This is perfectly obvious in the capitalist West where planning has sought to sustain market capitalism by compensating for its failures rather than trying to replace it. However, market impurities also existed in the Soviet Union. For example, private consumption was never controlled, allowing a measure of consumer choice to survive; except in wartime, a market in labour was tolerated; peasants' 'private plots' supplied almost half the potatoes and 15 per cent of the vegetables in the Soviet Union; and thriving 'black' markets developed in goods which the official Soviet system failed to produce. Furthermore, when planned economies have been reformed this has invariably meant making concessions to market competition. This was seen as early as 1921 with the introduction of Lenin's New Economic Policy. In the post-1945 period, a form of 'market socialism' developed in Yugoslavia and Hungary, which strove to decentralize economic decision-making and permitted the emergence of small capitalist enterprises. In turn, Yugoslav and Hungarian experience influenced Gorbachev's attempts to reform the ailing Soviet economy in the late 1980s. Under the slogan *Perestroika*, or 'restructuring', Gorbachev legalized private cooperatives and single-proprietor businesses, and set about dismantling what he called the 'command-administrative apparatus' by encouraging state enterprises to become self-managing and self-financing.

The central problems that have confronted planned economies have been economic inefficiency and low growth. While the gap between the Soviet Union and the capitalist West continued to diminish until the 1950s, allowing Khrushchev to predict that the Soviet Union would 'bury the West', thereafter growth levels declined to the point that in the early 1980s the Soviet economy was actually shrinking. There is no doubt that the sluggish performance of centrally planned economies, particularly in contrast to an increasingly affluent West, was a major factor contributing to the 'collapse of communism' in the revolutions of 1989–91. One of the first attempts to develop a critique of planning was undertaken by Friedrich Hayek in *The Road to Serfdom* ([1944] 1976). In an analysis elaborated in later writings, Hayek suggested that planning was inherently inefficient because planners were confronted by a range and complexity of information that was simply beyond their capacity to handle. Central planning means making 'output' decisions about what each and every enterprise is to produce, and therefore also 'input' decisions which allocate resources to them. However, given that there were over 12 million products in the Soviet economy, some of which came in hundreds, if not thousands, of varieties, the volume of information within the planning system was frankly staggering. Economists have, for example, estimated that even a relatively small central planning system is confronted by a range of options which exceeds the number of atoms in the entire universe. However competent and committed the planners may be and however well-served by modern technology, any system of central planning is therefore doomed to inefficiency.

A further explanation of the poor economic performance of planned economies is their failure to reward or encourage enterprise. An egalitarian system of distribution may be attractive in moral or ideological terms, but does little to promote economic efficiency. Although centrally planned economies achieved full employment, they typically suffered from high levels of absenteeism, low productivity and a general lack of innovation and enterprise. All Soviet workers, for example, had a job, but it was more difficult to ensure that they actually worked. This problem was acknowledged in the Soviet Union where an initial emphasis upon moral incentives, based upon medals and social prestige, soon gave way to a system of differential wage levels and material rewards, albeit one more egalitarian than in capitalist countries. Some have gone further, however, and argued that to the extent that incentives exist in planned economies these tend to inhibit growth rather than stimulate it. Because the overriding goal in such an economy is to fulfil planning targets, industrial managers are encouraged to underestimate their productive capacity in the hope of being set more achievable output targets. In the same way, planners themselves are likely to set modest targets since promotion, prestige and other rewards are linked to the successful completion of the plan. The planning machine is thus biased in favour of low growth.

Planning systems have also been criticized for their disregard of consumer tastes and preferences. Although planners have employed questionnaires and surveys, neither is as sensitive to consumer pressures as the capitalist price mechanism. Some goods are clearly, in Alec Nove's (1983) term, more 'plannable' than others, in that estimates of likely demand can be made with a reasonable degree of accuracy. This applies, for instance, in the case of electricity. However, modern consumer goods are less 'plannable' since demand for them is more easily influenced by changing tastes and emerging needs. This perhaps accounts for the tendency of planning systems to address basic social needs while ignoring more sophisticated consumer appetites. For example, although planned economies conquered the problem of homelessness, they did so by providing dreary and impersonal tenement accommodation. Agriculture similarly concentrated upon the production of staple foodstuffs, with little attention being given to developing a varied and interesting diet. Moreover, when enterprises are geared to the completion of production targets there is no incentive for them to consider the quality of the goods being produced. Quite simply, production targets can be achieved even though the goods made are never sold and never used.

Finally, planning has been attacked on political and moral grounds. Planned economies have, in particular, been associated with bureaucracy, privilege and corruption. In the absence of market competition, planners are able to enforce their own preferences and values upon society at large. This can lead to 'the tyranny of the planners', as economic and social priorities are determined 'from above' without the wishes of ordinary people being understood, still less being taken into account. Centrally planned economies have certainly suffered from the problem of bureaucratization as vast armies of state officials, estimated at over 20 million in the Soviet Union, came to enjoy privileges and rewards which set them apart from the mass of the population. Milovan Djilas (1957), at one time a confidante of Tito in Yugoslavia but later imprisoned, termed this sprawling state bureaucracy 'the new class', drawing parallels between its position and the privileges enjoyed by the capitalist class in Western societies. At the very least, the concentration of economic power in the hands of state officials and industrial managers fostered widespread corruption, a problem that became endemic in the Soviet Union. The fiercest attack upon planning was, however, undertaken by free market economists such as Hayek, who argued that it contains the seeds of totalitarian oppression. Once economic life is regulated, all other aspects of human existence will be brought under state control. Without doubt, the introduction of central planning in the Soviet Union was accompanied by brutal political oppression, with an estimated 20 million people dying as a result of the famines, purges, show trials and executions of the period. In Hayek's view, there was a causal link between these events. In effect, Gosplan led to the gulags, the labour camps.

The market

The alternative to some form of rational organization of economic life is to rely upon the spontaneous and unregulated workings of the market. A market, as everyone knows, is a place where goods are bought or sold, such as a fish market or a meat market. In economic theory, however, the term 'market' refers not so much to a geographical location as to the commercial activity which takes place therein. In that sense, a market is a system of commercial exchange in which buyers wishing to acquire a good or service are brought into contact with sellers offering the same for purchase. Although transactions can obviously take the form of barter, a system of good-for-good exchange, commercial activity more usually involves the use of money serving as a convenient means of exchange.

The market has usually been regarded as the central feature of a capitalist economy. Capitalism is, in Marx's words, a 'generalized system of commodity production', a 'commodity' being a good or service produced for exchange, that is, possessed of a market value. The market is therefore the organizational principle which operates within capitalism, allocating resources, determining what is produced, setting price and wage levels and so forth. Indeed, many have regarded the market as the source of capitalism's dynamism and success. This success has even converted a growing number of socialists who have come to advocate a form of regulated capitalism or even a system of market socialism. Nevertheless, although the market has achieved particular prominence since the late twentieth century, in the view of some having vanquished its principal rival, its attractions are by no means universally accepted.

The market mechanism

The earliest attempts to analyse the workings of the market was undertaken by the Scottish economist, Adam Smith (see p. 337), in *The Wealth of Nations* ([1776] 1930). Though significantly refined and elaborated by subsequent thinkers, Smith's work still constitutes the basis for much academic economic theory. Smith attacked constraints upon economic activity, such as the survival of feudal guilds and mercantilist restrictions on trade, arguing that as far as possible the economy should function as a self-regulating market. He believed that market competition would act as an 'invisible hand', helping, as if by magic, to organize economic life without the need for external control. As he put it, 'It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest.' Although Smith did not subscribe to the crude view that human beings are blindly self-interested, and indeed in *The Theory of Moral Sentiments* ([1759] 1976) developed a complex theory of motivation, he nevertheless emphasized that by pursuing our own ends we unintentionally achieve broader social goals. In this sense, he was a firm believer in the idea of natural order. This notion of unregulated social order, arising out of the pursuit of private interests, was also expressed in Bernard Mandeville's *The Fable of the Bees* ([1714] 1924), which emphasizes that the success of the hive is based upon the bees giving in to their 'vices', that is, their passionate and egoistical natures.

Smith suggested that wealth is created through a process of market competition. Later economists have developed this idea into the model of 'perfect competition'. This assumes that in the economy there are an infinite number of producers and an infinite number of consumers, each possessed of perfect knowledge about what is going on in every part of the economy. In such circumstances, the economy will be regulated by the price mechanism, responding as it does to 'market forces', usually referred to as the forces of demand and supply. 'Demand' is the willingness and ability to buy a particular good or service at a particular price; 'supply' refers to the quantity of a good or service that will be available for purchase at a particular price. Prices thus reflect the interaction between demand and supply. If, for example, the demand for motor-cars increases, more cars will be wanted for purchase than are available to be bought. When demand exceeds supply, the market price will rise, encouraging producers to step up their output. Similarly, new and cheaper methods of producing television sets will increase supply and allow prices to fall, thereby encouraging more people to buy televisions. Although decision-making in such an economy is highly decentralized, lying in the hands of an incalculable number of producers and consumers, these are not random decisions. An unseen force is at work within the market serving to ensure stability and balance – Adam Smith's 'invisible hand'. Ultimately, market competition tends towards equilibrium because demand and supply will tend to come into line with one another. The price of shoes will, for instance, settle at the level where the number of people willing and able to buy shoes equals the number of shoes available for sale, and will only change when the conditions of demand or supply alter.

A market economy is nothing more than a vast network of commercial relationships, in which both consumers and producers indicate their wishes through the price mechanism. The clear implication of this is that government is relieved of the need to regulate or plan economic activity; economic organization can simply be left to the market itself. Indeed, if government interferes with economic life, it runs the risk of upsetting the delicate balance of the market. In short, the economy works best when left alone by government. In its extreme form, this leads to the doctrine of *laissez-faire*, literally meaning 'to leave to be', suggesting that the economy should be entirely free from the influence of government. However, only anarcho-capitalists believe that the market can in all respects replace government. Most free-market economists follow Adam Smith in acknowledging that the government has a vital, if limited, role to play.

This, in almost all cases, involves the acceptance that only a sovereign state can provide a stable social context within which the economy can operate, specifically by deterring external aggression, maintaining public order and enforcing contracts. In this respect, free-market economics merely restates the need for a minimal or 'nightwatchman' state. Its proponents may also acknowledge, however, that government has a legitimate economic function, though one largely confined to the maintenance of the market mechanism. For example, government must police the economy to prevent competition being restricted by unfair practices like price agreements and the emergence of 'trusts' or monopolies. Moreover, government is responsible for ensuring stable prices. A market economy relies above all on 'sound money', in other words, a stable means of exchange. Government therefore controls the supply of money within the economy, thereby keeping inflation at bay.

Miracle of the market

The dynamism and vigour of the market has been amply demonstrated by the worldwide dominance of Western capitalist states and by the emergence, since the 1980s, of a globalized capitalist economy. Although economic growth in industrialized capitalist states has been by no means consistent, these are the only countries that have come close to achieving the goal of general prosperity. This lesson was not lost on the former communist states of Eastern Europe which, once state socialism was overthrown, speedily introduced market reforms. Indeed, since the late twentieth century the market has achieved a renewed ascendancy and succeeded in converting some of its former critics. Many conservatives, for example, abandoned their pragmatic 'middle way' economic principles, and came instead to embrace the libertarian convictions of the New Right. A growing number of socialists, whose fundamentalist principles reject both private property and competition, came to acknowledge the market as the only reliable mechanism for creating wealth. As socialists sought a social-democratic accommodation with the capitalist market, they were forced to revise and modify their goals and, in some cases, to develop entirely new market-based economic models. Some have gone further and abandoned altogether the idea of a socialist alternative to market capitalism.

The principal attraction of the market has been as a mechanism for creating wealth. This is a task it accomplishes by generating an unrelenting thirst for enterprise, innovation and growth, and by ensuring that resources are put to their most efficient use. The market is a gigantic and highly sophisticated communication system, constantly sending messages or 'signals' from consumers to producers, producers to consumers and so on. The price mechanism, in effect, acts as the central nervous system of the economy, transmitting signals in terms of fluctuating prices. For example, a rise in the price of saucepans conveys to consumers the message 'buy fewer saucepans', while producers receive the message 'produce more saucepans'. The market is thus able to accomplish what no rational allocation system could possibly achieve because it places economic decision-making in the hands of individual producers and individual consumers.

As a result, a market economy can constantly adapt to changes in commercial behaviour and in economic circumstance. In particular, economic resources will be used efficiently not because of a blueprint drawn up by a committee of planners, but simply because resources are drawn to their most profitable use. New and expanding industries will, for instance, win out against old and inefficient ones, as healthy profit levels attract capital investment and labour is drawn by the prospect of high wages. In this way, producers are encouraged to calculate costs in terms of 'opportunity costs', that is in terms of the alternative uses to which each factor of production could be put. Only a market economy is therefore capable of meeting the criterion of economic efficiency proposed in the early twentieth century by Vilfredo Pareto (1848–1923), that resources are allocated in such a way that no possible change could make someone better off and no one worse off.

Efficiency also operates at the level of the individual firm, once again dictated by the profit motive. The market effectively decentralises economic power by allowing vital decisions about what to produce, how much to produce, and at what price to sell, to be made separately by each business. However, capitalist enterprises operate in a market environment which rewards the efficient and punishes the inefficient. In order to compete in the marketplace, firms must keep their prices low and so are forced to keep costs down. Market disciplines therefore help to eradicate the waste, overmanning and low productivity which, by contrast, can be tolerated within a planning system. There is no doubt that in certain respects the market imposes harsh disciplines – the collapse of failed businesses and the decline of unprofitable industries – but in the long run this is the price that has to be paid for a vibrant and prosperous economy. This is precisely why viable forms of market socialism are so difficult to construct. As once practised in Yugoslavia and Hungary, market socialism tried to encourage self-managing enterprise to operate competitively in a market environment. In theory, this offered the best of both worlds: market competition to promote hard work and efficiency, and common ownership to prevent exploitation and inequality. However, such enterprises were reluctant to accept market disciplines because self-management dictates that they respond first and foremost to the interests of the workforce. This is why free-market economists have usually argued that only hierarchically organized private businesses are capable of responding consistently to the dictates of the market.

Libertarianism

Libertarian political thought is characterized by the strict priority given to liberty (understood in negative terms) over other values, such as authority, tradition and equality. Libertarians thus seek to maximize the realm of individual freedom and minimise the scope of public authority, typically seeing the state as the principal threat to liberty. This anti-statism differs from classical anarchist doctrines in that it is based upon an uncompromising individualism that places little or no emphasis upon human sociability or cooperation.

The two best-known libertarian traditions are rooted in, respectively, the idea of individual rights and *laissez-faire* economic doctrines. Libertarian theories of rights generally stress that the individual is the owner of his or her person and thus that people have an absolute entitlement to the property that their labour produces. Libertarian economic theories emphasize the self-regulating nature of the market mechanism and portray government intervention as always unnecessary and counter-productive. Although all libertarians reject government's attempts to redistribute wealth and deliver social justice, a division can nevertheless be drawn between those libertarians who subscribe to anarcho-capitalism and view the state as an unnecessary evil, and those who recognize the need for a minimal state, sometimes styling themselves as 'minarchists'. The relationship between libertarianism and liberalism (see p. 29) is complex and contested. Some view libertarianism as an outgrowth of classical liberalism. Most, however, argue that liberalism, even in its classical form, refuses to give priority to liberty over order and therefore does not exhibit the hostility to the state that is the defining feature of libertarianism. On the other hand, New Right thinking within conservatism (see p. 138) contains an unmistakable libertarian emphasis.

Libertarian theories are founded on an extreme faith in the individual and in freedom. Their virtue is that they provide a constant reminder of the oppressive potential that resides within all the actions of government. However, criticisms of libertarianism fall into two general categories. One sees the rejection of any form of welfare or redistribution as an example of capitalist ideology, linked to the interests of the business community and private wealth. The other highlights the imbalance in a libertarian philosophy that allows it to stress rights but ignore responsibilities, and which values individual effort and ability but fails to take account of the extent to which these are a product of the social environment.

Key figures

Adam Smith (1723–90) A Scottish economist and philosopher, Smith developed the free-market economic theories upon which much of libertarianism is based. A classical liberal rather than a libertarian, Smith's theory of motivation tried to reconcile human self-interestedness with unregulated social order. He was a strong critic of mercantilism and made

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the first systematic attempt to explain the workings of the economy in market terms, emphasizing the role of the 'invisible hand' of market competition. Smith was nevertheless aware of the limitations of *laissez-faire*. His best known works include *The Theory of Moral Sentiments* ([1759] 1976) and *The Wealth of Nations* ([1776] 1930).

William Godwin (1756–1836) An English philosopher and novelist, Godwin developed a thorough-going critique of authoritarianism that amounted to the first full exposition of anarchist beliefs. His extreme form of liberal rationalism readjusted traditional social contract theory in portraying government as the source of, not cure for, disorder in society. He relied upon a theory of human perfectibility based on education and social conditioning. Though an individualist, he believed that humans are capable of genuinely disinterested benevolence. Godwin's chief political work is *An Enquiry Concerning Political Justice* ([1793] 1976).

Max Stirner (1806–56) A German philosopher, Stirner developed an extreme form of individualism based upon egoism. Stirner saw egoism as a philosophy that places the individual self at the centre of the moral universe, implying that individual action should be unconstrained by law, social convention or moral and religious principles. Such a position points clearly in the direction of atheism and individualist anarchism, even though Stirner gave little attention to the nature of the stateless society. His most important political work is *The Ego and His Own* ([1845] 1963).

Friedrich Hayek (1899–1992) An Austrian economist and political philosopher, Hayek was the most influential of modern free-market theorists. An exponent of the so-called Austrian School, he was a firm believer in individualism and market order, and an implacable critic of socialism. He portrayed the market as the only means of ensuring economic efficiency, and attacked government intervention as implicitly totalitarian. Hayek was a classical liberal rather than a conventional libertarian, supporting a modified form of traditionalism and upholding an Anglo-American version of constitutionalism. Hayek's best known works include *The Road to Serfdom* ([1948] 1976), *The Constitution of Liberty* (1960) and *Law, Legislation and Liberty* (1979).

Robert Nozick (see p. 318) Nozick is the most important modern libertarian philosopher. His rights-based theory of justice (developed in response to the ideas of John Rawls (see p. 298)) rejects all policies of welfare and redistribution, and advocates the decriminalization of 'victimless crimes' such as prostitution and drug-taking. He nevertheless rejects anarchist beliefs on the grounds that competition between private protection agencies will inevitably lead to the re-establishment of some form of minimal state.

Murray Rothbard (1926–95) A US economist and political activist, Rothbard was a leading theorist of modern anarcho–capitalism. He combined a belief in an unrestricted system of *laissez-faire* capitalism with a 'basic libertarian code of the inviolate right of person and property' and, on that basis, rejected the state as a 'protection racket'. In Rothbard's libertarian society of the future there would be no legal possibility for coercive aggression against the person or the property of any individual. His major writings include *Power and Market* (1970), *For a New Liberty* (1973) and *Ethics of Liberty* (1982).

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Market economies are characterized not only by efficiency and high growth but also by responsiveness to the consumer. In a competitive market, the crucial output decisions – what to produce, and in what quantity – are taken in the light of what consumers are willing and able to buy. In other words, the consumer is sovereign. The market is thus a democratic mechanism, ultimately governed by the purchase decisions or 'votes' of individual consumers. This is reflected in the bewildering variety of consumer products available in capitalist economies and the range of choice confronting potential purchasers. Moreover, consumer sovereignty creates an unrelenting drive for technological innovation and advance by encouraging firms to develop new products and improved methods of production, so keeping 'ahead of the market'. The market has been the dynamic force behind the most sustained period of technological progress in human history, from the emergence of the iron and steel industries in the nineteenth century to the development of plastics, electrical and electronic goods in the twentieth century.

Although the market has usually been defended on economic grounds, libertarian theorists insist that it can also be supported for moral and political reasons. For instance, the market can be seen as morally desirable in so far as it provides a mechanism through which people are able to satisfy their own desires. In this sense, market capitalism is justified in utilitarian terms: it leaves the definition of pleasure and pain, and therefore of 'good' and 'bad', firmly in the hands of the individual. This, in turn, is clearly linked to individual liberty. Within the market, individuals are able to exercise freedom of choice: they choose what to buy, they choose where to work, they may choose to set up in business, and if so, choose what to produce, who to employ and so on. Furthermore, market freedom is closely linked to equality. Quite simply, the market is no respecter of persons. In a market economy, people are evaluated on the basis of individual merit, their talent and ability to work hard; all other considerations – race, colour, religion, gender and so on – are simply irrelevant. In addition, it can be argued that far from being the enemy of morality the market tends to strengthen moral standards and, indeed, could not exist outside an ethical context. For example, successful employer–worker relations demand reliability and integrity from both parties, while business agreements and commercial transactions would be very difficult to conclude in the absence of honesty and trust.

Market failures

The success of the market as a system for creating wealth has been widely accepted, even by Karl Marx (and Engels), who, in *The Communist Manifesto*, acknowledged that capitalism had brought about previously undreamed of technological progress. Nevertheless, the market system has also been severely criticized. Some critics, like Marx himself, have believed the market to be fundamentally flawed and in need of abolition. Others, however, recognize the strengths of the market but warn against its unregulated use. In short, they believe that the market is a good servant but a bad master.

Just as no planning system has ever been 'pure', impurities are present in all market economies. This is evident in individual firms which, though they respond to external market conditions, organize their own production on a rational or planned basis. This element of planning is all the more important when the size of modern, multinational corporations is taken into account, some of which have an annual turnover larger than the national income of many small countries. The most obvious impurity, however, takes the form of government economic intervention, found to some extent in all market-based economies. Indeed, through much of the twentieth century, the predominant economic trend in the capitalist West was for *laissez-faire* to be abandoned as government assumed ever wider responsibility for economic and social life. Welfare states were established that affected the workings of the labour market by providing a 'social wage'; governments 'managed' their economies through fiscal and monetary policies; and, in a growing number of cases, government exerted direct influence upon the economy by taking industries into public ownership. Some have gone as far as to suggest that it was precisely this willingness by government to intervene and control, rather than leave the economy to the whim of the market, that explains the widespread prosperity enjoyed in advanced capitalist states.

A major failing of the market is that there are economic circumstances to which it does not, or cannot, respond. The market is not, for instance, able to take account of what economists call externalities or 'social costs'. These are costs of productive activity which affect society in general but are disregarded by the firm that makes them because they are external, they do not show up on its balance sheet. An obvious example of a social cost is pollution. Market forces may encourage private business to pollute even though this damages the environment, threatens other industries and endangers the health of neighbouring communities. Global capitalism has thus been linked to a growing environmental crisis. Only government intervention can force businesses to take account of social costs, in this case either by prohibiting pollution or by ensuring that the polluter pays for the environmental damage they cause. In the same way, the market fails to deliver what economists refer to as 'public goods'. These are goods which it is in everybody's interest to produce but, because it is difficult or impossible to exclude people from their benefit, are not provided by the market. Lighthouses are a clear example of a public good. Ships coming within sight of a lighthouse are able to respond to its warning, but the owners of the lighthouse have no way of extracting payment for the service received. Because the service is available to all, ships thus have an incentive to act as 'free-riders'. As the market cannot respond, public goods have to be provided by government. Indeed, this argument may justify extensive government intervention since sanitation, public health, transport, education and the major utilities could all be regarded as public goods.

Criticism has also been levelled at the consumer responsiveness of the market and, in particular, its ability to address genuine human needs. This occurs, in the first place, because of a powerful tendency towards monopoly. The internal logic of the market is, by contrast with normal expectations, to reward cooperative behaviour and punish competition. Just as individual workers gain power in relation to their employer by acting collectively, private businesses have an incentive to form cartels, make pricing agreements and exclude potential competitors. Most economic markets are therefore dominated by a small number of major corporations. Not only does this restrict the range of consumer choice, but it also gives corporations, through advertising, the ability to manipulate consumer appetites and desires. As economists such as J.K. Galbraith (1962) have warned, consumer sovereignty may be an illusion. Moreover, it is clear that the market responds not to human needs but to 'effective demand', demand backed up by the ability to pay. The market dictates that economic resources are drawn to what it is profitable to produce. This may, however, mean that vital resources are devoted to the production of expensive cars, high fashion and other luxuries for the rich, rather than to providing decent housing and an adequate diet for the mass of society. Quite simply, the poor have little market power.

Despite Adam Smith's faith in natural order, the market may also be incapable of regulating itself. This was, in essence, the lesson the UK economist John Maynard Keynes (1883–1946) outlined in *The General Theory of Employment, Interest and Money* ([1936] 1965). Against the background of the Great Depression, Keynes argued that there were circumstances in which the capitalist market could spiral downwards into deepening unemployment, without having the capacity to reverse the trend. He suggested that the level of economic activity was geared to 'aggregate demand', the total level of demand in the economy. As unemployment grows, market forces dictate a cut in wages which, Keynes pointed out, merely reduces demand and so leads to the loss of yet more jobs. By no means did Keynes reject the market altogether, but what he did insist on was that a successful market economy has to be regulated by government. In particular, government must manage the level of demand, increasing it by higher public spending when economic activity falls, leading to a rise in unemployment, but reducing it when the economy is in danger of 'overheating'. One of the first attempts to apply Keynesian techniques was undertaken by F.D. Roosevelt as part of his New Deal policies in the 1930s. Public-works programmes were introduced to reroute rivers, build roads, reclaim land and so forth, the most famous of which were supervised by the Tennessee Valley Authority (TVA). In the early post-1945 period, Keynesian policies were widely adopted by Western governments and were seen as the key to sustaining the 'long boom' of the 1950s and 1960s.

Finally, a moral and political case has been made out against the market. Neo-conservatives as well as socialists have, for instance, argued that the market is destructive of social values. By rewarding selfishness and greed, the market creates atomized and isolated individuals, who have little incentive to fulfil their social and civic responsibilities. Moral condemnation of the market, however, usually focuses upon its relationship with deep social inequality. Fundamentalist socialists, who seek the abolition and replacement of capitalism, link this to the institution of private property and the unequal economic power of those who own wealth and those who do not. Nevertheless, an unregulated market will also generate wide income differentials. It is a mistake to believe, for example, that the market is a level playing field on which each is judged according to individual merit. Rather, the distribution of both wealth and income is influenced by factors like inheritance, social background and education. Moreover, rewards reflect market value rather than any consideration of benefit to the larger society. This means, for instance, that sports stars and media personalities are substantially better paid than nurses, doctors, teachers and the like. Similarly, global capitalism has been associated with new patterns of global inequality. Any economic system that relies upon material incentives will inevitably generate inequalities. Many of those who praise the market as a means of creating wealth are nevertheless reluctant to endorse it as a mechanism for distributing wealth. The solution is therefore that the market be supplemented by some system of welfare provision, as discussed in Chapter 10.

In addition, the market has been seen as a threat to democracy. Socialists and anti-globalization theorists have pointed out that genuine democracy is impossible in a context of economic inequality. Such a view suggests that, far from standing apart from the political process, the market shapes political life in crucial ways. For example, party competition is unbalanced by the fact that pro-business parties are invariably better funded than pro-labour ones. Further, they can usually rely upon more sympathetic treatment from a largely privately owned media. Such biases may reach deep into the state system itself. As the principal source of investment and employment in the economy, private corporations will exert considerable sway over any government, regardless of its manifesto commitments or ideological leanings. This power, moreover, has been significantly enhanced in a globalized economy by the ease with which production and capital can be relocated. Governments are, finally, advised by state officials who, because of their educational and social background, are likely to favour capitalism and the interests of private property. In these various ways, the market serves to concentrate political power in the hands of the few and to counter democratic pressures.

Summary

1 Property is an established and enforceable right to an object or possession. Questions about property ownership have traditionally been fundamental to ideological debate, with liberals and conservatives, on the one hand, defending private property, while socialists and communists have upheld either common or state property, on the other.

2 Planning refers to a rational system of resource-allocation within the economy, which may be used either to supplement the market or, in the case of central planning, to replace it. Whereas its supporters have emphasized that planning can address genuine needs and be orientated around long-term goals, it has also been associated with inefficiency, bureaucracy and centralization.

3 The market is a system of commercial exchange regulated by an 'invisible hand', the impersonal forces of demand and supply. Market theorists emphasize that, as a self-regulating mechanism which tends towards long-run equilibrium, the market works best when left alone by government.

4 Supporters of the market see it as the only reliable mechanism for creating wealth; its virtues are that it promotes efficiency, responds to consumer wishes and preserves both freedom of choice and political liberty. Opponents, however, point out that the market needs to be regulated because it tends to generate social costs, fails to provide public goods, generates deep social inequalities and may, finally, corrupt the democratic process.

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