CHAPTRR TX

A SYSTEMATIC SURVEY OF THE CHARACTERISTICS OF ECONOMIC POLICY

- 1. In this chapter we will endeavour to survey in a systematic way the different systems of economic policy that, judging from history and speculative thought, are conceivable in order to create a framework for future discussions and research work. It is, therefore, not the intention to supply a historical account of actual economic policies pursued by various governments; nor will it be attempted to make a choice between the recommendations formulated by various schools of thought. On the other hand some indications about the limits of and the gaps in our knowledge that explain the difficulty to make a choice on scientific grounds between the competing policies will be pointed out. Our considerations apply to quantitative and qualitative policy alike and are to be seen as an amplification of the background to the foregoing chapters.
- 2. It has taken a considerably long time before even economists looked at economic policy as a coherent entity. In most textbooks on economics or on economic policy separate components such as trade policy, agricultural policy, credit policy, wage policy are considered without much attention to their interdependence and the targets and instruments of each of these components are often considered in isolation, this general coherence being neglected. Yet this interdependence is a reality and therefore the unit to be considered is the totality of all measures in execution at a given moment or proposed to be taken simultaneously; this we shall call a system of economic policy or an economic policy.

Such a policy may be complicated but it may also be comparatively simple. In different historical periods changes have taken place from simple to complicated systems and vice versa; and various schools of thought have advocated systems of very different degrees of complexity as the "best" systems: some have preached complete liberty, others complete regulation of economic life. It will be attempted, however, to deal with all these different forms in one general way, i.e. to look for criteria according to which the various systems can be distinguished, labelled and ranged in order to obtain a survey of future research needs.

3. The systems of economic policy, then, may first be distinguished and subdivided according to the targets they have set. These targets may, first of all, be narrower or wider sets of targets. They must always have been considered as some version of "the general interest", as we already stated in chapter I. But the consciousness of what this general interest implies and how detailed the targets set therefore should be, has been developing considerably. No doubt there has been some interaction with the number and type of instruments one was acquainted with or willing to apply. Those in favour of the application of a large number of means will usually be conscious of many variables in the general welfare indicator as well. Total consumption may be the roughest single variable or target conceivable, but its distribution over (i) classes, (ii) industries, (iii) persons or (iv) even the various circumstances in which one person may happen to live, may also be considered relevant to the degree of general well-being. In addition (v) the distribution over time, with its cyclical and its secular aspect, may come in. And not only consumption, but working conditions, (hours, degree of effort, risk, etc.) should be taken into account.

Apart from the degree of detail in the targets set there may be differences between various systems of economic

policy as to what are the optimal values of each of these distribution data; should all members of society have the same consumption and, if not, what degree of inequality is considered desirable, and in relation to what characteristics? The great questions of social justice versus social efficiency are behind this question, and according to the intuitive insight of the sponsors of various economic policies the answers are different. Is stability in time an asset or a liability? Similar questions as to what stimulates productive effort and risk-taking are at the bottom of this problem.

Broadly speaking the various systems of economic policy therefore range from systems with very vague and general conceptions of general interest and where there are only a few targets to systems with very complicated sets of targets, whereas important differences of opinion exist as to the optimal values of the target variables.

4. A second and more decisive characteristic for the labelling of economic policies is the number or extent of instruments. Here as already pointed out, they range between the extremes of complete abstention and detailed regulation. More or less correlated is the distinction according to the type, or nature of the instruments. Instruments may be overall-controls or detailed controls and they may be objective or discriminatory. As a rule, policies with a small number of instruments tend to use overall-instruments of an objective nature, judging each individual case on the basis of well-defined objective criteria. Policies with a large number of instruments will tend to detailed controls and to discriminatory treatment of individual cases. This correlation is not necessarily narrow and there may be alternative forms as to this very point.

Important from our standpoint of formulating policy problems and their solution is the distinction, already introduced in chapter I, between qualitative and quantitative

instruments. A qualitative instrument, as a component of a certain policy, is present if a change in organisation is aimed at, meaning, in mathematical language, that the type of certain structural relations existing before, is changed. A quantitative instrument is present if, with the maintenance of the type of relation, another numerical value of a certain instrument variable is aimed at. A system of policy consisting of quantitative instruments only may itself be called a quantitative policy; a policy of which part of the instruments is qualitative will be called a qualitative policy. From the simple and unpretentious quantitative policies where only a few instruments such as tax policy and say, discount policy, are included, there is a whole range of policies of increasing complexity and more and more qualitative character towards true economic and social reform or even revolution. A rough subdivision may be attempted, where e.g. five stages are distinguished:

- (a) maintenance of existing structure, with moderate changes in quantitative instruments;
- (b) maintenance of structure with strong changes in such instruments as tax system, social insurance, subsidies, etc.;
- (c) change of micro-structure such as changes in conditions of competition (anti-trust policy, or policy towards monopolistic groupings) or freedom of trade and pricing;
- (d) changes of structure of monetary system;
- (e) changes in business organisation or property.

It goes without saying that complicated systems of economic policy will almost invariably be a mixture of instruments belonging to various groups. They should be classified according to the most far-reaching of their instruments.

It will be clear that systems of e.g. business cycle policy may be of type (b) if they consist mainly of financial measures, or of type (c) if e.g. raw material market regulations are

included. War economy such as rationing and price regulation is of type (c). There exist quite a number of proposals for changing the monetary structure, which are therefore classed separately in class (d). The more far-reaching socialist and communist policies are grouped in class (e).

5. Whereas it may be possible, at the present stage of our knowledge, to start the solution of a number of problems of quantitative economic policy, grouped under (a) and (b) above, the scientific treatment of problems of qualitative policy meets with great difficulties, especially so if these policies belong to groups (d) and (e). The main reason is that our empirical quantitative knowledge of human behaviour under different structural conditions is so restricted. Statistical observation may shed some light on the reactions of consumers and producers under varying conditions of prices, incomes or costs, but we know very little about what a man does if private property is changed into public property; or if he knows that a decline in his productivity may bring him into a concentration camp. Although some experience is now being gained with public enterprises it has not so far been studied very accurately and some of the other experiences are still less known. Most of the literature pretending to solve these vital problems is not free from severe speculation and bias and these contributions that are strictly scientific are either qualitative in their statements only or do not give solutions.

In order to be able to answer the questions involved important further research programmes will have to be carried out, consisting of various phases, in accordance with the grouping of policies given above. Some of the items included may be listed tentatively, without a claim to completeness:

(a) the usual analysis of economic behaviour under circumstances of small quantitative variations in incomes, prices, costs etc.;

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- (b) analysis of the reactions to bigger changes, especially in taxes, social insurance, subsidising etc.;
- (c) the study of behaviour under changes in competitive conditions, rationing, price regulations, etc.;
- (d) investigations into the reactions upon important changes in monetary systems and
- (e) the study of behaviour under such conditions as nationalisation, or rigorous increases in death duties, etc.

Empirical research into each of the points (b)—(e) is still almost completely lacking. Since, however, that type of research has to be the basis of a true theory of economic reform or qualitative economic policy, there is an urgent need for its organisation.