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"In a community regulated only by laws of demand and supply, but protected from open violence, the persons who become rich are, generally speaking, industrious, resolute, proud, covetous, prompt, methodical, sensible, unimaginative, insensitive, and ignorant. The persons who remain poor are the entirely foolish, the entirely wise, the idle, the reckless, the humble, the thoughtful, the dull, the imaginative, the sensitive, the well-informed, the improvident, the irregularly and impulsively wicked, the clumsy knave, the open thief, and the entirely merciful, just and godly person." John Ruskin, Unto this last, IV.

This pamphlet, like all publications of the Fabian Society, represents not the collective view of the Society but only the view of the individual who prepared it. The responsibility of the Society is limited to approving the publications which it issues as worthy of consideration within the Labour movement. Fabian Society, 11 Dartmouth Street, London SW1. October 1968

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1. the new right

Hardly a week goes by without some conference of teachers, social workers or medical men being told that, for economic reasons, consumers must be charged directly for welfare services. This represents a school of thought which I shall label the "New Right" (though it would prefer to be thought of as "liberal" in the English tradition). Bits and pieces of the New Right's doctrine appear in various places, from the writings of Enoch Powell or the Bow Group to the propaganda of Aims of Industry, but it is most coherently expressed in the publications of the Institute of Economic Affairs (IEA). The IEA's output has been considerable. A number of distinguished economists have contributed to a series of papers the most common being known as Hobart Papers (HP) and Occasional Papers (OP). Although a large number of authors are involved a collective view can be discerned. At the risk of doing some (small) injustice I shall outline my impression of this view.

The majority of academic economists have not taken the New Right seriously. But this has led to a situation where the economic case against, has failed by default. On the left (with the honourable exceptions of Professors Richard M. Titmuss and Brian Abel-Smith) counter arguments have been based on instinct, sentiment and a vague distaste for the profit motive. In terms of economic theory there is a worthwhile piece of demolition work still to be done.

A curious feature of the New Right is hostility towards public administrators and the like. Several examples can be found. For instance, in the preface to 28 scorn is heaped on "the sociologists, the moralists and the politicians who are apt to be impatient with the inconvenient truths of scarcity of resources" and in the text itself it is said that "sociology with its direct concern for human needs ... presents demands unrelated to economic realities." This antipathy is not merely a casual prejudice but a direct consequence of the basic doctrine. Needs (demands) are constantly and without interference matched up (by price) to available resources (supply). Except for harsh cases the whole apparatus of social administration is therefore redundant. Now sociologists have a vested personal interest in the IEA being wrong. They should therefore expect the public to be wary of superficial or sloganeering rebukes.

The central doctrine of the New Right can be stated as follows: The market system is a spur to efficient production. Liberty itself depends on the free choice offered by market institutions and each advance of the public sector is a step along Hayek's "road to serfdom." The public sector is clumsy, inefficient and bureaucratic. Its pricing policies lead to shortages (and restrictions of choice) which can be remedied only by pushing taxation to unacceptably high levels. As far as possible, state-provided services should be taken into the private sector on normal market principles except for those hard cases really needing direct state intervention. This is strong and, in my view, influential stuff. But it is certainly not revealed truth and I shall attempt to show why.

preaching as analysis

F.A. Hayek's name appears frequently in New Right literature. (The road to serfdom, 1944, Individualism and the social order, 1949). His thesis, roughly, was that socialism, collectivism and economic planning lead inevitably to a totalitarian state. The alternative is individualism; there is no half-way house. Hayek's own view was clearly
influenced by the pre-war German experience of state economy. But on widespread post war experience the Hayekian thesis appears to be more plausible. Or rather, it would need to be modified into a “long run” tendency, by its nature irrefutable but useless as a guide to policy. Incidentally, because of its general anti-planning view, the IEA has made relatively little contribution in the field of macro-economics. Its main macro-economic prescription is the control of inflation as this disrupts the terms on which free contracts are made in the market.

If we may aside the bogey of totalitarianism two important points may be made.

1. Freedom of choice is not the only desirable end. At times there will be a trade-off between free choice and other objectives such as justice, protection of the weak and survival. I know of no moral calculus for weighting these ends against one another. Liberty and totalitarianism are the extremes of a single-dimensional end. Real social choices involve a complicated trade-off between multi-dimensional ends.

2. So-called restrictions of choice often enlarge the area of choice for one group of persons at the expense of others. Rather than a decline of total choice (whatever that might mean) there is a redistribution of it. The question “whose choice?” arises. Consider a simple example. A comprehensive school replaces a grammar and a secondary modern school. Those children who previously had the chance of going to the grammar school will find that their area of choice is now restricted. There has, apparently, been an encroachment on their freedom (and middle-class parents readily protest in the columns of the local press). But children who previously attended the secondary modern school will normally find their freedom to have been greatly increased. They will have a choice of courses, of extra-curricular activities and of social contact quite outside their prior experience. It is therefore quite dishonest to talk in terms of “choice” without taking this factor into account.

Questions of “free choice” cannot therefore be considered independently of value judgements about the distribution of power in society. It is because of the nature of the value judgements made that I choose to call the proponents of the new doctrine the “New Right” rather than some more neutral name like “Radicals.” This point is of immense importance, for the New Right clearly attaches great weight to choice. Hence pamphlets on Monopoly or choice in health services, the reports Choice in welfare and Education: a framework for choice. Choice simply cannot be measured in a “value-free” way as we shall see when we look at proposals for introducing more charges into health and education.

market failure

The New Right has a ready made argument for use at this stage. “Collectivists,” they say, “start off with different value judgements than us. Collectivists do not worry about totalitarianism and scorn freedom of choice. Those who do not accept our belief in the importance of freedom will naturally not accept our conclusions.” And, as reasonable men think that freedom is a good thing and totalitarianism a bad thing, the New Right can feel pretty safe. But it is wilfully simple-minded to use “freedom of choice” as the sole guide to policy. Not only do we have to trade-off freedom of choice against other desirable objectives but most
practical questions involve some redistribution of choice among various groups in society.

The New Right must be respected for the quality, consistency and rigour of its approach to the treatment of private industry. In this sense it is rather unfair to lump it together with organisations such as Aims of Industry. The economic vision of the New Right is the economists' model of perfect competition in which rational consumers indicate their preferences to profit-seeking producers by means of prices under conditions of perfect information. This is very far removed from a crude approach based on the vested interests of capitalists. Now it is an important and well-known proposition of theoretical welfare economics that if certain divergencies from the purely competitive model occur, it is unlikely that market-based behaviour will lead to a social optimum. Four important divergencies are 'irrational' behaviour by consumers: 'distortions' such as tariffs and monopoly power; the prevalence of 'external' effects, and an 'unjust' distribution of income. It is instructive to see what the New Right has to say about these.

1. A major theme of pop sociology is the powerlessness of the consumer in face of mass advertising. Looked at from a slightly different standpoint it becomes part of Professor Galbraith's thesis (The affluent society, Reith lecture). Now this line of teaching is highly subversive of the free market philosophy. If it is true, there is no meaningful way in which private industry serves the 'wants' of consumers. These wants cannot be defined except under various hypothetical regimes of advertising. This interpretation of advertising is therefore attacked. Instead it is suggested that advertising expenditure is an efficient means of conveying information to the consumer. Further it aids economic growth and technological change by bringing new products and processes forcibly to his attention. (R. Harris, Growth, advertising and the consumer, L. Telser, Advertising and competition). Thus far from destroying the whole basis of the free market, advertising simply improves the flow of information to consumers who still attempt, in a rational way, to maximise their utilities, satisfaction or whatever. The New Right certainly recognises its enemies! Now some advertising clearly fulfills the role claimed for it. But a great deal of it does not and the meaning and importance of consumer sovereignty must take a severe knock. For most consumer goods this might not matter much either way but in the field of welfare, health and education it matters crucially.

2. The New Right is fairly consistent in its view of the various 'distortions' in an economic system created by monopolies, tariffs and the like. They should be removed. Its careful descriptions of, and attacks upon, restrictive trade practices have been particularly impressive. (F. Knox, J. Hennessy, D. Lees, G. Hutton, Restrictive trade practices in the building industry, Economic consequences of the professions, Source-book on restrictive trade practices in Britain). There are certain analytical difficulties concerned with the usefulness of piece-meal legislation in this area and known under the general heading of 'second-best' problems. But it would be unfair to clobber the New Right with this particular stick without clobbering most other economists at the same time! I concede a consistent and honourable attempt to remove a major blemish of the free market system. The same clarity and energy has not been evident in their approach to tariffs. Which brings us to the question of how the New Right
proposes to treat powerful industrial interests. Now a whole series of special factors, tariff protection, over-weening market control, advertising and inflation have combined to protect the large firm from simple economic forces. Indeed a main plank in Galbraith’s platform has been the private sector firm as a large, bureaucratic organisation hardly distinguishable from the bureaucratic public enterprise. A principal reason is the “divorce of ownership from control,” so that managers are free to pursue goals (such as security, prestige) other than profit maximisation. The precise degree of divorce involved is certainly a matter for argument. G. C. Allen accuses Galbraith of neglecting the role of powerful institutional shareholders. (Economic fact and fantasy: a rejoinder to Galbraith’s Reith lectures, p. 14). But he accepts the point that the old antithesis between the public and private sector enterprise (the former inefficient and bureaucratic, the latter efficient, thrusting and purposeful) is dead. Anyway, Sir Paul Chambers has said, even if the firm is shielded from domestic competition there is always the rivalry of foreign firms to be considered. (Economics, business and government, p. 8). Almost alone he has called for the “great principle” of free trade to be followed, though he seems primarily concerned with the “dumping” of American chemicals in Britain. But the appeal to foreign competition is double-edged. If this is to be the major economic check to large firms’ behaviour it would work for public as well as private enterprises.

3. External effects occur wherever private and social costs (or benefits) differ. Examples are oil pollution from tankers, congestion costs imposed on one another by road vehicles and the spread of epidemics. There are various ways of dealing with them, each appropriate to its own special case but no sovereign remedy will do for all of them. For instance, if firms impose external effects on one another they can merge or bargain for a mutually satisfactory arrangement. Sometimes outright prohibition, as with noise levels, is the best way. Sometimes enforcement of compensation will be sufficient. Sometimes litigation will be necessary. Sometimes the imposition of a tax, or payment of a subsidy, will be the answer. In any event the market mechanism has to be doctored in some way before it can achieve socially desirable results. External effects therefore present a challenge to the New Right which does not have a united front on the issue. G. Roth did some admirable work under the auspices of the T.E.A. on the particular problem of urban traffic where pricing solutions are appropriate. (Paying for making, p. 33). G. Peters in Cost-Benefit analysis and public expenditure (p. 8) surveyed the contribution that cost-benefit analysis can make; but A. Alchian in Pricing and society (p. 17) stressed the costs of dealing with external effects and, by using a trivial example, poured scorn on the whole notion. Elsewhere others have argued that normal bargaining processes together with the free working of the market will be sufficient to lead to an efficient solution. On this whole issue of externalities the New Right has failed to produce a consistent viewpoint.

4. Undergraduate students of economics are taught that some value judgement about the fairness or otherwise of income distribution must be made before one can say whether a market system yields socially desirable results. The traditional way of dealing with this problem has been a progressive tax system. But there is some evidence that for a large range of middle-income families the net redistributive effect of taxation is roughly zero ("The inci-
dence of taxes and social service benefits," *Economic trends*, August, 1966). This fact has been used by the New Right as an argument for lowering taxes and allowing consumers to "choose" which social services to consume. Standing the argument on its head it is nice to know that some redistribution does take place at the extreme ends of the scale. The failure of our tax structure effectively to redistribute income suggests the need for more progression rather than less.

This connects with the question of whether taxes are so high as to act as a disincentive. A popular way of dealing with this is to make international comparisons and, as it happens, these cause one to doubt that the British "burden" is particularly great. But this is a crude way of going about things. We should be making a clear distinction between the *empirical* question of what effects taxes actually do have on work done and the *value* question of how we weigh "efficiency" and "equity" against one another. There is a singular dearth of *empirical* evidence on the first question. Arguments run in terms of assertion and counter-assertion. My own prejudice is that the disincentive effects are over-stated. Even so, many writers on the left argue as if this were the only question. One is quite entitled to go further and argue that even if there is some disincentive the high rates are nevertheless desirable on distributional grounds. On this question of judgement those of us on the left differ sharply from the New Right. Value judgements are involved all the way along the line.

A fortiori, all these divergencies from perfect competition under conditions of certainty, apply to investment decisions. In so far as investment leads to cyclical instability we have learned (successfully) how to manipulate mone-

tary and fiscal policies so as to maintain relative stability at (near) full employment. In so far as it leads to inadequate growth we have attempted (less successfully) to link individual private investment to an over-all plan. This factor of uncertainty magnifies all the other causes of market failure. Where such decisions involve education and health we have a duty to be extremely careful before handing anything at all over to market forces.

**the left and the new right**

I have shown that even for ordinary commodities there is no general case for the alleged superiority of the private over the public sector. Many of my friends will feel this is an oddly moderate statement. They will wish to argue for positive advantages of public ownership. My own rather different worry is that the left is being successfully outflanked by the New Right. While we argue about possible (marginal) extensions of public ownership the really important hard core of the present public sector (health, education and other social services) is being undermined. We are now at the beginning of a series of major assaults on the welfare services and rather than foraging around in the private sector we should look to our defences. Fortunately they are strong but a bit of sharpening up will do no harm.
2. the new right and the social services

education

The New Right proposes that education should be bought and sold in the same way as any other commodity. It should be conducted in private or in self-financing public institutions. On balance private institutions are preferred to public on the usual grounds of efficiency and bureaucracy. "Perhaps the major administrative problem concerns the disposal of schools" which would be sold to the private sector. (A. T. Peacock, J. Wiseman, *Education for Democrats*, HP 25). Special education "vouchers" would be distributed and these could be used for purchasing education at the institution of the individual's choice, being supplemented from his own resources if wished. Thus for very little outlay a parent could buy an ordinary standard sort of education for his child or he could pay rather more for a school with smaller classes, greater diversity of subjects and so on. This contrasts with the present system under which parents are free to choose education at zero cost at state schools or at very high cost at the so-called "public" schools but have no choice open to them in between. As many parents would be willing to pay these additional sums (partly out of the taxes they would not now be called upon to contribute) more resources than before will be pulled into the educational sector and the present gap between private affluence and public squalor will narrow.

Purple rage is one possible (and forgiveable) reaction to this doctrine. But it will be more helpful to look at it in the light of the observations I have already made about the private sector.

1. *Irrationality*: the proposal is that the new policy should be applied first at university level and then extended back into the schools. Peacock and Wiseman recognise (but do not deal with) the difficulty that the family is pretty deficient as an economic unit. "This is especially important where, as is the case with education, the decisions are long-term, requiring both access to capital and a considerable degree of intelligence, knowledge and foresight." The calculation to be made is of the following type. For a given extension of education estimate the difference (over the lifetime of the individual) between his earnings and the earnings of a similar individual without further education. Next estimate the capital sum to be borrowed, the direct costs incurred by the individual during the process of education and the value of earnings foregone during the educational extension. Next find that rate of discount which equates the differential lifetime earnings stream to present costs. If this exceeds the borrowing rate the extra education is worthwhile. If not, not. This highly complex investment decision (and I have said nothing yet about uncertainty!) is to be made either by young people or by parents on their behalf. To assume anything like the degree of rationality required is absurd apart from any effect the proposal would have on the class distribution of education. Peacock and Wiseman are therefore "doubtful about the extension of this privilege" (of being able to take up loans) "to students of 15 or 16." As to the availability of information this can be provided by advertising. But in the field of medicine general practitioners, mostly intelligent men, find it almost impossible to sort out the rival claims of drug manufacturers. The bombardment of parents with educational literature would surely be just as useless and perhaps positively harmful. A "wrong" choice is so important here that we cannot agree that bad choosers "can learn to choose wisely by being allowed to choose and at first by choosing wrongly." (A. Alex-
ander et al., Towards a welfare society, op 13). In a less doctrinal moment the
TEA comes rather near our position in calling for exceptions “for people in-
capable of discerning and earning their essential requirements: children, the
sick, the old, the mentally incapacitated, larger or “problem” families, and
others.” (OP 13).

2. Distortions: a well known defect of the free market system is the existence
of “indisibilities.” That is to say, an institution must be of some minimum size in order to be viable. Now, given transport costs there would, particularly in country districts, be schools with near monopoly power. Predictably the answer is to call for anti-monopoly legislation because education is an ordinary commodity, so the sort of legislation directed at ordinary commodities is appropriate. Consider the situation, in a country area, in the present and new situations. At present the secondary school is “free,” being financed out of general taxation, including taxes paid by local people. Under the new scheme there will still be one school. Parents will pay rather lower taxes but also fees (plus vouchers) to the school. Were it not for anti-monopoly legislation they would have to pay through the nose as the school is now run as a profit maximising institution. Physically the situation is the same. The parents have no more choice than before. The only difference is that they now stand a chance of being fleeced. I suggest that the local monopoly phenomenon in education is far more widespread than the New Right admits. Before discussing the problem proponents of the new doctrine should do a great deal more work on the optimal size of certain types of school, the transport costs and distances tolerable and the age structure and physical distribution of rural children. On this score the professional educa-
tionist (dismissed as “unscientific”) has more to contribute than the dogmatic
economic theorist.

3. Externalities (alternatively known as “spillovers”): if society derives
benefits from education over and above that received by the individual we can argue that private individuals will under-invest in education. Several classical economists certainly took this line and we find it cropping up again in the neo-classical writings of Henry
Sidgwick, Alfred Marshall and A. C. Pigou. We have already seen that the New Right takes a poor view of external effects. West, in his book on education, minimises their importance and has been rapped on the knuckles by Blaug for doing so! (E. G. West, Education and the state, IEA 1965, A. Beales, M.
Blaug etc., Education: a framework for choice, IEA 1967). Peacock and Wis-
eman say, “it has not, to our knowledge, been firmly established that the in-
creased value is not normally reflected fully in the earnings the individual can
command.” Now this is of even more importance than it might have been, because of terminology used in the recent past. (M. Blaug, The rate of re-
turn on education, Manchester School, 1965). It has become usual to derive the social rate from the private rate by adding on direct taxes and sub-
tracting those costs not paid by the individual. No account is taken of factors that one might normally think of under the heading “social.” As a
result of this terminology social rates of return turn out to be less than
private rates. But if there is anything at all in macro-economic estimates of
the contribution of “education” to economic growth it is likely that most
estimates we have of the social rate of return are too low. That is the earn-
ings of everybody (and not to the same degree) are raised when the labour force
is better educated. Only a part of this
is picked up by looking at earnings differentials. Indeed in the extreme case, earnings differentials could be zero so that the private rate of return was zero too but at the same time the social rate was positive.

4. Equity: under the proposed system some people will choose far less education than others for their children. Now, it is quite true that this happens under the present system too. But at present the choice is made mainly on grounds of ability in secondary and higher education and only to a minor degree for financial reasons. If the new proposals were adopted the financial reasons would, of course, become more important. A reluctance to pay for other than a bare education could be due to one or both of two reasons. Firstly incomes are unevenly distributed and poor parents could afford to buy less education. Secondly, even if incomes were equal, some families would have different preferences to others and choose very little extra education and even then, three grounds have already been noted for not allowing a free market to operate. But the income distribution question is perhaps the most serious of all.

The New Right takes the line that it is inefficient to give away goods and services in kind. If we want to help the poor, far better distribute money income to them and enable them to choose for themselves. In some ways this is an admirable doctrine. It is not clear, however, how much redistribution is envisaged. The “voucher” is simply a redistribution in kind and would certainly not be generous. One can judge from the general complaint about “penal levels” of taxation and plans to go over to more “indirect” taxation that nobody on the New Right is prepared to go very far in the direction of redistributing money income.

It is proposed that many of these distributional difficulties could be removed if the principle of loans were adopted.

As a first step the New Right has universities in mind. The loans issue focuses attention on the pupil (student) rather than the parent. It is the pupil, not the parent, who will have to repay the loan and he will assess his own chances of being able to secure a sufficient lifetime income to make the loan worthwhile. Thus the economic circumstances of the parent would become irrelevant.

This line of argument is attractive but fallacious. Firstly, even an 18 year old is normally much influenced by his parents’ hopes and fears. Many working class parents find it really very difficult to keep a child at school to the age of 18 but do so in the belief that it is in the interest of the child. But they would be less willing to encourage this if it meant imposing what seems to them a “burden,” rather like another mortgage on his future life. Secondly from the pupils’ point of view it is easier to contemplate repaying a loan if one has reasonably well off parents who could step in during times of difficulty. The percentage of working class children going to university is certainly too low. But it is higher than in many other countries. I am quite sure that the percentage would fall if student loans were introduced.

My last point about equity concerns the simple economics of supply and demand. It is convenient to bring it under the heading of education but it is of quite general application. It concerns the elasticity (or the responsiveness) of supply to price. If services that were not priced at all, or were priced very low, under public provision are then provided privately, price will certainly rise.
The New Right argues that this price rise will call forth a greater supply so that the total amount of service provided is greater than before. Now apart from relatively minor sources of supply (housewives) the supply of teachers is governed by the supply of teachers' training colleges. The increase in total supply is therefore a "long run" effect. But the responsiveness of supply to price within the total available will be high. Over-all then, the effect of allowing market prices will be to redistribute educational services from the worse off to the better off in the first instance.

"There is nothing inherently undesirable," say Peacock and Wiseman, "about competition for excellence." "It is true," says the New Right "that the distribution of welfare in a market is based on the distribution of income which is unequal; the welfare of children is thus dependent on family or parental income. The solution is not necessarily free or subsidised state or local authority services." (op 13) What is it then? Why, nothing other than the celebrated voucher scheme! It is certainly not denied that schools charging high fees would be able to pay higher salaries and attract staff from less fortunate areas: "no obstacles should be placed in the way of institutions willing to pay more than the negotiated rates." (HP 25)

Only in the most superficial sense can education be regarded as an "ordinary" commodity. The "liberal" dogmas of the New Right blind it to glaring deficiencies of the free market system. These deficiencies are harmful, but not disastrous, for most commodities. But in education, particularly, the inability of ill-informed consumers to make complicated investment decisions wisely, the risk of local monopolies, the prevalence of "spillovers" and gross unfairness in the distribution of educational resources would combine to make any such move absolutely catastrophic.

**vouchers for primary schools**

Recently Dr. West has made another plea for educational vouchers, this time at the primary school end of the system (*Economics, education and the politician*, HP 42). His paper has been widely reported and The Observer commented, "It's a complex problem certainly. But this is all the more reason to consider seriously Dr. West's proposal for an experimental voucher scheme in some areas." (23 June 1969). I would like to comment first on two interesting, but relatively unimportant, side issues raised by Dr. West. The first of these concerns the unhappy position of "left-wing intellectuals." On the basis of one example (frequently cited) it appears that middle-class left wingers send their children to fee paying schools and are opposed, on "liberal" grounds, to their abolition. I do not know many left wing intellectuals. If they are people who write Fabian Tracts, let me assure Dr. West that his strictures do not apply. The second question concerns the "economic theory of politics" on which West's political predictions are ostensibly based. Now I am sure that Dr. West would be the first to agree that the economic theory of politics is still at a critical formative stage. I find it perhaps the most interesting of recent developments in economics. But it is certainly not yet safe to erect a political economy on what has been so far achieved. For instance, no one has yet integrated the various strands of separate thought in this field. Downs' brilliant analysis of party political behaviour, the mathematical analysis of majority voting and the social welfare function (following Arrow) and Buchanan's "cost" approach really must be brought together.
Now for the substantive issue. We seem to be agreed on the problem. Although present day primary education is generally rather good, there is a critical shortage of buildings and teachers in certain areas (principally, the Plowden priority areas). Some authorities are even unable to fulfil their legal obligation to provide education for five year olds. Cutting right through the debate between us is the basic difference between the New Right and the left as to choice (often phoney) versus equity and private sector versus public sector upon which I have already commented. Incidentally, widespread public knowledge of the problem casts doubt on Dr. West’s suspicion that the teachers and the state are in tacit collusion to hide the facts from parents.

On the proposals themselves I have the following comments to make:

1. West exaggerates the short run price elasticity of supply.

2. Vouchers would cause more inequality in the distribution of educational resources as between income groups, unless it was forbidden to add to them privately.

3. The Plowden minority report recommending fees for under fives was right not to extend this to primary schools.

4. West’s figures show some inequality as between schools and regions. These inequalities would become even more closely related to income differences than at present.

5. Within large cities, intelligent zoning of schools can do much to break up immigrant ghettos. Vouchers would cause more social divisiveness, not less.

6. A small scale “experiment” would appear to be more successful than it really was in that elasticity of supply would be very much higher than in a nation wide experiment.

No doubt we shall hear more about vouchers (how long before a Labour Party Conference embraces them?). Meanwhile the best we can do is to agitate for more spending within the state system.

student loans

This issue is discussed separately because it is topical and because student loans are likely to be the thin end of a free market wedge. Many of the arguments I have used against the market in education are weaker in the case of student loans. Even so, I believe there are important grounds for rejecting the loan principle. I now state the case for student loans. Private economic rates of return from university education are high. Students can, by virtue of their education, expect to earn more than their contemporaries. Admittedly they pay higher taxes if they earn more but this fails to differentiate between people on the same income levels with various amounts of education. Education is an investment in human capital. Students are rational adults (coming of age has recently fallen to 18), less likely to be influenced by their parents than 16 year olds. They should be capable of deciding, on economic grounds, whether or not higher education would, for them, be a good investment. The income distribution argument, it is said, falls to the ground because university students are predominantly middle-class and the net redistributive effect of free university education is the opposite of that desired. The local monopoly argument no longer holds as students are mobile. Certainly they are not restricted to the
nearest university. A positive advantage of the scheme is the better allocation of manpower. Students would move into training for those occupations where expected earnings were high and, in a few years, skilled manpower would be available. A final and decisive advantage is that the “burden” of higher education would move from general tax payers to the beneficiaries. For a careful statement of the case the reader is referred to a paper by A. R. Prest. (Financing university education, 1962).

All this adds up to a reasonable case. But there are several grounds for doubt.

1. It is not clear that expectations by 15 year olds, at which age key decisions are taken about subjects within the schools, of life-time earnings differentials will lead to a more correct allocation of future manpower. The evidence available will consist of highly non-random observations of what certain grown-ups earn, some data about present relative salaries, the hunches of teachers and official and non-official forecasts. The New Right is fond of pointing out mistakes that have been made nationally on such issues on the basis of inadequate statistics. But it has not shown that its own scheme is any better.

2. Spillover effects have already been discussed. If, as I have argued, they exist and are non-uniform then there will be under-investment in university education if it is privately financed.

3. There will be some discouragement to the children of working-class parents. Prest has drawn an analogy with hire purchase debt which the “poor” are very willing to incur. The analogy is a dubious one, of course, as the obligation is relatively small, is short term and decisions whether or not to take up new debt can be made at quite short intervals. On the discouragement of working class students Peacock and Wiseman have observed, “it is not obvious that such a discouragement of the doubtful or faint-hearted must be against the public interest.” This in a pamphlet which is said in the preface to be “scholarly in its reticence and meticulous in its phrasing!”

4. Then there are the practical difficulties. These are formidable and have not been properly resolved. The concept of a loan proper has now been more or less abandoned. Instead repayments will be linked to income. This leaves the problem of female students who would bring negative dowries to their husbands. Prest suggests an ingenious compromise whereby “married couples should have to pay at the greater of either the normal rate on their combined income or at a rate 50 per cent greater than normal on the income of the spouse with the larger income.” (Op 12, p25). This and similar bizarre schemes go a long way to undermine the principle. The other major problem associated with loan schemes is what to do about emigration. Some solutions involve restrictions on liberty of movement contrary to the supposed liberal principles of the New Right. Granted, there are solutions to these practical problems but in general the New Right is fonder of enunciating general principles than of getting down to the nuts-and-bolts. In this respect they do worse than the social administrators and the like whom they affect to despise.

**The economics of altruism**

J. M. Buchanan, writing in 1965 about the apparent “collapse” of the National Health Service, has put forward an important thesis on inconsistencies in
the collective provision of services. *(The inconsistencies of the National Health Service, op 7).* These arise because the individual demands services in his private capacity but cannot pay for them except collectively. He cannot supply himself without supplying everybody. It therefore pays him to "malign" by demanding more than he really needs. This leads to acute shortages, queues and rationing. People are not willing to supply extra services for "everybody" though they would be prepared to buy these services for themselves.

This thesis is faulty in that it ignores altruism. In the jargon of economics, altruism implies externalities in consumption. The happiness of one individual is a function not only of the volume of goods and services consumed by himself but also of certain goods and services consumed by others. Thus many people would be distressed to know that the sick were, for financial reasons, receiving very inadequate attention.

If this is true, provision for the sick should be made to a higher level than many sick people would themselves have provided for. This is not "paternalism." On a purely liberal interpretation, it is individual preferences that count, and it is into these that considerations of altruism enter. Buchanan's gap between private demand and public provision is therefore narrowed when altruism is brought in.

What is the most efficient way of taking altruism into account? *(Towards a welfare society, op 13).* One method is to rely on private charity. Generally this is too haphazard and inefficient to be the basis of a general provision. Undoubtedly collective provision is the most efficient way of incorporating unselfish feelings. This consideration has some force in education and housing but is most powerful in health.

**the health service**

Worship of the cash-nexus reveals itself in assertions such as that private practice will "improve the personal relationship between doctor and patient by enabling all patients to pay for the services they expect from state or private suppliers" (op 13). The New Right's proposals are very similar to those on education. Medical services will be provided at market prices. Consumers will pay these prices partly by means of vouchers but also by taking up policies with insurance companies. It will then be up to the consumer to provide for himself whatever degree of medical care he wishes. The insurance principle makes the whole scheme possible for it apparently does away with the problem of uncertainty for the individual. Hospitals would become private, profit-maximising institutions.

Before we examine the general proposition it will be useful to look at the pamphlet *The price of blood* (HP 41) by M. Cooper and A. Culyer, calculated to upset squeamishness. This is interesting because it seeks to employ the market mechanism in only a particular sector of the Health Service, the collection of blood. We shall not be surprised to discover some leanings further to the right. "If hospitals were privately owned, wealth maximising institutions would pass on the ultimate incidence of costs of the services received (and of blood given) (would fall) on the patient qua "patient-consumer" rather than the patient qua tax-payer. In these circumstances, depending on the degree of local monopoly power, high cost hospitals which used up "too much blood" would tend to lose "trade" to hospitals which used the "right"
amount of blood as reflected in the fees charged to patients for the same quality service.” (tip 41, p25). The authors are “forced to argue that if pricing is to be effective it should be operated by independent (privately-owned) institutions which would supplement the present . . . structure.” Their suggestion is that the present voluntary donation system should be supplemented by a price sector so that total supply would come from a “dual” system. Instead of being “rationed” as at present hospitals would pay the market price. There would be economic pressures on surgeons and nurses not to “waste” blood. The analysis is illustrated by a simple supply-and-demand diagram in which, as it happens, total supply has increased under the new system. As the authors admit, if some voluntary donors withdraw on the introduction of the new scheme and if professional supply is price inelastic the total could conceivably be less than before. But, so as not to spoil their argument at the outset, let us assume this does not happen.

Two questions arise. First is there a hostage? A table of consultants’ opinions is provided but it is not clear that this means. That 36 per cent of consultants claim to have sometimes postponed operations for lack of blood supply may or may not be serious and may or may not be susceptible of cure by a price mechanism. The authors concede that the problem of rare groups could have to be left outside the market mechanism, so the market could not possibly be of help when operations are held up due to shortage of these blood types. But are there really tortoises? From the preface it is clear that the TZA’s initial evidence was highly impressionistic. Since the pamphlet was written some further evidence has accumulated. For instance the Medical Director of the South West Regional transfusion centre, wrote that he knew “of no instance in the South West Region in which there has not been sufficient blood (donated by voluntary donors) to satisfy the needs of patients requiring transfusion.” (Bristol Evening Post, 3 April 1968).

The second question to be asked concerns the price elasticity of supply. This, it is agreed, will be higher for people at lower income levels. Donors might suffer by giving too much blood and patients by receiving inferior blood (the Institute’s jibe about blood being given by prisoners in this country is unworthy). A research paper in “Transfusion” has revealed poor handling and pooling techniques by the commercially operated American blood transfusion service, leading to a high incidence of plasma-induced hepatitis (a liver infection). The methods used are cheaper than those in this country and there is strong economic opposition to reform.

That there may not even be a problem here and that, in any case, certain undesirable consequences could follow the reform suggested, is not allowed to deter the writers from recommending a New Right solution. There is a final financial problem. Whether or not the marginal cost of collecting blood is higher under the present or the proposed system is an open question. But if a price is to be paid it must be the same price for everybody, except voluntary donors. The financial burden on the Health Service would be larger. This is not a real economic burden, it really involves a redistribution of income from the taxpayer to intramarginal blood sellers, which may not be a bad thing. But the New Right cannot take this purist view as one of its prime anxieties is precisely the share of public authorities in total spending. It is an interesting case of schizophrenia. After this brief digression on blood we
must turn to the more general problems of health. Our standard list of “market failures” applies to health even more than to education and rather than go through it again we shall look at one or two special problems. We have already noticed that the staggering difficulties involved in making health expenditure decisions where uncertainties are almost the whole situation, can be partly met by the insurance principle. Professor Trimmus has pointed out some of the snags (Commitment to welfare, Allen and Unwin). Some element of compulsion would be needed to make insurance companies take on bad risks: “old, mentally ill, chronically ill, the unemployed and redundant, the disabled, widows and many other physically hazardous groups.” Thus op 13 suggests a government subsidy for those insurance companies who agree to pool good and bad risks. But why is the New Right so squeamish? Why not simply push up the premiums to very high levels? The bad risks objection to private schemes is really quite fundamental. At present patients in the private sector are frequently advised to use the health service when their illness becomes really acute. Under a completely private system how would we deal with children actually born with severe heart disease or with young people who had contracted tuberculosis? To achieve a humanitarian solution such a large degree of government intervention would be required as to make a state run service actually simpler to operate.

On “spillover” grounds the objection to a free market in health is serious but not so much so as a few years ago. The spread of infectious diseases, where social cost exceeds private cost, stimulated the great nineteenth century public health reforms. Clearly it is in society’s interest that such diseases should be prevented. It would not for instance be in society’s interest to make householders pay directly, rather than through taxes, to have their dustbins emptied, so the service is provided “free.” Similarly the major post-war campaigns against diseases like diphtheria have been provided at no direct cost to the consumer. Mainly due to these efforts the incidence of the worst infectious diseases is less than it was a few years ago. Many of them have almost disappeared. Even so, it is important that these gains should not be eroded. Some, but not the whole, of the case for a free market in health can be demolished by appealing to this type of externality. But a lot of health problems concern the patient and his dependents only. The basic objection relating to uncertainty remains but added to it must be the objections relating to local monopolies, the distribution of services among income groups and also questions of altruism.

Low income families “could not afford to pay, either directly or through insurance, ... this is a serious problem and no one would wish to minimise it’s importance. But to abolish the market is to risk throwing the baby out with the bath water ... the appropriate solution is for the state to pay out cash to whatever extent is considered necessary and to leave the market free to settle the production and distribution of goods.” (op 3, p2) This raises the spectre of two types of service, one for the rich and another for the poor. The crucial question here is how much in the way of cash, or vouchers the poor are to be given as a result of some kind of means test. Presumably each family would have an allowance depending on its size and age structure as well as its income. How generous are these payments to be? It would be too much to expect from the New Right a thorough going redistribution of in-
come; low income families simply get whatever is considered necessary."

The aim really must be "equality." Professor Jewkes has enormous fun with this concept in one of his rejoinders to Titmuss. (Op 3, p35) But in medicine it means something quite definite. It means that a mother who suspects her child to be ill should be prepared to consult a doctor and that the doctor should be prepared to advise hospital treatment, courses of injections or whatever, quite regardless of the family's financial circumstances. Anyone who has direct experience of, say, the midwifery service with its attendant services of ante and post-natal care must surely recoil from any suggestion that medical care of various qualities should be available depending on the amount of insurance premium paid. There should be no question of anybody having inferior medical treatment simply for reasons of money. Granted, better off patients who are not willing to pay for present private practice may find some of the day to day conditions of some hospitals a little ungenial: but taxpayers subsidise the sick. This is the way our society uses of institutionalising our altruism. It is absurd to make the point, as Jewkes does, that "people with small incomes who are rarely sick subsidise people with large incomes who frequently fall ill and make large demands on the Health Service."

Local monopolies in medicine (networks of old-boy relationships between general practitioners, consultants and their hospitals) combine with consumer ignorance and uncertainty to make the exploitation of the patient and misallocation of resources very likely on priori grounds. In the valuable pamphlet by Titmuss already cited a st is given of various reasons why the patient does not have a really free voice. The subsequent method of debate employed in "Titmuss versus the New Right" is to bandy statistics about the American system and then to argue about them. I have preferred to start from first principles of market behaviour. We have seen that the usual defects of markets—consumer ignorance and uncertainty, the neglect of external effects or spillovers, their inability to do anything about equity or altruism and the prevalence of local monopolies—apply with much greater force in the field of medicine. On the empirical question we need only observe that the worst allegations about American medicine are perfectly predictable from the general observations we have made.

housing

The IEA has made several forays into the question of housing, including an extremely valuable discussion by F. G. Pennance on the Land Commission. (Housing, town planning and the land commission, Op 40) Predictably, its solution is that rent control in the private sector and general subsidised housing in the public sector should be abolished, with provision for means tests. The rise in the price of housing would increase supply from various sources and enable consumers to exercise freedom of choice. In fact, the New Right's proposal is not really so very different from the present situation. Private rents creep up in spite of, and sometimes at the behest of, Rent Tribunals and many local authorities have differential rents schemes. But two areas for public action remain:

1. To provide adequate accommodation for low income families.

2. To reconstruct derelict areas.

A writer on this subject offers "analy-
sis and conclusions which will not be palatable to sociologists who have discussed the subject in terms of nebulous housing 'needs'..." (J. Carmichael, *Vacant possession*, p. 28, preface). Using the groundnuts scheme, Parkinsons Law and contempt for statisticians as a basis for argument, he launched a general attack on planning and on inflation. "Keeping the pound strong, if a thankless task, remains the test of social justice, rational economics and honest politics." On the question of low income families, Needleman's calculation that, on reasonable assumptions, only 9 per cent of families could afford to buy, and only 23 per cent to pay the market price for a three bedroom house, is acknowledged but dismissed on the flimsy grounds that house buying costs (estate agents and building society charges) would be reduced by competition. For the sake of argument let us take the moderate view that a great many families cannot afford adequate housing. What should we do about them? There are three possibilities.

1. Give them a money subsidy which they would be free to spend as they wished at market prices.

2. Give them a subsidy in kind by means of vouchers to be spent on housing (this being a more paternalistic version of the above) again at market prices.

3. Give them subsidised housing together with a rationing system (the waiting list).

Now the questions of consumer ignorance and uncertainty are nothing like as troublesome as in education and housing. The choice depends on the kind of minimum housing standard envisaged and the total amount of such housing provided. In a situation where local authority house-building is severely restricted, low income families might be better off by accepting a generous payment under one of the first two alternatives and then going to the private sector for their housing. Otherwise the result is lengthening housing lists. But if the payments were niggardly, as they probably would be, it might be worth putting up with some sort of waiting list for the sake of being sure that they will sooner or later get sound accommodation in a council house. Brian Abel-Smith's plea for more choice (*Freedom in the Welfare State*, Fabian Tract 353) has been deliberately misinterpreted as an argument for the private sector. He was really arguing for more choice for low income families within the public sector. Spillovers in housing are associated with poor conditions in slum areas. It is not in the interest of private developers to renew such housing for low income accommodation. If houses are pulled down in central areas economic pressures will lead to commercial redevelopement or to high cost housing. Social considerations here combine with external economies in traffic congestion to argue for occupation by low car ownership groups. This still leaves the whole area of suburban (where "choice" leads to depressing uniformity) and high cost urban housing for private enterprise. But the responsibility for low cost urban housing must remain with local authorities. The recent paper *Choice in homes* by F. G. Pennance and Hamish Gray once again states the argument for a greater use of markets in housing and provides a useful survey of consumer attitudes.

**What people say they want**

The IEA has gone to much trouble to find out how people feel about plans for a greater reliance on market processes. Respondents were asked what their
reactions would be to various alternatives. The same sorts of question were asked about education, health, housing and pensions. Roughly there were three possibilities in each case: more or less the present system, automatic contracting out above a minimum standard and optional contracting out. Before looking at the answers there are two preliminary points to be made. Firstly questionnaires of this type are notoriously unreliable. Either because of dishonesty or misunderstanding people are apt to give a false impression of their real preferences. I share Richard Pryke’s incredulity that a number of people on really low incomes would accept vouchers covering half of schools fees and be prepared to make up the rest themselves. Secondly the questions deliberately put the emphasis on the taxation side. The first alternative starts “the state should take more in taxes and contributions” and the second alternative “the state should take less in taxes . . .” They might equally well have started, “people should continue to obtain free . . .” and “people should be made to pay . . .”

Not surprisingly the results of the surveys are treated as a great vindication of the New Right; “a clear case for allowing a choice on more equal terms.” [Choice in Welfare, 2nd report]. But this is a matter of interpretation. What strikes me about the figures is:

Even the upper income groups do not show the enthusiasm for market voice that we might have expected on purely selfish grounds. For less than half of the upper middle and middle come groups preferred a voucher scheme either in health or in education. Either did support for the present schemes fall off sharply as incomes. And nearly a half of those choos- ing the first alternative in education bought it “right that everyone should have an equal chance to have a good education.” I gather from this that there is a fair amount of altruism still around; it greatly strengthens the importance of my claim that the market’s inability to institutionalise altruism is one of its great defects.

2. As one would expect, support for market schemes falls off as incomes fall. Only 17 per cent of semi-skilled manual workers would support a 50 per cent voucher scheme in health; the £10 insurance premium scheme would not cover chronic illness! Only 19 per cent of them would accept a two-thirds voucher scheme in education. If the rich are unenthusiastic, the poor are positively loathe.

I really do not see, on the basis of this evidence, how the New Right can possibly claim overwhelming support for “choice” in welfare—unless, of course, it is blinded by its own dogmas.
3. public responsibility and public choice

A compromise between private and free public provision is for the state to provide welfare services but to finance them by charges to the consumer rather than by general taxation. We refer to this as "public pricing." It is attractive to many, even on the left and the present government has gone some way towards it by reintroducing prescription charges and raising the prices of welfare milk and school meals. Some of the objections we have made to the market principle do not apply to public pricing; for instance:

1. If externalities exist, a degree of subsidy can be introduced so as to avoid under provision.

2. The local monopoly objection does not arise.

On the face of it, then, public pricing is acceptable even to those who object to the market principle.

Before passing a judgement we should consider why the proposal is being made. Basically the aim is to transfer the financial burden of welfare services from direct taxation to "consumers." Why should this be thought necessary? Douglas Houghton tells us, "the level of government expenditure is regarded by many at home and overseas as a reliable guide when assessing our capacity for economic growth. This is where confidence comes in. The question being asked by our overseas creditors and the users and holders of sterling is this 'Can Britain do it?' " (Paying for the social services, op 16). In other words the public sector has to be run down in order to defend the pound.

Preoccupation with "finance" as opposed to real resources leads to odd positions. Thus the country cannot afford to bring its school buildings up to date but it can afford to put up expensively carpeted and furnished office blocks. This attitude is very interesting and wholly characteristic of the old Right. The peculiar twist added by the New Right is that the country can afford extra market sector education but not extra state education. The public sector is clearly believed to be "unproductive." We note that:

1. A large public sector is not in itself an inflationary factor, though it may call for sophisticated debt management; there is no necessary relationship between the size of the public sector and the rate of change of prices.

2. The productivity of many public sector activities shows up only in the accounts of private sector companies! A notable example is spending on roads which increases the apparent productivity of the private sector by reducing costs.

3. Some of the main objectives of governments: defence, redistribution of incomes and social services are "non-economic." These framework activities are not expected to be, and should not be expected to be, productive in the narrow sense.

It would be a tragedy if the public sector were curtailed simply because of the incomprehension and ill-will of some foreign bankers and the prejudices of right wing economists.

The conclusion so far then is that the motive for public pricing seems to be doctrinal. A further serious objection remains. Voucher schemes, et al., at least have the merit of working through both the supply and the demand sides of the market. Suppose that fees are first set at a low level but rise gradually through time so as to clear the market. There is no reason to believe that fees will be earmarked; they are more likely
to go into the general pool. Supply will therefore be *fee-inelastic* even over the longer term. As a result of introducing fees only two things will have changed:

1. The financing of these resources has been shifted from taxation to fees.

2. The resources have been redistributed from the less well off to the better off.

Public pricing is therefore a potentially dangerous half-way house.

**Economics, Welfare and the New Right**

The central problem is how to allocate the right amount of (scarce) resources to various types of social expenditure. The New Right talks as though each social scientist, having recognised the problem in these terms, should turn to the science of micro-economics where he will learn that each and every problem can best be solved by adopting a market mechanism (with quite minor modifications). Only a preference for “choice” rather than totalitarianism seems to be required to make the conclusion inevitable. The various proposals under this head are argued with some vigour and with a consistency that impresses. They have been enormously influential. But they are based on an overly simple view of what welfare economics is all about. They ignore or play down certain well-known causes of market failure. These failures are worrying enough in the case of ordinary goods but positively alarming in the cases of health and education.

I have given an unusually prominent place to the economics of altruism and have argued on normal liberal and individualist, but not necessarily selfish, grounds that private markets are unable adequately to deal with situations where altruism is important. The detailed argument concerns a strict use of externalities (the interdependence of utility functions) and is a little complex for a tract of this type. But in terms of so-called economic principles, public provision and public allocation of these very special types of goods is every bit as efficient and desirable as a market solution. And it represents a noble principle.

For this reason the government should decide on economic and social grounds, not “financial” grounds or grounds of international confidence, how much of our resources to devote to the various social services. The question of the tax rates necessary to finance the programme would be secondary. Maybe a government proposing tax increases for health and educational purposes would be dismissed by the electorate. Personally I doubt it. In any event conscious decisions of political choice are involved that cannot be shuffled off to the market mechanism.
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David Collard is a lecturer in economics at the University of Bristol.

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