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EDITORIAL

The institutions we need

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"Nil desperandum"– "never despair"– said Horace more than two thousand years ago. This energizing admonition, along with the recognition of the urgent need to fight misery and injustice, is as relevant today as it was in the past. The world may be immensely richer in terms of aggregate income and total wealth, but the deprivations and insecurities of large sections of the world population have continued.

The adversities will not go away on their own. We require a firm determination to remedy them. Ravages of economic, political and social deprivation can be seen across the world. And there are wars and brutal hostilities, right now, spread over the continents of Europe, Asia, America and Africa– killing people continuously and ruining human lives.

As we celebrate the 40th anniversary of the *Economia Politica*, we have reason to admire not only the important contributions presented in this distinguished journal led by Professor Quadrio Curzio, but also the open-minded welcome the journal has been giving to ideas and analyses coming from diverse schools of thought. The need for open-mindedness is particularly strong now, when cultivated bigotry has become increasingly influential in the politics of a great many societies.

In wanting open-mindedness, I am, of course, not arguing that the ideas of all schools of thought are equally good– they certainly are not. There are bad ideas and mistaken theories that need to be rejected in favour of superior lines of analysis. However, we need the understanding that even a theory or an analysis that calls, rightly, for rejection can contain particular insights and guidance that we may have reason to keep in mind for their possible relevance. We can often enrich our approach through reflecting on the reasoning behind significant parts of a mistaken– or mis-

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placed - totality. Despite the grounds for not accepting a rejectable theory, there may well be particular arguments the theory contains that are very worth remembering.

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For example, poverty is a distinct idea from inequality, and it would be wrong to assess poverty by the extent of inequality. Nevertheless, we must not overlook the fact that inequality can contribute substantially to the extent of poverty. The institutions we need for curbing poverty cannot ignore institutional remedies for inequality. There are conceptual as well as statistical interdependences between poverty and inequality.

There is also a more subtle connection between poverty and inequality which is often overlooked despite the fact that Adam Smith - arguably the founder of modern economics– presented an illuminating discussion of it more than two centuries ago. Smith noted that the income needed for having comparable capabilities to live like others in a society grows with the overall progress of its economy and the rise in the incomes of others.

Smith illustrated this point by pointing out what commodities– clothing in particular - a person would need to have to be able to mix with others freely and to participate in social life. To fall much behind others in earnings and not being able to afford the kind of clothing that others standardly wear (an issue of inequality) can prevent a person from participating in standard social activities, thereby impoverishing a person's life (an issue of poverty). Smith noted that "to appear in public without shame" may require higher standards of clothing and other visible consumption in a richer society than in a poorer one. Not being able to afford a linen shirt or leather shoes would have been sufficient to be identified as poor in England, but not (in Smith's time) in Scotland. To extend Smith's concern to our days, with different kinds of commodities on which we now depend, the avoidance of poverty in, say, New York or Milan, may require being able to afford to have a sophisticated television set, or speedy internet connections (to be able to understand what others are talking about). But this may be less necessary to avoid poverty in Patna or Khartoum.

The linkage between poverty and inequality, through the influence of relative incomes on absolute capabilities, has important implications for policies– and institutions– needed for poverty removal. The increasingly common tendency in public economics to say that we should concentrate on removing poverty, rather than worry about inequality, relies on a dichotomy that may be unviable for good Smithian reasons. Recognising the relationship is of some importance in policy making today.

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The need for focusing on some connections rather than others can be circumstantial, and there may be good reasons for revising our priorities with changes in the nature– and balance– of the adversities we face. Consider the connection between people's well-being and the vigour of a market economy. At the time of the industrial revolu-

tion, it was particularly important to focus on the removal of barriers to trade that operated through big tariffs and quantitative restrictions.

David Ricardo, the great economist in the early nineteenth century, argued strongly for the benefits of eliminating barriers to trade, and was particularly keen on removing the Corn Laws in Britain, which restricted the import of food grains. The barrier imposed by the Corn Laws had the effect of sharply raising food prices and heightening the cost of living. This caused substantial hardship particularly for the poor, and also made the progress of British enterprises and the accumulation of industrial capital that much more difficult. Ricardo presented good arguments for free trade (from which, incidentally, Donald Trump, with his passion for tariffs, can learn something even today).

Efficiency of the market economy was at the root of Britain's massive rise in income and wealth through the industrial revolution. And yet the institutions of the market system were not particularly speedy and efficient in making use of growing opportunities of reducing morbidity and raising life expectancy. These achievements had to await new social institutions (such as the National Health Service) and changes in "social determinants of health," replacing the absolute reliance on the market system.

In fact, the role of non-market institutions is often wrongly ignored in the theories of the success of market efficiency. Public institutions were, in fact, the unsung heroes of private success. For example, efficient performance of private industries has been critically dependent on the existence and operation of public schools. Public roads have also been at the base of successful private enterprise.

Often the case for focusing on new challenges has become clearer as the knowledge of what is feasible has expanded– sometimes through the use of unusual institutions. For example, the experience of sharing of food and health care during the Second World War helped, at least in the case of Britain, the emergence of the so-called "welfare state."

Consider food and nourishment. For a very long time, Britain has been dependent on getting a big part of its food supply from abroad - the days of the Corn Laws (discussed earlier) fitted into this pattern. But during the world war, with the difficulty of transporting and accessing food from abroad, Britain had to survive on a much reduced amount of food availability per head. Pressed by this challenge, Britain introduced a system of food rationing, with a certain amount of food being available to everyone at low– controlled– prices.

As a result, despite the low food supply, not only did Britain find itself averting starvation and famine (which were feared), but the nutritional situation dramatically improved under rationing and control. Many poor families found that, for the first time, they could buy a good amount of food, at controlled prices. The incidence of undernourishment in Britain fell dramatically and cases of what is called "severe undernourishment" completely disappeared. This happened right when Britain had a strikingly low supply of aggregate food supply per head. Life expectancy at birth grew very much faster during the war decade of the 1940s than what was happening previously.

There was a similar process of learning about health care. The war-time sharing of medical services showed what public health care can achieve and how people could

welcome– and be happy with - a move towards egalitarian distribution, going well beyond market-based private care.

Public health care had, of course, been in wide use in Britain earlier as well, but typically in specific fields, particularly dealing with epidemics and communicable diseases. The war-time experience made clear that the domain of public health care can be much expanded– with no loss in efficiency.

Lessons we have learnt in trying to remove human deprivations have come from different directions with diverse insights. In assessing our priorities in institutional choice, open-mindedness has to play a big part, in making room for new knowledge as well as new concerns.

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As Francis Bacon noted in an essay on the "advancement of learning"– more than four hundred years ago– doubting well established beliefs is important not only for avoiding errors, but also for "enriching our investigations." Issues that would have been "passed by lightly without intervention, end up being attentively and carefully observed precisely because of the intervention of doubts."

The value of particular lessons (for example the need to avoid unnecessary barriers to trade, or not to rely only– or even primarily - on the market) need not be locked up within complete institutional systems, such as capitalism or socialism. The wholes can be defective even when parts have much to offer.

To conclude, "nil desperandum" certainly. But there are two caveats. First, the avoidance of despair can be greatly helped by the courage to doubt established thinking. Second, we have reason not only to examine full theories, but also to scrutinize parts of them for insights that may have to be rescued from being imprisoned with unnecessary companions.

I must end there. I am sad not being able to be physically present at this splendidly planned meeting led by Professor Quadrio Curzio, and not to have the opportunity to hear the other speakers. But I wish you all an illuminating and enjoyable get together. Thank you!