Much of the debate in economics arises between those who believe that the free market produces fair and efficient outcomes and those who believe that this is not the case. This resource provides sources on both sides of the debate, organized by subject area. Subjects covered include: income redistribution, macroeconomic stability, regulation, international trade, politics and health.

Each subject is then divided up into general literature on the subject and specific case studies.

1) State Role in Research and Development

General Literature on Research and Invention

There is a debate about whether the state should play a role in research and development. Those that favour intervention argue that it is necessary because the social benefits of research are much higher than the private benefits.


Investment

The following literature stresses that the state is crucial for high economic growth by investing in "strategic sectors” of the economy.


Critiques of State Intervention
Critics of state intervention argue that the state “cannot pick winners” and should leave investment decisions to the profit maximizing decisions of individual firms.


2) Macro Economics

Macroeconomic Instability: General Literature

Conservative economists believe that the economy is inherently stable in the long run. Depressions and recessions are not supposed to happen and small oscillations are better off left to the self-adjusting market for repair. The following readings try to explain whether the economy is generally stable or whether state intervention is necessary.


Macro economic Instability and Profitability
It is the rate of profit that provides the capitalist class with the money and motive to invest. Without adequate profits, firms cannot invest in order to lower their costs of production (e.g. mechanization), promote research and design in order to invent new products, produce new plant and equipment to meet increases in demand or to generate dividends for their owners. As the rate of profit falls there is a tendency for investment, productivity, economic growth and tax revenue to follow while unemployment rises. This instable state of the economy is known as crisis of profitability.


Inflation

The following literature is on the problems presented by inflation. Ostensibly inflation is feared because of the effects of uncertain prices on investment and the bureaucratic costs of estimating future prices. However, critics of rigid anti-inflationary policy argue that the loss of output and employment that is the means by which inflation is controlled cost their economies billions more than they might have saved due to low inflation.


Unemployment and Labor Market

The natural rate of unemployment is defined as the lowest rate of unemployment that an economy can sustain over the long run. However, the ‘natural rate of unemployment’ has been used by right-wing and even social democratic governments to justify unemployment rates of 10 percent in Europe and 8 percent in Canada. Critics argue that there is no proper definition of this ‘natural rate.’ The idea of natural rate of unemployment is similar to the idea of the "Non-Accelerating Inflation Rate of Unemployment," or NAIRU. When unemployment is “too low” workers bargaining power is “too high”, so workers can demand higher wages and capitalists try to pass along these increased costs by raising prices on the products they sell.

Data

Following literature provides the data on macroeconomics.


3) Income Inequality

Distribution/ Redistribution of Income: General Literature

The conservative claim that the market distribution of income is both fair and efficient explicitly rejects the need for income redistribution by the state. However, it can also be demonstrated with several case studies that the market distribution of income is neither efficient nor fair and that the state can improve society through its ability to transfer income to those in need.


In Professional Sports

The debate surrounding the income of sports stars highlights two important income distribution issues discussed above. First, is the level of inequality between professional athletes and other workers fair? Second, does this unequal income distribution, determined by the market, result in socially desired goods being produced?
The following readings are mainly case studies.


Enron

Despite the equalizing talk about how everyone is currently a winner in the new broadly owned stock market, the fact remains that most people really benefit almost entirely from wage income. Gains from the stock market are much easier to come by for those who sit in privileged ownership and management positions. Nowhere was this more clinically demonstrated than the literally criminal tale of Enron.


Minimum Wage Controversy

Minimum wages are wage floors, below which firms are not permitted to hire workers. The purpose behind this legislation is to raise the labor income of those at the bottom end of the pay scale in an effort to reduce the incidence of poverty in society. Critics of the minimum wage have long argued that a regulated floor on wages will not reduce poverty. The more staunch opponents actually argue that it could increase poverty. Firms will demand less labour at higher wage rates, so an increase in the minimum wage actually decreases the number of workers that firms are willing to hire. At the same time the minimum wage will also encourage more workers to enter the low wage labor market. The inevitable result is that many low wage workers, who would have been employed in the absence of the minimum wage, will find themselves out of work as firms cut back on the labor that they hire and there is more competition from new entrants into the labor market. The following articles evaluate whether this theoretical argument is true.

Unemployment Insurance

Conservative economists argue that providing unemployment insurance to lower income earners reduces their incentive to work. According to the critics of conservative economists, even if it were true that increasing the non-work income of the poor limits their willingness to engage in job search activities, it does seem reasonable that providing some kind of income supplement like unemployment insurance will allow out of work laborers to be slightly more selective in their choice of future employment.


History

The following readings provide a historical perspective on the evolution of income redistribution policies in industrial countries.


Data

For a database of the salaries at the very top end of the scale look at:

4) Regulation and Deregulation

General Literature on Regulation/ Deregulation:

The pressure to eliminate regulation is based on two complimentary propositions: that an unregulated market will produce socially desirable outcomes; and that the regulatory cure is always worse than the hazardous disease. On the other hand, advocates of regulation argue that firms are not benevolent organizations. They are not particularly interested in the well being of their customers except in so far as their continued existence can help them earn a profit. Regulations are required to restrict the harmful activities of firms.


Deregulation – Enron and Energy

It is also frequently argued that the cost of regulations often outweigh the benefits. While few would argue for implementing programs in which the benefits did not exceed the costs, what is included in the costs and benefits and, crucially, the values that are placed on these things, make such seemingly rigorous analyses into less than precise science. After all, the cost of the energy crisis in California was estimated at $45 billion. A regulatory regime would have to be very expensive indeed to generate higher costs.


Safety – The Ford Pinto:
The Ford Pinto is an example of how a dangerous product resulted amid vigorous efforts to forestall or subvert public regulation. In the early 1970s, American car manufacturers were coming under increasing pressure from foreign competition. The rush to design and build a small car in time for a 1971 launch greatly shortened Ford’s usual product development period. Unfortunately, testing at Ford revealed some real safety concerns with the design of the gas tank on the Pinto.


5) Health, Economics and Politics

Health and Societal Status

It is interesting to examine the social determinants of health, in particular looking at how the economic system in which we live influences whether we live (and how healthy we are while living) or die. Conservative economists believe that consumers chose their health by investing in it. They both purchase medical inputs and spend time on improving health. Thus, health is an individually chosen production and consumption activity where individual tastes and preferences determine outcomes. Critics argue that disease is predominately structured and influenced by social conditions, not by exogenous medical laws, and that consequently, changes in social conditions are necessary conditions for changing the character and degree of disease. Disease is not the result of irresistible laws governed by nature, nor of some inevitable technological imperative that is independent of socially-determined political and economic factors.


Labor

There is a relationship between employment and the health of the employees. This relationship has changed over time. The industrial revolution was characterised by wages and working conditions that can be described, at best, as marginally adequate to sustain life. These literatures provide a historical perspective on this connection.

Kealey, G. (eds.) (1973) Canada Investigates Industrialism, University of Toronto Press.

Cancer Case Study

Cancer is a group of diseases in which abnormal cells in some organ or tissue go out of control – growing and increasing in number. Development of cancer is a complex, multi-step process. Besides the medical reasons, lack of political will is also responsible for the development of cancer. For instance, in the current era of global proliferation of toxic chemicals and hazardous technologies, all who are involved in the production and use of benzene have a heavy responsibility and a duty to protect their workers and the general public against this highly toxic and carcinogenic compound.

Breast Cancer Action, Think Before You Pink (2003), Cosmetic Companies and Breast Cancer, URL CIT: http://www.thinkbeforeyoupink.org
Collaborative on Health and the Environment (2003), Prostate Cancer: What We Know, URL CIT: http://www.protectingourhealth.org/newscience/prostate/prostateknow.htm
Environmental Defence Canada, Canadian Environmental Law Association and Canadian Institute for Environmental Law and Policy, Pollution Watch, URL CIT: http://www.pollutionwatch.org


6) US Foreign Policy

**US and the UN**

The U.S. and the U.N. have had a slightly uneasy relationship. The U.S. is certainly the largest contributor to the U.N. and often feels that its financial generosity is not appreciated by the rest of the international community.


Borger, J. (2005) “Bolton throws UN summit into chaos”, *The Guardian*, Friday, August 26, URL CIT: [http://www.guardian.co.uk/usa/story/0,12271,1556790,00.html](http://www.guardian.co.uk/usa/story/0,12271,1556790,00.html)
US and the IMF/World Bank:

The International Monetary Fund (IMF) and the World Bank have adopted policies that are so closely associated with the U.S. that they have become known as the Washington Consensus. However, it is important to see whether these policy packages are actually doing any good to the developing world. The following literature describes the policy package that makes up the Washington Consensus and evaluates its successes and failures.


US Military Intervention

The list of U.S. foreign military adventures is long and, unfortunately, not terribly auspicious. For those who argue that the role of the U.S. has been, or could be, to foster democracy and prosperity, the catalogue of misadventures makes for grim reading. While a case could be made for a few of the missions such as Somalia or the Desert Storm version of the Iraq war, which were meant to deliver humanitarian assistance and protect an invaded sovereign nation respectively, most U.S. adventures were of a less altruistic variety. The following literature presents the case for and against US intervention in foreign countries, particularly focusing on three case studies: Iran, Chile and Iraq.


**US Empire – Academic Work**

*The following literature focuses on academic work presenting the benefits of US and British Empires.*


**US, Free Trade, WTO and Developing Nations**
Trade negotiations often have little to do with free trade and more to do with negotiating power. The WTO is no exception. The following articles the role of WTO and its effect on the developing countries.


Data

For an excellent source of statistics, especially on the developing world, see:


7) Democracy

Explanations of Recent U.S. Electoral Results

Recent U.S. elections suggest that the first half decade of the new millennium has seen voters consistently support politicians that promote a small state, pro business economic policy while advocating “traditional American values”, among the most important of which is the “right to life”. Often, these votes are cast by the very people who would benefit from a little more state protection and who are unequivocally harmed by the new
economic environment. The following readings help to understand the recent electoral results of the United States.


**Public Choice – Economic Theory of Democracy**

Mainstream economists try to explain the world of politics with the help of public choice theories. The vast majority of public choice scholarship assumes that voters behave in the democratic process as they would in the market. They will vote for the political outcome that maximizes their own well being. The following literature explains the public choice theories of voting behaviour.


**The Role of the Media**
It is certainly difficult to overstate the influence of the media on political preferences. After all, the vast majority of the public get the information that forms their views from easily accessible sources like the print and television news, or worryingly, from even more digestible forms like late night talk shows. If it is the media that provides information to the voting public it is likely that if the media contains a systematic bias, then this will be reflected in political decisions. The question, then, is whether the media does have a bias. The following articles try to answer the question if the media does have a bias.