*Government and Enterprise, Ivy Papps, Institute of Economic Affairs, 75p.

Dealing with Nature's Monopolies

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WHAT ARE your views on State intervention? This is a question which might have been designed to separate constructive thinkers from those who habitually repeat half-understood ideas. (Why not try it on your next parliamentary candidate?). Those who reply that they are for it or against it fall into the trap of answering the wrong question. The sensible question is "under what circumstances, and how, should the State intervene in the market." A readable and clearly reasoned summary of the economic arguments needed to answer this question is provided by a 65-page booklet recently published.*

The existence of a monopoly provides a reason for state intervention, because then the market mechanism cannot on its own ensure economic efficiency. A 'natural' monopoly which cannot be combated by normal anti-monopoly legislation, provides the classical reason for direct government intervention. But it does not follow that State ownership, or even regulation, is the most efficient solution. The booklet's treatment of the case for State intervention in the use of radio waves provides an interesting example of the author's approach. Free access to radio waves is not technically feasible because of the interference between adjacent stations. Radio waves must therefore be regarded as a scarce resource, because the quantity which people would like at zero cost is greater than the quantity available. When resources are scarce a definition of property rights becomes necessary. For radio waves it is suggested that the government should calculate the optimum number of stations and should then sell franchises by auction. The monopoly profits of operating a station would thereby be appropriated.

It is a pity that the author should have adopted so static an approach. If the value of a radio station were unchanging, or if its future value could be known with certainty, then there could be no objection to her proposal; but in an uncertain and changing world, something more is required. It is a definition, not of property rights, but of rights of tenure which becomes necessary when resources are scarce, and the solution is provided not by an outright sale but by a leasehold. The parallel with State intervention to deal with land monopoly is quite startling.

The mere fact that a firm has access to a monopolised resource does not, however, provide a legitimate reason for State ownership. "The correct solution would be for the Government to intervene in the resource monopoly and not the firm allied with the monopoly." Similarly, there are better alternatives than State ownership for dealing with the other problems which State intervention is intended to tackle; but granted that the alternative is a State monopoly or a private monopoly, the author is prepared to accept nationalisation as preferable if only on a second-best solution. She then turns to the thorny question of how nationalised industries should be regulated.

The booklet confines itself, unfortunately, to State intervention in industry and does not therefore touch upon the land question. Since the author sees so clearly that it is the way in which scarce resources are used which is important, this is a pity. Perhaps someone could persuade her to take a second and more fundamental look at government intervention in the access to natural resources?

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