

## 2. INTRODUCTION

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Michio Morishima has throughout his academic life sought to use economic analysis in a very practical way: to understand how economies and societies function. Such an analytical understanding constitutes a fundamental requirement for any study of policy. He has blended in his economic analysis a number of basic ingredients, which have been vital to the richness of his output. These include: a sharp focus on the key issues and questions; rigour and creativity in choosing, developing and applying analytical technique; a deep and broad scholarship in the social sciences; a willingness to bring understanding from any relevant discipline; a strong international viewpoint; real historical and philosophical perspectives; and an understanding of the way in which individuals and enterprises interact with and relate to the societies and economies in which they live and work.

It is those ingredients which have permeated the work of STICERD where, by now, a number of generations of researchers have tried to live up to Michio Morishima's standards and have imbibed the spirit of his approach. The chapters in this book attempt to show how useful economics can be, if applied in the right way, to the understanding of basic questions of analysis and policy.

From the beginning of STICERD Michio Morishima saw the advantage of a group of researchers working together on a set of issues. Thus STICERD's work has largely been organised through programmes. At the same time the different programmes have interacted strongly with each other. The result of the combination of Michio Morishima's approach to the social sciences, the programme organisation, and the location in the LSE, has been an atmosphere in STICERD which most of us have found unique in our working lives. STICERD is full of

energy, at almost any hour of the day or night. The interaction is constant between younger and older, between different nationalities and between disciplines across the social sciences. Ideas bubble continuously. At the same time there is dedication to producing serious and rigorous output. It is a special place.

The chapters which follow, based on STICERD's programmes, illustrate the activity of the Morishima-STICERD approach as well as its range and rigour. Here are some examples of key issues where work at STICERD has generated real advances in understanding and shaped the way the profession and policy-makers approach their subjects. Much of the work of the Welfare State Programme has focused on policy towards poverty. The starting point requires a definition of poverty and an identification of who are the poor. Poverty amongst the infirm, the old or the young may involve different policy approaches and costs from poverty amongst those who are out of work or with low pay. The logic of the questions implies that the analysis should be detailed - individuals and households are at issue and much of the data analysis must be at this level of disaggregation.

Any analysis of policy measures should, however, bring both philosophy and economic theory to the issues and data. The design of policy will require an understanding of the rights and obligations of individuals and societies, so that there is clarity in what are policy objectives. It must also take explicit account of the incentives associated with different kinds of reward, support and tax structures.

The analysis should also be informed by an examination of the way in which administrative systems work, of what is feasible, of what is effective and at what cost, both to the individuals involved and to the administration. Institutions matter, and they work in very different ways in different countries and times. Thus historical and international experience can be very instructive and STICERD has been on the forefront of comparative research here, and particularly in bringing together European data, experiences and researchers. The way in which the Welfare State Programme achieved its high standards and leading role surely underlines the type of blend involved - a blend which is available only, perhaps, in an international centre in an institution like the LSE with a mix of leading scholars with different skills and backgrounds.

A second group of examples, drawn from the Development Economics Pro-

gramme, concerns the study of the determinants of and policy towards economic and social change in poorer societies such as India and China. In both countries, although in different ways, market and entrepreneurial behaviour and technology have been undergoing radical change over the last few decades. In both countries, some basic social and economic structures are breaking down and new arrangements are being constructed. An understanding of these changes, their consequences and their further development requires most of the ingredients described in the earlier example of poverty analysis in richer societies. The example underlines also that the nature of economic and social relationships play a crucial part in incentives, the quality of life, standard of living and the role of public policy.

Work in the Development Economics Programme in Palanpur in North India, for example, shows how technological and economic change, in particular increased market activity, are accompanied by changing political and social arrangements and relationships. Population pressure, more intensive irrigation and fertiliser and new seeds in agriculture, and the growth of outside employment have changed the economic structure, way of life, support systems and relationships within and beyond the village. The patterns of inequality and wealth have undergone basic, but complicated, change. One result is that the consequences of infirmity or widowhood have become more disturbing as a result of weakening social ties. Education has increased in importance, although the supply has been weak and attendance by teachers sporadic. Market relationships are intensifying, particularly in credit and labour markets. Again analysing the consequences of such changes requires a subtle blend of approaches and techniques in the social sciences.

In China in the last two decades we have seen a fundamental transformation in terms of the introduction of a market economy and the development of entrepreneurship. Great economic advances in income have been accompanied by increases in insecurity. There have been major challenges in transforming the role of the state from one which attempts to command production to one which supports the market system. In this transformation, constructing a fiscal system and incentive structures for a dynamic market economy constitute key challenges

for institutional change. Again it is a blend of approaches and understanding of institutions that is necessary to identify how the benefits of markets can be harmonised with social support and stability.

The Economics of Industry Group has been at the forefront of the changes which have transformed the subject over the last twenty years or so, in particular, game theory and the role of asymmetric information. The behaviour of firms and the dynamic development of an industry are now seen to be founded on a strategic approach by firms to competition and opportunity, where innovation and investment are undertaken in order to establish competitive advantage over players, and potential players, in the market. In this way, and taking account of the irreversibility of many investment decisions, these approaches provide new insights into investment as a strategic decision which goes far beyond the narrowly defined comparison of expected return and cost of capital in the marginal project.

The work of the Economics of Industry Group has, from its beginning and in good STICERD tradition, been concerned not only to provide new concepts and theoretical approaches, but also to confront these ideas with existing data and create new data on which they can be tested. Thus, through many case studies and using careful econometric methods, the work has shown how the technology and sunk costs in an industry can influence its market structure, investment and innovation. This work has been drawn together in John Sutton's book (Sutton (1998)). He has taken 12 high technology industries to test his previous theoretical work on market structure, including aircraft, computers and pharmaceuticals.

All the examples provided here have shown the importance of rigour in concept and theory. Thus, just as in the Economics Department at LSE, STICERD has recognised the vital importance of the presence of leading economic theorists at the heart of its activities. The Economic Theory Workshop has been a central part of STICERD's work and Leonardo Felli (who has jointly contributed a chapter) currently organises that series. Michio Morishima, himself one of the world's outstanding theorists, was crystal clear on this from the start. Similarly economic theory has to be married with econometric techniques and approaches which are appropriate to the issues, concepts and information to hand.

All three programme examples offered here, and the theoretical workshop, have emphasised the conceptual, technical and philosophical challenges of analysis. They all emphasise that the analysis of society and policy from social scientists must be of the highest intellectual rigour whilst being informed by scholarship and careful analysis of data, institutions and international experience. They all have contributed to the reappraisal of the role of the state which has been such an important part of serious intellectual enquiry over the last two decades. The example of Michio Morishima has constantly guided and permeated the work of his colleagues in STICERD.

Finally, we must recognise that, whilst a first-rate research centre must, of course, produce outstanding research on serious and important issues, it must also produce young researchers to learn from, stimulate and challenge more established figures. It must “bring on the young”. This was also central to Michio Morishima’s vision. STICERD has produced a constant stream of high quality PhDs and has developed young researchers from all over the world since its inception. It has constantly replenished its mixture of youth and experience. That is what gives us all great confidence in its future.

## References

Sutton, J., (1998), *Technology and Market Structure: Theory and History*, Cambridge, MA: MIT Press.