

# The Global Situation

## Markets and Economics

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## The Function of Markets

- The nervous system of an economy
- We have to respond to the signals they send
- There is no coordinating brain - but coordination is achieved giving effect to the decisions of people whose knowledge is limited, whose power differs

## Markets operating well

- Translate preferences of individuals into a mix of good and services that they choose
- Are not controlled by governments or private sector businesses
- At their best ensure that available resources, deliver an outcome that is more valuable than any alternative.

## Markets Can Go Wrong

- False information
- Exclude externalities and public goods
- Capture by cartels or monopolies
- Ignore equity issues.

## Globalisation is the Market on a World Scale

- Information is now virtually instant
- Shortages or surpluses communicate across the world
- Technology knows no frontiers although the speed of change varies
- Trade is the response, in the shape of transactions, to the burgeoning of knowledge on a global scale

## Who Benefits?

- We differ in:-
  - Resource availability
  - Skills
  - Social structures
  - Value systems - what we like!
- Markets enable us to exchange the things we do best for the things we need or desire.
- All can gain

## Gain is not without Pain

- Trade allows us to increase our wealth on condition we move our resources to those activities in which we have a comparative advantage
- These change over time - so trade means some equipment becomes valueless, some people lose jobs - as well as providing a basis for new jobs and new investment.

## Trade is Good for You

- Real incomes have been rising
  - Chart 1
  - Table 1
- In per capita terms Western Europe and US stand out - but see the impact of trade on E Europe.
  - Chart 2
  - Table 2

## GDP \$US Billion

at Market Prices and Exchange Rates.

	1980	1990	2002
Africa	464.5	544.0	713.7
Asia and Oceania	4578.9	7253.7	10239.5
Central and South America	1051.7	1205.1	1636
Eastern Europe & former USSR	221.1	237.4	877.7
Middle East	330.1	384.8	590.1
North America	5436.6	7388.9	10365.4
Western Europe	6614.3	8460.2	10888.8

## GDP per Cap \$ US

	1980	1990	2002
Africa	999.3	889.6	858.6
Asia and Oceania	1,865.4	2,461.2	2,918.9
Central and South America	3,616.8	3,407.1	3,772.6
Eastern Europe	614.2	609.2	2,276.5
Middle East	3,604.8	2,992.2	3,309.7
North America	17,035.3	20,495.3	24,600.9
Western Europe	15,269.1	18,545.8	22,445.5



## The politics of who bears the cost

- Agricultural exporters
- Farmers in low income countries
- Low cost producers in quota limited countries
- Food manufacturers in protected countries
- Consumers

## The Rationale of Support

- Market failure - what the market will not pay for
  - National security
  - Rural communities and culture
  - Public goods
    - Landscape
    - Habitat and wildlife
    - Water
    - Waste management

## The Irrationality of Support

- Food surpluses
- Rural communities no longer agricultural
- The food chain makes the farmer remote from the consumer
- Intensive farming is seen as damaging the countryside - landscape, pollution, habitat loss.

## Global Markets press on Weakened Domestic Producer

- Political support is justified now not by output but to preserve resources.
- Trade offers abundant supplies through multinational trading links and multinational processing and retailing structures

## Farming in Tomorrow's World

- To succeed it has to be low cost:-
  - Restructuring in a food chain focussed on consumer preferences
  - Devising more productive technologies that has a smaller environmental footprint.
  - Managing risk - market and production hazards
- More skill, optimising capital assets, developing new markets.