

Solutions, not scapegoats please!

ONE of the less attractive aspects of human nature is the search for a scapegoat to blame for social or economic misfortune. It allows us to forget our own responsibility for any situation. Moreover it is an advantage when the scapegoat is safely dead and buried; he can be criticised with impunity, for he cannot answer back.

Seemingly, John Allen lays the decline of the industrial economies of the Western world at the door of John Maynard Keynes (*Land & Liberty*, July-August 1983). One could with equal validity say that the modern socialist states of Russia and Eastern Europe are the economic consequences of Ricardo. It was he who set the rent of land against other claims on production, particularly wages, and this opposition can be directly connected with the surplus value of Marx and, in political terms, the class-war.

It is all good polemical fun but does little to promote the cause of scientific discovery.

The history of economic theory will never be understood, nor will it be useful, unless each theorist is seen in context, for it will be found that his theory is born out of the circumstances in which he finds himself.

● Smith reacted to the mercantilist theory, that the wealth of a nation rested in its accumulated specie.

● Ricardo reacted against Smith's emphasis on the production of wealth by developing a theory of distribution.

● In their different ways, Marx and Henry George reacted against poverty in the face of expanding production.

Like-wise with Keynes.

He chose to react against the classical theory which had ruled political action in the United Kingdom and elsewhere for over a century.

It is as pointless to argue whether this was Ricardian or Malthusian, as it is to debate whether Shakespeare's plays were written by Shakespeare.

In fact, despite his fiery denunciation of Ricardo, what Keynes was seeking to discredit beyond resurrection was Say's law – that supply creates its own demand – and its corollary that the economy is always tending towards full employment.

It followed from this that any unemployment was temporary and could be explained in two ways.

● It could be 'frictional' (i.e. due to the slow transfer of labour from declining to expanding industry), or

● It could be due to the perversity of men refusing to work for a wage less than the 'marginal disutility of unemployment'.

It follows, said the classical theorists, that one simply had to wait until the new industries had expanded sufficiently and/or men had learned the error of their ways and accepted a lower wage, and

unemployment of the 1930s supported his theory in a pointed and practical way.

THERE IS a moral here for those who would seek to influence economic affairs in the political sphere.

Keynes started with received economic teaching. He did not deny it. He simply argued that it was a special case of a more general theory of employment and used the political pressure of large-scale unemployment to underpin his theory.

In fact, it is as strongly arguable that the unemployment of the time arose in major part from the ill-conceived return to the gold standard in 1925 at an over-valued parity which led, in turn, to an abrupt withdrawal of credit, something which is the life-blood of the modern economy with its diffuse specialisations.

What was needed was an equally abrupt infusion of credit. But you do not endear yourself to the establishment by telling it that the very basis of its thinking for many years is totally wrong.

Analysis by
MICHAEL GILBERT

with a reply
below
by **VIC BLUNDELL**

unemployment would disappear.

As Mr. Allen records, Keynes described this as voluntary employment but asserted that there was also involuntary unemployment and that, therefore, an economy could find equilibrium at a point of less than full employment. Moreover, the mounting

IN TAKING John Allen to task, Mr. Gilbert appears to think it is unfair to criticise an economist if he is dead and cannot answer back, writes Vic Blundell.

By that standard, we should not criticise Ricardo, Malthus, Marx, et al, who cannot answer back either.

But Mr. Gilbert is not thus inhibited in his own criticism of Henry George!

The economic consequences of Keynes follow from the application of his basic economic theory of employment but one cannot speak of the economic consequences of Ricardo in the same way. The Ricardian law of rent cannot be put into practice. It is, as Mr. Gilbert says later of the law of diminishing returns, "a neutral description of an observable fact."

In any case, Marx attributed his surplus value to the functions of capitalism, not Ricardian rent, and it is capitalism that is still the villain of the piece. Certainly these misconceptions do little "to promote the cause of scientific discovery".

It does not seem to have occurred to Mr. Gilbert that Say's law – that supply creates its own demand, and its corollary that the economy is always tending towards full employment – cannot function efficiently if there are artificial constraints to contend with.

And this is true of the function of all economic laws. To dismiss Say's law as invalid because, under prevailing institutions, it is prevented from working properly, is like declaring the law of comparative costs invalid because of the existence of tariffs.

The supply that creates its own demand must always be inhibited where the source of supply, the land, is monopolised – and it is this institutionalised monopoly, standing in the way of supply and thus demand,

which is at the root of the malfunctioning of our economy.

Neither the classical economists, nor Keynes, faced up to the function of land in employment theory. Yet it has been demonstrated throughout history that, where labour has access to land, even marginal land, there is no unemployment.

That society is now highly industrialised and interdependent does not alter its dependence on land.

Beginning with the extractive industries, a chain of employment is created, with land an indispensable factor in every link.

Inhibit the use of land at any point and the chain of employment is broken.

KEYNES, or Keynesianism, is of course not responsible for all our economic ills any more than the drug companies are responsible for all our bodily and mental ailments, but each in their own way have much to answer for.

And by the way, if Keynes was seeking to discredit Say's law beyond resurrection, it is difficult to reconcile this with Mr. Gilbert's assertion that Keynes started with received economic teaching and "did not deny it".

It cannot be disputed that monetary policies have an effect on the level of employment; but only for a while, for the disease creeps back when the body economic has adjusted to the monetary manipulation.

Mr. Gilbert is right, of course, in asserting that the law of diminishing returns is a neutral description of observed fact, but John Allen did not make a "violent assault" on it. What Mr. Allen assaulted, if that is the word for it, was the theory that this law explained

In passing, one of the oddest aspects of Mr. Allen's criticisms is that if Ricardo saw the plight of the labouring classes being eased by the accelerated accumulation of capital, he and Keynes were in total agreement. Keynes also saw the whole problem as solved by the accelerated creation of capital although, admittedly, he advocated its achievement through public works if private enterprise could not meet the need.

Another curiosity is the violent assault on the law of diminishing returns which seems a fairly inoffensive and neutral description of observable fact. Henry George himself remarked that Ricardo's law of rent does not depend upon the direction of the extension of cultivation, but upon the proposition that if land of a certain quality will yield something, land of a better quality will yield more. Of course, neutral fact can be used or abused as a moral justification for action.

A major difficulty facing any economic historian is the confusion of the economics of Keynes with Keynesian economics.

Keynes' contribution was a short-term solution to what he saw as a short term problem, perhaps not a general theory at all, and he disapproved of what some of his pupils perpetuated in his name. He

even remarked at a meeting he attended that he was the only non-Keynesian present!

What the so-called Keynesians have done is to reverse Say's law. Their dogma is that demand creates its own supply, which is as invalid as its mirror image.

Nowadays, Keynesianism is seen to have failed and the pendulum has swung back to the classical approach. So-called monetarism has withdrawn credit from the economy and, as Mr. Allen rightly says, it is yet again argued that workers must accept lower wages down to what is now called "the market clearing price of labour" and that the resulting unemployment is a temporary phenomenon which is self-correcting.

Again, this will be proved wrong. Where, it may be wondered, does the true balance lie?

EVERY THEORY rests on assumptions which are appropriate to the time and place of the theorist; it follows that the application of that theory at another time or place may be disputed on the grounds that the assumptions are no longer valid.

If economic theory is to be dependent upon the climate of the times, then there can be no true science of political economy.

But perhaps Mr. Gilbert denies that political economy is a science with universal laws?

Mr. Gilbert makes the sweeping, though familiar, statement that the landlords of George's time have been replaced by the insurance companies etc. and that they abhor vacant tenancies. Maybe they do - of buildings which still attract rates.

If insurance and pension funds are required to "demonstrate short-term good performance in their investment strategy", they are unlikely to speculate in land at all, let alone leave it idle. Then, to whom does the vacant land that abounds in our big cities belong? When one has allowed for the sizeable amount held by local authorities, there is much in and around our cities that is privately held out of use awaiting higher prices.

When landowners complain that they cannot sell their land, they mean sell it at a speculative price or at a price that would leave less than enough to make it worth while for capital and labour to engage in production.

The trouble is that, while both labour and capital are willing to engage in production on idle land at prevailing economic rates, the landowner is not prepared to let his land go at the prevailing economic rents which is the residue; he wants to-morrow's (higher) rent today, or else it stays idle.

Keynes started where George finished, the point where entrepreneurs are reluctant to invest and this he attributed to anything but the true reason. He had only a palliative to offer for the effects - nothing for the cause.

For example, the early British classicists seem obsessed with corn as almost the sole product of the economy. This may have been a good approximation in the early 19th century but it is doubtful as an assumption in the late 20th century when every worker wants his home graced with a wide variety of consumer durables, wants his holidays abroad etc.

In the same way, as Mr. Allen points out, Keynes assumed that the factor cost of labour was the same as its factor income. At the time, this was tolerably accurate. Beyond question, it is not true in 1984. As he says, taxation has mightily inflated the cost of labour but does it really need an elaborate theory of rent to see that taxing employment reduces it and the obvious remedy for this sad state of affairs?

It might be argued that the cause of unemployment lies in landowners holding land out of use against a speculative increase in rent. But the landlords of George's time have been replaced by the insurance and pension fund managers who are required to demonstrate short-term good performance in their investment strategy. They cannot do this with vacant tenancies which they consequently abhor.

Today, land in restricted use or held out of use will tend to have arisen from town planning, green belt legislation and the like.

Henry George suffered the limitations of his time and place. Like those whose work formed the base of his study, he was subject to error. For example, he implicitly accepted Say's law. But, alone among his contemporaries, he saw with great insight that human progress lay in removing every impediment to a man earning an honest living, that this, and this alone, is the mainspring of economic study. Given this, said George, the possibility opens for the realisation of all man's possibilities up to a comprehension of the meaning of life itself.

Mr. Allen brings this out in his article but what he does not ask is the question which naturally follows. It is this. What are the economic consequences of Henry George?

The unpalatable truth is that they are insignificant, and this state of affairs will continue so long as men seek to implant theories appropriate to the early 19th century in the totally different social soil of the late 20th century where they cannot take root. Nor will progress be made in the attempt to wither the theories which have taken root.

What is required is a careful examination of modern theory to discern what will fill the gaps left by George on money and credit, for example, about which he has virtually nothing to say. The aim should be synthesis rather than destructive criticism. Then there might re-appear that bright vision of hope which he offered suffering humanity.

As Burke said, all that is necessary for the triumph of evil is that good men should do nothing.

the presence of poverty and subsistence wages.

In doing this, Mr. Allen showed how Malthus has used this "neutral fact" of diminishing returns and "abused it as a moral justification for action".

It is true that much has been propagated and done in the name of Keynes that Keynes would have disowned. But this does not exempt Keynes from the consequences of his main ideas - monetary management and the theory that artificial demand via the printing press can be an effective substitute for real demand backed by prior production (Say's law).

Whatever may be argued about what Keynes actually believed or proposed, or what has been rightly or wrongly done in his name, the simple fact is that Keynes was not a fundamentalist. (Mr. Gilbert admits this when he says that Keynes' contribution was a short term solution).

As such, he made no contribution to the fundamental problem of poverty and unemployment - indeed how could he when land, one of the two primary factors in production and thus in employment, was ignored.

WHEN Mr. Gilbert asserts that every theory rests on assumptions which are appropriate to the time and place of the theorist, he clearly implies that no theory rests on assumptions which are appropriate to all times and places - an indispensable condition for the formulation of economic laws.

These economic laws, to quote Mr. Gilbert again, are based upon a neutral description of observable fact. Such facts are not limited to specified times and places but are true at all times and in all places.