

8. What Is 'The Economy'?

Previous chapters having been devoted largely to a critique of methods, in vogue or advocated, of attempting to prevent human society from collapsing into chaos — most of which seem to be designed to bring about that very catastrophe — the obligation must now be honoured to offer alternative proposals. To be worthy of serious consideration these will require to be as practical as they are logical and based on recognised principles of human behaviour.

In clearing the ground for this task it is necessary to examine some of the institutions and ideas which at present comprise the rationale of human society. And perhaps the first in importance of these, judging by the space given to it in modern literature, the press and general discussion, is *the economy*.

Considerable stress has been laid hitherto in this work on the manifest confusion in the minds of those looked upon by society as experts in their chosen field of economics. Countless examples of this confusion are available in recorded speeches, press interviews, articles and books on economics, but perhaps the following statement in a broadcast address by a professor of economics¹ recently visiting Australia will serve as well as any. "The fundamental problems facing all economies" said Professor Lumsden, "were two: How to use resources most efficiently to produce the goods and services we want and how we should distribute those goods and services within our society." The first, said the professor, is a question of economic efficiency, the second a question of equity. With these words the professor exposes *his* basic confusion, because he attempts to separate into two unrelated activities what is fundamentally one economic process — production and distribution being inseparable parts of the one process, the very *raison d'être* of the economy.

Henry George, in his *The Science of Political Economy*² effectively destroys this alleged dichotomy in the following passage:

"Distribution is in fact a continuation of production — the latter part of the process of which production is the first part. For the desire which prompts to exertion in production is the desire for satisfaction, and distribution is the process by which what is brought into being by production is carried to the point where it yields satisfaction to desire — which point is the end and aim of production."

As a consequence of this confusion of ends and means, Professor Lumsden is led to the position of advocating the latest 'economic' absurdity, a *negative income tax* by which, for instance, the inefficiencies of subsidised

housing are to be eliminated by a straight-out 'welfare transfer' of taxation handed back to the poor to enable them to pay their rent like respectable citizens.

Before he reached that pathetic conclusion, the professor waded through a morass of typical economic jargon about 'free enterprise system economists', the 'price mechanism', the 'current distributional system' and 'unemployed resources' (meaning 'workers'), so that he could produce the following example of muddled thinking: "Free enterprise system economists in no sense argue that the price mechanism will cure all of society's economic problems. There are just many areas where the price system collapses and the reason we have pollution, smog in our cities, polluted waterways, noise levels, is essentially because the price mechanism in that area just doesn't work. It is one of those areas where we require collective action to get the right amount of resources in there."

Well, without diverting too far from the main argument, one could ask the professor what he means by 'free enterprise system economists' and to ask on whom he would bestow that title, for they are 'rara avis' in the pastures of modern economics. One could also wish he had explained why the 'price mechanism' collapses, or doesn't work, in the areas referred to. In doing so he might have been forced to admit that it was not the result of any fault in the 'price mechanism' itself but of obstructions to its operation, the result of political interference.

Other areas where the price mechanism wouldn't work either, said the professor, "involve those types of goods we consume collectively — national defence, fire protection, police protection, the legal system, and so forth." All of which are of no concern to the economist, as such (save perhaps fire protection), but to the political leaders and government officials. On the other hand, he said, there are areas where "we do have government interference if you like, i.e., collective action where the price mechanism will probably work much much better" and he named such things as family allowances, subsidised housing and free higher education. Finally, the professor admits, "the one area where the economist has got very little to say as an economist (though he may have lots to say as a private individual) is in the field of income distribution." And here, of course, he is not referring to individual earnings but to the 'national income', that is to that part of total individual earnings which the politicians have siphoned off into anti-economic channels.

All the foregoing quoted statements reflect the insecure basis of what Professor Samuelson describes as 'the Science' (meaning Neo-Keynesian macro-economics); for, instead of making the arbitrary separation of 'economic efficiency' (in production) from 'equity' (in distribution), the proper separation is in distinguishing the things that concern the economy from those which do not.

The things that concern the economy are those activities which are

comprised by the term 'exchanges'. The very existence of a social economy is due to the desire of man, the producer, to exchange with man, the consumer, the product of his labour, in the process of which he is both producer and consumer. The law governing these activities is simply stated and recognised, tacitly or implicitly, by everyone, namely: man tends to satisfy his material desires with the least expenditure of energy, and he does this through the division of labour and in the exchanging of goods in the market, where the 'price mechanism' operates to achieve his ends (the mutual satisfaction of desire) *efficiently and equitably*.

All other of man's activities are of no concern to the economist as such, but to the political scientist, the sociologist, the psychologist, or the historian, the philosopher and the poet. The inefficiency and inequity which are Professor Lumsden's concern are the result of that interference which he himself deplors, the intrusion of government into areas beyond its proper sphere, usually at the behest of sections of the community who seek special privileges for themselves and who use political power to obtain them; so that, instead of being the upholder of equity, the government becomes the instrument of those who would destroy equity for their own ends; instead of being the protector of the equal rights of the citizens, it becomes the protector of the privileges of the few. And instead of that competition which is the normal mechanism by which efficiency and equity are achieved in the market we have all the distortions, corruptions and perversions which make up the picture Professor Lumsden described.

As this chapter is being written, the federal government of Australia is about to be changed and the traumatic effect of this fact on the whole nation is such as to represent as great an example of the distortion and perversion referred to as could be found anywhere. For, instead of the change in personnel of the government being simply that, it is in reality a change in the proportion of political power which will utilise the machinery of government for the enforcement of policies favouring special interests. And because of the general confusion over what is strictly economic and what political, the whole life of the country is thrown into turmoil until the change is effected; business is disrupted, millions of dollars expended on the propagation of rival policies whose end is usually to further extend the chaos instead of reducing it, to enlarge the distortions and increase the corruption of true government.

And throughout the period during which this disastrous drama will be enacted one word will dominate the frenetic dialogue — the word 'economy', the one word which will deserve less place in the babel of sound and fury than any other. For what is it that dominates the pleas and adjurations of the respective political rivalries but the demand to be allowed to further extend the interference with normal human behaviour which, if left to itself, is the motivation and function of the economy?

What will have happened, when the dust of this phoney conflict settles,

and the noise dies down and the millions of dollars have been wasted, will be a continuation of the present chaos in which the economy will be the victim, trampled by the feet of rival factions, bled by the cost of it all and dismembered by those who achieve their pyrrhic victory of gaining control of the government machine.

The economy, which somehow survived the vicissitudes of man's past stupidities and machinations, will emerge from this latest madness the worse for it, but through its inherent natural strength, will survive again despite the damage; for it is of the nature of *an organism*, like the human heart, not an organisation created by men, like an association with its rules laid down by a 'constitution'. It is an organism with its own inherent laws which, if left to itself, functions perfectly, like the healthy human heart, as the foundation of human society, as the heart is of the human body. It is the life-giver or sustainer of the Body Politic, as the heart is of the brain and mind of man.

It is this organism which Adam Smith so lucidly describes in his chapters on the Division of Labour, in *the Wealth of Nations*:

"It is the great multiplication of the productions of all the different arts, in consequence of the division of labour, which occasions, in a well-governed society, that universal opulence which extends itself to the lowest ranks of the people. Every workman has a great quantity of his work to dispose of beyond what he has himself occasion for; and every other workman being in exactly the same situation, he is able to exchange a great quantity of his own goods for a great quantity or what comes to the same thing, for the price of a great quantity of theirs. He supplies them abundantly with what they have occasion for, and they accommodate him as amply with what he has occasion for, and a general plenty diffuses itself through all the different ranks of society."³

And again, at the beginning of Chapter II:

"This division of labour, from which so many advantages are derived, is not originally the effect of human wisdom which foresees and intends that general opulence to which it gives occasion. It is the necessary, though very slow and gradual consequence of a certain propensity in human nature which has in view no such extensive utility: the propensity to truck, barter and exchange one thing for another."

In his *The Science of Political Economy*, Henry George describes the nature of the economy in a passage that leaves little room for improvement;⁴ after quoting the opening statement of Hobbes's *Leviathan*,⁵ he says:

"Without stopping further to comment on Hobbes's suggestive analogy, there is, it seems to me, in the system of arrangement into which men are brought in social life, by the effort to satisfy their material desires — an integration which goes on as civilization advances — something which even more strongly and more clearly suggests the idea of a gigantic man, formed by the union of individual men, more than merely political

integration. The Greater Leviathan is to the political structure or conscious commonwealth what the unconscious functions of the body are to the conscious activities. It is not made by pact and covenant, it grows, as the man himself grows, by virtue of natural laws inherent in human nature and in the constitution of things; and the laws which it in turn obeys, *though their manifestation may be retarded or prevented by political action*, are themselves utterly independent of it, and take no note whatever of political divisions. It is this natural system or arrangement, this adjustment of means to ends, of the parts to the whole and the whole to the parts, in the satisfaction of the material desires of men living in society which, in the same sense as that in which we speak of the economy of the solar system, is the economy of human society. . .” (Italic ours.)

Again, in discussing ‘co-operation’, seen as the mechanism by which the society achieves collectively the satisfaction of its individual needs and ends, he says:⁶

“And so it is the spontaneous, unconscious co-operation of individuals which, going on in the industrial body, the Greater Leviathan than that of Hobbes, conjoins individual efforts in the production of wealth to the enormous increase in productive power and distributes the product among the units of which it is composed. It is the nature and laws of such co-operation that it is the primary province of political economy to ascertain.”

And again, on p.427-429 of the same work⁷, in referring to the distribution of wealth as the end and completion of the function of the economy, he says:

“In a logical division of the field of political economy, that which relates to the distribution of wealth is the final part. For the beginning of all actions and movements which political economy is called upon to consider is in human desire. *When this is reached political economy is finished . . .* with what becomes of wealth after it is distributed political economy has nothing whatever to do.”

Finally, on p.428:

“In entering upon this particular branch of our enquiry it will be well to remember that the laws which it is the proper purpose of political economy to discover are not human laws but natural laws. From this it follows that our enquiry into the laws of the distribution of wealth is not an enquiry into the municipal laws or human enactments which either here and now or in other time and place prescribe or have prescribed how wealth shall be divided among men. With them we have no concern, unless it be for the purpose of illustration. What we have to seek are those laws of the distribution of wealth which belong to the natural order — laws which are part of that system or arrangement which constitutes the social organism or body economic, as distinguished from the body politic or state, the Greater Leviathan which makes its appearance with civilization and

develops with its advance. These natural laws are at all times and in all places the same, and though they may be crossed by human enactment, can never be annulled or swerved by it."

If this is true — and it has never been effectively challenged by any economist, only ignored — then the whole structure of 'welfarism', under its modern fancy name of 're-distribution', is seen as a clumsy and wasteful method of doing by artificial means what would naturally occur but for interference with the natural working of the economy in the interests of privilege and under the misguided direction of those who profess to be leaders of thought and expounders of economic wisdom.

To sum up: the economy is that natural state or order which comes into being when mankind rises above the condition in which he has lived in a complete world of his own, fending for himself and consuming the results of his own labour, when he finds that by exchanging his product for the products of others he can *save effort*. It is from this saving of effort that the word 'economy' arises, and it is as a result of this that he can enjoy a better life with either more goods or more leisure. This is the basis, the very essence of trade — the exchange of one good for another for the mutual benefit of the exchangers. If the economy functions in freedom it functions better; if it functions better the exchangers are better off.

Those who perceive this remarkable and fascinating natural function recognise that the economy is concerned only with the production and distribution of wealth. It is the function of government to see that this production and distribution is done in freedom from interference, and it is the function of the economist, as scientist, to seek out the natural laws which govern the economy and to teach government the penalty of their inhibition.

It is of the greatest importance that the distinction between economics and politics be understood. Economics is a science, politics is an art. In every society which has left the primitive stage there is a body economic and a body politic. The function of the body politic is to protect individual freedom and, in so doing, to prevent the perversion and distortion of the economy. States have no rights, all rights lie in the individual; the state exists for men, not men for the state. It is the failure of economists to recognise these basic principles of their science that has led them so far along the path of confusion.

APPENDIX

For the laymen seriously interested in forming an adequate picture of the historical development of economic thought and of the conclusions in this discipline which prevail today throughout most of the world outside the so-called 'communist' countries, a fruitful field of enquiry lies in the various sections of the *Encyclopaedia Britannica* (1956 and subsequent editions) under such general headings as Economics, Land, Land Tenure, Land Taxation, Taxation, etc. One thing that will emerge from such a study is the picture of sustained controversy and the deepening of complication that

prevails instead of the trend towards clarification and the delineating of fundamental principle which one is entitled to expect from so much concentrated thought by so many intelligent minds over so great a period of time. Another thing that will become clear is the progressive dilution of economic theory by the gradual absorption of such pseudo-economics and pseudo-science as the various brands of socialist theory and, more recently, Keynesianism.

NOTES TO CHAPTER 8

1. Professor Keith Lumsden of the Graduate School of Business, Stanford University, California, in a 'Guest of Honour' programme, Australian Broadcasting Commission, over 2FC, Sunday, March 17, 1974.
2. Book IV, Chapter I, pp.426/7, also pp.438/9.
3. *The Wealth of Nations* (Everyman ed.): Chapter 1, Page 10.
4. *The Science of Political Economy*, Book I, Chapter 3, pp.22/23.
5. *Leviathan* by Thomas Hobbes: Andrew Crooke, London, 1651; Pelican Classics 1968.
6. *The Science of Political Economy*, Book III, Chapter 10, pp.395/6.
7. *Ibid.* Book IV, Chapter 1.