

BOOK REVIEW

CAPITALISM'S PROBLEM OF PAIN

Lost Prophets

Alfred L. Malabre, Jr.

Harvard Business School Press

SINCE the collapse of communism the need for a "new" economics has become increasingly obvious. The social injustice which accompanies capitalism and which for decades made communism and, for a time, fascism, so very attractive to millions is still around; progress, or at least technological advance, still carries poverty with it, and even appears to feed it. Current fashionable economic theories provide no remedies.

Here is more evidence. Shortly after the publication of Paul Ormerod's *The Death of Economics*, which argues that economics actually contributes to our problems, comes this book by the economics editor of *The Wall Street Journal*. The lost prophets of the title are modern economists; Malabre considers economics to be "at best a pseudo science and, at worst, a guessing game, often wildly inaccurate, frequently carried out by clever bamboozlers".

Malabre describes the huge increase in the numbers and influence of economists in the US since Roosevelt's time, when very little economic data was collected and only a few academics to analyse it, through to the establishment of powerful bodies like the Council of Economic Advisers, the Joint Economic Committee (of Congress) and the National Bureau of Economic Research. Government departments and large companies came to find it essential to have an economist on the staff, if not a whole department of them.

Malabre traces through this period the shifts in policy, with economists and their theories going in and out of fashion as, one by one, they are seen not, after all, to have discovered the key to everlasting and non-inflationary prosperity for all.

He starts with Keynes, the first economist to be seen as relevant to government. Or he thinks he starts with Keynes; he does not appear to know of Keynes' remark on his return from Bretton Woods (and shortly before his death) that he had been "the only non-Keynesian there". Thus a lot of Keynesian ideology is unfairly laid at Keynes' door: budget deficits during business cycle upswings, the pursuit of full employment through demand management, and the dethronement of money from its central economic role. In fact Keynes believed that he had made a major contribution by returning money to the heart of economic theory.

Malabre is on surer ground with recent American economists - he appears to have read them. Milton Friedman's panacea (remember? - just control the money supply - easy - and Utopia will follow). Malabre points out that Friedman grossly oversimplified both his diagnosis

and his prescription in order to convince and to drum up support, after failing to get a hearing with more rigorous analysis. Years later Friedman had the grace to admit that he had got it wrong and that he had no good explanation for having done so.

BY FAR the best story is about the supply siders, who managed to convince a lot of influential people, including a President of the US, that there really is such a thing as a free lunch. Laffer's famous curve purported to show how lower tax rates (especially on high incomes) led to bigger tax returns, through providing incentives and hence increased production. This was in effect a return to Say's Law - that supply creates its own demand - which had been economic gospel before Keynes.

Most unfortunately, Laffer and his chums were riding high among people of influence. Malabre admits that this was, to a considerable extent, due to the support of the *Wall Street Journal* - when Reagan began his journey to the White House. As Martin Feldstein (Chairman of the Council of Economic Advisers in the early '80s) said, the Laffer curve was "something a Congressman can digest in about thirty seconds and then talk about for months". Reagan thought it was great, and once in power he initiated his policy of tax cutting combined with increased government spending. Utopia was again on the horizon. The fact that within the decade the US had moved from being the world's largest creditor to being the largest debtor, and that Utopia was as far away as ever, was not widely publicised. This might just possibly have been related to the benefits enjoyed by the rich and influential - both individuals paying less tax and big companies getting profitable government contracts. Malabre's description of how this silly but simple idea was floated and then spread and supported is worth reading.

Interestingly, Malabre does like to have it both ways; having torn them and their ideas to shreds, he is happy to claim the support of "most economists" for his own ideas. Ormerod too ends up assuming that economic ideas must somehow prevail.

It seems to me that there is room for optimism here; we can't do without economics, but there is a vacuum where economic thought should be. The sterile communism vs capitalism debate is surely over, modern economists and their ideas are highly suspect, and general interest in formal economics is low. But concern about economic issues is growing - unemployment, homelessness, the gap between rich and poor, the degradation of the environment caused by unregulated capitalism, and so on.

Perhaps advising a return to the works of a nineteenth century thinker is not the best initial approach to Henry George today? Had Laffer suggested going back to Say and his famous law he would probably have got nowhere. It seems that few people are prepared to take the trouble to read a writer before feeling competent to either agree with or dismiss him. Thus Malabre is quite sure that he knows what Keynes said, and in the same way economists, if they have heard of George, think they know all about him. Oh, for a simple, brief statement expressed in modern terms - and the support of something like the *Financial Times*!

CATHERINE BASHAM