
CHAPTER 1

MORE THAN ECONOMICS

Before embarking on the historical journey that takes us back to the very origins of our species, a clear understanding of what this work attempts to accomplish requires some further explanation. As noted in the *INTRODUCTION*, I am presenting both evidence and reasoned argument in support of a particular point of view, an interpretation of history that identifies cause and effect relationships. A combination of historical evidence, direct experience and observation as well as reasoned speculative thought opens wide the door to a fuller understanding of how and why our civilizations have developed as they have than is generally thought possible. Again, I admit to breaking no new ground in this endeavor; rather, I resort to the methodology relied upon by Henry George and those who preceded him in that school of political economists originating with the French school of philosophers known as *the Physiocrats* and their contemporary, the Scot, Adam Smith. Because there is today no formal *science of political economy* taught or practiced, and the derivative field of *economics* is but one element of political economy, a discussion of the differences between the political economist and the economist as scientist is a good place to begin.

The terms *political economy* and *economics* are often used interchangeably, with almost no conscious recognition that the latter term identifies an arguably far narrower arena of investigation. Colleges and universities throughout the world establish chairs in political economy, awarded to researchers with impressive credentials in the areas of international finance, econometrics, macroeconomics, business cycle analysis or microeconomics—specializations within the investigative realm of economics. However important these subjects are in detailing the operations and dynamics of markets and of the psychology of individual choices, even in the aggregate they fall considerably short of classical political economy as a study of human behavior and our socio-political arrangements and institutions. Very few professors of economics (or, in name, professors of political economy) accept as their professional role a responsibility to investigate the socio-political issues traditionally the subject of political economy. Those who come close to doing so are frequently criticized by their professional colleagues for interjecting *values* into their research and teaching, thereby ostensibly allowing subjectivity and bias to enter into a social science whose senior practitioners have worked tirelessly to impose statistical analyses and reliance on quantitative models on each successive generation of students.

Over the decades of the twentieth century, one crucial assumption was accepted by economists as a group that has found its way into the generally-accepted definition of economics. To learn what that assumption is, all we need do is refer to one of the most widely used introductory texts on economics in the United States, written by Massachusetts Institute of Technology Professor Paul Samuelson. *Economics*, writes Samuelson, is:

[T]he study of how people and society end up choosing, with or without the use of money, to employ scarce productive resources that could have alternative uses—to produce various commodities and distribute them for consumption, now or in the

future, among various persons and groups in society. Economics analyzes the costs and the benefits of improving patterns of resource use.¹

Professor Samuelson's definition confirms that the role chosen by and for the economist is a combination of statistician and policy analyst—for industry, labor, government or anyone else who might find such services useful. The economist performs benefit/cost analyses for an important constituency, guided by the fundamental axiom that productive resources are scarce.² Political economy, on the other hand, includes the concerns of economists but also incorporates the moral dimension of human behavior. Its practitioners, from the mid-eighteenth century on included many of the world's great *men of ideas* (and, a small number of women able to penetrate the barriers of this male bastion), who turned their attentions to the interplay of natural and political forces that had shaped and were shaping the human experience. The concerns of the political economist centered on the relationships between groups, on issues of citizenship and sovereignty, on the definitions of human rights and liberties, and on societal responsibilities to the individual. Ironically, at the same time that economics arose as a specialized field of investigation in the late 1800s, Henry George was describing his own discipline—that of the political economist—as “*the science that investigates the nature of wealth and the laws of its production and distribution.*”³

George's writings, as well as those of other political economists, examine virtually every aspect of the socio-political environment affecting human behavior and organization. Writing somewhat after the golden era of political economy had ended, George sensed but was slow to fully comprehend a dramatic change in the intellectual and political climate within the United States, the English-speaking world in general, and the other industrializing nation-states of Eurasia. His is a tragic role in that his ideas achieved popular recognition but could not attain a similar status within the community of social scientists of his

20K

era, who were eagerly creating specialized disciplines concerned with much more limited parts of the whole.

The late nineteenth century was, as we know, a period of incredible change. Industrialization on a massive scale had severed the traditional relationships in societies between the *landowning* and *land using* groups. Millions of landless peasants migrated to the industrializing urban centers and to the Americas in search of opportunity. Those who possessed the bulk of personal wealth and controlled the socio-political institutions in these nation-states gave almost no consideration to the restructuring of society according to just principles; rather, they were concerned with how to impose order and maintain the status quo under which they benefited. Some remained focused externally, on expansionist and colonial objectives requiring a large and well-armed military able to protect external investments from uprisings by indigenous peoples or competing core powers. Technological advancement and industrialization also dramatically changed the nature of the State and the operation of government. Political and industrial leaders needed more detailed and accurate information regarding natural and manmade resources held within the colonial empires, large and small. Specialization and the productivity gains attributable to a greater and greater *division of labor* arrived much as an avalanche without historical precedent.. What the State needed (and began to increasingly pay for) were practical answers to problems of organization; that is, the problem of how to allocate scarce resources and maximize production of goods deemed necessary to achieve societal objectives as determined by those who held political authority and economic power.

Out of this emerging partnership between the State and industrial corporations arose the rapid professionalization of the social sciences. Up until this point, the university-trained analysts had been few in number and slower to form associations than their counterparts in the physical sciences (e.g., chemistry, physics, botany, astronomy). By the

late nineteenth century, economists, sociologists and political scientists were nevertheless hard at work in the universities, attempting to satisfy the problem-solving needs of the State and of their industrialist sponsors. The economists very quickly and effectively adopted the methods of quantitative analysis that made their services extremely valuable; most importantly, they were able to develop models for forecasting production that instructed both the private and public sectors on how best to allocate (i.e., invest) the three factors of production—land, labor and capital.

In their rapid adoption of specialization, however, the social scientists ignored the base of knowledge acquired over the two previous centuries by the political economists. An important reason for this is that those who employed the expertise of the economists were not very often bothered by questions of ethics, morality and value systems. The natural inclination of those who acquire and control both personal wealth and political power is to preserve as much of the status quo as is possible, even when improvement in general conditions is recognized as desirable. These individuals could hardly be expected to provide financial resources for investigations that by design might result in recommendations contrary to their narrow view of self-interest. The work of the economist as economist was, therefore, not to serve as agent for socio-political change; rather, the economist was asked primarily what policy choices would support specific objectives regarding resource allocation.

To be fair, not all economists willingly submitted to this limited role. Some continued to work within the larger investigative framework of the political economist. Nevertheless, the quest by younger, university-trained economists for an equality of status within the scientific community resulted in a general abandonment by most economists of the three factor model of production and distribution painstakingly developed by their forerunners in classical political

economy. This was a crucial choice that has clouded the research and policy recommendations of economists ever since.

The classical model was built on *a posteriori* observations that suggested formulation of *a priori* principles, laws of tendency involving the three factors of production. Although we were understood to be creatures with characteristics similar to other animals, political economists also recognized that we are unique in our possession of the powers of conscious thought and deliberate action. While dependent upon the natural universe, we are apart from other creatures in important respects. We apply our *labor* (mental and physical) to nature in order to obtain that which is necessary to our survival and, desirable for our comfort. Nature, or—as the political economists referred to the natural environment—*land*, is the first factor of production; human *labor* is the second. What labor produces from land could generally be viewed as material wealth of some sort, wealth that could be consumed, saved or combined to produce a new form of wealth that is not found naturally in our environment. The wealth used to produce new forms of wealth, the political economist termed *capital*. These three *factors of production* formed the basis for their analyses of how wealth was produced and distributed. They then brought into discussion the externalities of the natural and political environments.

The classical model gradually gave way in the late nineteenth century to a theory of market operations that categorized all potentially productive resources as *inputs*, the supply thereof competitively allocated by the *price mechanism*. Testing this theory in the real world, where the State and complex systems of positive law operate, is (because of such externalities) an impossible dilemma for economists embarked on a quest for respectability within the scientific community. To a very great extent, the economic theorist has been forced to work outside the observable world and to concentrate on constructing mathematical models based on less rigorous assertions of how purely competitive markets operate, then introducing externalities (i.e., variables) in an

effort to identify and forecast changes that can be expected to occur. Unfortunately for the economist, human behavior is predictable only in a relative sense and seldom in the absolute sense. So-called *economic man* cannot be separated from *political* and *social man*. And, human behavior must be examined against well-reasoned moral principles that are universally applicable. Most societies, however, are organized under systems of law subverted to a greater or lesser by cultural relativism. Such societies can never be just.

As I indicated in the *INTRODUCTION*, a secondary objective in this writing is the resurrection of political economy as the appropriate scientific approach for examining our socio-political and economic structures, how they have historically and continue to impact our well-being, and their specific role in encouraging or thwarting the production and distribution of wealth. Among the many important lessons I have learned from my study of classical political economy and particularly from the writings of Henry George is the need for specificity in the use of terms the meaning of which is subject to misinterpretation. Therefore, as did George, I will endeavor to define important terms and concepts in order to clearly convey my intended use.

TOOLS OF THE ECONOMIST

Graphics And Algebraic Models / Do We Need Them?

Some years ago, one professor of economics, reflecting on the nature of his work, suggested "*perhaps the most satisfactory definition of economics is that it is what economists are interested in.*"⁴ What economists have been interested in for the most part has been the aggregation of data, the investigation of statistical relationships, from which probabilities are suggested. For over a hundred years now, the professional economists have been charged by governments and

corporations with providing information about the past and present in order to choose between alternative courses of action. Their efforts are hampered, of course, by an imperfect knowledge of why things happen as they do, in both the natural world and in the political world. A not altogether tongue-in-cheek assessment of economic knowledge as relied upon today is its reputation as the *dismal science*, subject to the one great constant (and annoyance)—*the law of unforeseen consequences*. Reflecting on his chosen profession, one economics professor not that long ago wrote:

In the 1970s, economics [was] beginning to seem nearly as irrelevant to a skeptical public as it did in the 1930s, and for similar reasons. The standard agenda drifts farther and farther from the anxieties of men and women in ordinary jobs. Economics ought to be thinking about full employment, democratic planning, equitable distribution of income and wealth, taming of oligopolies, domesticating global corporations, increasing worker participation in management, and organizing universal health care. There are, it is only fair to concede some economists so engaged, but the professional prizes continue to go to virtuosos of economic theory that is comprehensible by few and useful to none.⁵

Part of the problem, as noted in the above statement by Robert Lekachman, is the pressure to produce original research as a condition for recognition within the tenured community of academicians. This has dramatically narrowed the focus of attention by economists away from major socio-political and economic questions. The economist as economist seldom questions institutional arrangements or raises questions of justice; rather, even in the realm of policy analysis the economist seeks to identify the most efficient course of action from among available alternatives (available, that is, within the constraints of existing socio-political arrangements). Serving the planning needs of the State or the industrialists has limited what economists have been able to contribute toward the much more fundamental questions of

societal organization. Even when sheltered by tenure or senior fellowship positions within ostensibly nonpartisan research organizations, too few seem willing to challenge conventional wisdoms accepted by their peers and mentors.

The resurrection of political economy as a means of establishing a universal knowledge base valuable to all the social sciences has, however, gained something like a rebirth since the early 1970s, following the publication of the book *A Theory of Justice*, by Harvard University philosophy professor, John Rawls. In an important break with the relativism almost universally accepted at the time, Rawls suggested that both private and public decision-making should meet specific and (to his satisfaction) objective tests of justice. Moreover, Rawls argued that political economy is more than economics:

Political economy is importantly concerned with the public sector and the proper form of the background institutions that regulate economic activity, with taxation and the rights of property, the structure of markets, and so on. An economic system regulates what things are produced and by what means, who receives them and in return for which contributions, and how large a fraction of social resources is devoted to saving and to the provision of public goods.⁶

Whether or not one agrees with the particular principles of justice set forth by Rawls, his work has made an important contribution by bringing some economists and other social scientists together to explore societal problems in an interdisciplinary fashion. Only when utilizing the principles and tools of political economy does the economist, or any other social scientist, venture into the role of activist and social commentator. In doing so, however, the economist admits to the limits of quantitative analysis in the study of human behavior.

At about the same time as Rawls produced his ground-breaking work, London School of Economics professor Michael Allingham was arguing the converse, that the quest of the economist had been

consciously narrowed to “*a proper understanding of economic society.*”⁷ From Allingham’s perspective, we were asked to accept as a given that economic society is independent of the larger community of socio-political institutions that govern and direct our actions. As a practical application of this limited perspective, many economists look at all resources (whether produced by human labor—with or without the assistance of capital goods—or provided by nature) merely as inputs to the productive process.

My quarrel is not with the use of mathematics as a tool; rather, I am troubled by the acceptance of such models as substitutes for scientific principles that meet the test of objective observation and reason when applied to the world as it exists. The extent to which the search for fundamental principles has been abandoned is reflected in the increasing reliance on statistical relationships in the policy-making process. Economists and other analysts track and monitor key indicators—leading, lagging, convergent, and coincidental—in order to forecast the future. Given the complexity of today’s cross-national industrial and service environment, perhaps this is the best that can be expected. Or, perhaps, we need to look at the world differently from how the economists generally do.

For readers who have had no previous exposure to modern economic theory and whose understanding of mathematics is rudimentary, the average textbook on economics is largely incomprehensible. Much of what such theoretical economics offers to the uninitiated is, I believe, of marginal value to a thorough understanding of how the world works. Nevertheless, the economist’s use of graphical displays to convey relationships (such as changes in activity over time) often instantly clarifies what hundreds of words only serves to confuse.

Information about the production and consumption of goods and services comes to most of us by way of the television, radio, the print media and the internet. For the visual media, graphs are an effective

means of summarizing and presenting aggregate data. We often receive our information about the rate of unemployment, inflation and the Dow-Jones index of stock prices in this manner. Historically, the measurement most frequently mentioned and to which great attention is focused is something called *Gross National Product (GNP)*. The *GNP* of a country is loosely defined as the total value of all final goods and services produced annually. In more recent years, however, economists have realized the weaknesses associated with *GNP* as a measurement of the well-being of people within a society. Emphasis has shifted to measuring *Gross Domestic Product (GDP)*. Analyzing the changes in *GDP* and its component parts is one of the ways economists look at how well or poorly a nation's economy or segment of that economy is performing (from their perspective).

Tracking Gross Domestic Product / How Important?

Graphic depictions of *GDP* generally display two lines covering the same period of time; one line shows the *GDP* value in *Current*, or nominal, face value of a nation's legal tender; a second line records *GDP* in value measured by *Constant*, or inflation-adjusted currency.

Constant *GDP* compares the purchasing power of the monetary unit to that existing in a particular base year (normally chosen because of price stability). For almost any nation one might care to choose, total *GDP* adjusted for inflation will show only very gradual growth, if any at all, since the late 1960s. This implies an aggregate increase in the purchasing power of those who receive a nation's legal tender in payment for goods or services rendered; however, in many nations the overwhelming majority of citizens continue to experience an erosion in purchasing power even when their nominal income rises. Thus, what *GDP* figures do not reveal is which groups of individuals have gained or lost purchasing power during the specified period. A more thorough

analysis of the component parts of the *GDP* is, therefore, necessary before any conclusion of value for policy-making can be reached. For example, what *GDP* figures do not show is that income inequality in the United States has steadily increased over the last few decades. The economist may, but the political economist certainly will, investigate the reasons why ever more purchasing power is becoming concentrated in the hands of fewer persons.

As subsequent chapters explore the *laws of production and distribution* relating to wealth, we will be in a better position to evaluate how close or far we are to a distribution of wealth one might expect to occur under conditions of cooperative individualism as opposed to other socio-political arrangements.