Myths, Fallacies and Economic Realities

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PROFESSOR F. Drucker, an economist writing in the *Wall Street Journal* recently, described some popular economic myths. One myth was that unemployment will always be with us even if we return to "normal".

Seeing that employment can be defined as the direct or indirect application of human labour, with the aid of capital, to the natural resources of a country, and that labour and capital like Barkis, are always "willing", it will not be a myth while land-owners are "unwilling"—that is unwilling to place all their land on the market *at the same time* in line with the other factors. It is often forgotten that if unemployment, be it only short lived and voluntary, is effectively brought about by workers withholding their labour in pursuit of higher wages, so also can it be brought about by land-owners withholding their land for higher prices. Further, while the withholding of labour causes unemployment of capital, the withholding of land (merely its non-use) causes unemployment of both labour and capital. Capital, however, does not demand higher interest on the threat of withdrawal—and this is because the monopoly element is absent; withhold the use of any capital and the gap will soon be filled by eager entrepreneurs.

Professor Drucker, however, dismisses the idea of the inevitability of unemployment for a quite different reason. He considers that there will be a fall in population and consequently a smaller demand for employment and more jobs to go round. A new version of the wage fund theory? The same reason (the fall in population) is advanced to explode another myth—that consumer demand for cars and for houses can be stimulated so as to revive the economy; it cannot, he says, because the demand (population) will not be there to be stimulated.

But if the population is lower, and consequently demand is lower, won't this cause unemployment? If so, we have a falling population both counteracting unemployment and increasing it at the same time!

Another American economist does much better when taking English economists to task. Professor H. G. Johnson writing in *The Banker*—a U.K. publication—says that English economics has become a "synonym for incompetence, invincible ignorance of the rudiments of economic logic, and wilful disregard of the work of competent economists in other countries." Alas it's true, and Professor Johnson shows it to be true while taking a well deserved swipe at the mathematical economists "whose work is irrelevant to social and economic reality. . . . "

British establishment economics can be summarised, says Professor Johnson, "in five main interrelated propositions, all of them connected with the career and writings of John Maynard Keynes—by which is meant, not what Keynes actually wrote and thought, but what Keynes is believed or construed to have thought (or would have thought if he had understood his own theory) by his modern-day successors, who do not feel it necessary to read him to understand and propound him."

The first of these propositions is that the main tradition of scientific economics is mere "orthodoxy" and as such to be despised and dismissed by clever economists.

Professor Johnson gives examples, but I would simply refer the reader to the maddening economic propositions that have been put into practice by politicians in the last few decades with their disastrous results. The proposition that in economics two plus two equals three or five, despite scientific evidence to the contrary, is put forward as advanced thinking, says the Professor.

This attitude towards economics fits in well with the climate of our times when the theatre, art, morality, history, education, etc., is not considered "fashionable" unless it debunks the orthodox just because it *is* orthodox. "Bright ideas are cheap to come by", says Professor Johnson, "but new knowledge is expensive to come by."

The second proposition, says the Professor, is that money does not matter and Keynes is stood on his head and represented as a proponent of inflation.

Whatever Keynes proposed regarding monetary inflation as a weapon against unemployment, and many would quarrel with him here, he never rejected the quantity theory of money and the present writer is conscious that Keynes wrote in 1923 the most damning indictment of monetary inflation that has ever been written: *"There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose."*

Criticism of Keynes as having a false answer to unemployment is one thing; putting him in the opposite camp to the monetarist is another. And using Keynes as a means of bolstering "modern" economic theory is even worse.

The third proposition that Professor Johnson deals

with is the notion that "full employment" is an "exclusive definition of social wellbeing," to be pursued at virtually any cost. And here, we have only to look at the political antics of the present government and of the trades unions to see what it has cost us so far.

The fourth proposition is that unions will act gratefully in return for the implementation of "full employment" policies and refrain from following their own self-interest. Thus "incomes policy becomes Keynesian" and the key to all our problems.

The final proposition is that faster economic growth is the panacea for all Britain's economic ills and that this can be achieved "by a combination of inflationary demand-management policies and politically appealing fiscal gimickery."

All this is justifiable criticism of British economics, but sadly, while it beckons us back from the wrong road to the crossroads, it leaves us there with more fruitful roads unexplored.