



Modern Mythology

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"Not all harmful economic fallacies are forced on an unwilling populace by the politicians. Some are embraced and propounded by the very people who will be their victims."

THE decline in Britain's power and prestige since the first world war, and the loss of the Empire since the second, has combined with a dramatic increase in the role of government to shatter many of the political myths of fifty, or even fewer, years ago, and to replace them with new myths. From a concentration on world affairs and foreign policy, Britain has adopted an almost obsessive pre-occupation with economic problems, especially that of the balance of payments.

Little wonder, then, that the prevailing myths of today are economic, and that the value of the pound has become a national symbol. When Edmund Burke wrote, in *Reflections on the French Revolution*, "But the age of chivalry is gone. That of sophisters, economists, and calculators has succeeded," he could hardly have foreseen the extent to which the age of economists would succeed, or the change in conventional beliefs that would accompany it.

The almost fanatical attachment to the value of the pound seems strange in a country rapidly losing its faith in any form of religion. It is the more strange when one compares the value of much of Christian morality in our dealings with each other to the great variety of hardships imposed in the name of "defending the pound" or "solving the balance of payments problem".

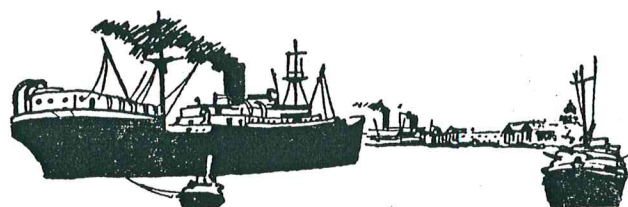
The hardships that can be imposed on society in the name of economics makes it all the more appropriate that a book should be published, devoted to exposing the fallacies in a number of popular beliefs.* As Dr. Mishan, a Reader in Economics at the London School of Economics, writes in his introduction, the book's purpose is to "expose the politically conscious citizen to the shock treatment of discovering that much of what passes for economic truism is in fact fallacious." His success is clearer in some areas than in others, but overall the book is a useful weapon against many of the harmful ideas propounded by politicians and economists.

Some widely disseminated economic fallacies, of course, owe their existence to the humanitarian feelings (some would say political self-interest) of the politician. What more obvious response to the high rents resulting from a housing shortage than to impose rent controls to stop the landlord "exploiting" the tenant? And what

more obvious result of fifty years of rent control than the slums of Glasgow (and every other major city); the one third of Scotland's housing judged unfit in the Cullingworth Report; and the homeless families in London?

Even surrounded by these monuments to failure, many people (including the Labour Party) advocate extension of rent control, and it is to these that the first chapter of Dr. Mishan's book is directed. The effects of control are discussed and the results shown to be socially undesirable; landlords, as a group, are made to subsidise a large proportion of the community's tenants, mobility of labour is reduced, existing rent-controlled property rapidly deteriorates, and private investment in working class housing is discouraged.

The solution is clearly to give help to those in need; to subsidise people and not houses. Yet, as Dr. Mishan notes elsewhere, the state is prevented from employing selectivity by the opposition of many socialists and trade unionists, "the very group that should be in the forefront of any movement to bring about a redistribution of the national output in favour of the poor and the incapacitated."



Not all harmful economic fallacies are forced on an unwilling populace by the politicians. Some are embraced and propounded by the very people who will be their victims. Examples are most frequently found in the area of international trade, and Dr. Mishan devotes a whole section of his book to them.

The continuing balance of payments crisis and the need to "solve it", exhortations to work harder (and all the paraphernalia of the "Back Britain" movement), invocations of the "Dunkirk Spirit"—all are stock in trade to the politicians of all parties, and are echoed by the bulk of the population. The few who suggest that a floating pound would avoid the problems—and their painful solutions—are dismissed as impractical.

It is claimed that the uncertainty that floating

**Twenty-one Popular Economic Fallacies* by E. J. Mishan. Allen Lane The Penguin Press, 35s. 0d.



exchange rates would introduce, would hinder international trade, although this difficulty does not seem to afflict businessmen when they deal in the world commodity markets. The possibility of a future market is ignored as in previous experience (such as Britain in the early thirties. Canada in the fifties, and, recently, West Germany.)

Dr. Mishan adds his voice on the side of freeing the exchange rates. In articles covering the threat of American domination, pressure on the pound, strengthening sterling, and the need for a large home market, he attacks many of the misconceptions that surround discussions of our foreign trade, ending with some words of warning concerning entry into the Common Market: "No good argument has yet been invoked to support the view that a larger, integrated trading area must necessarily increase business efficiency. Nor . . . is there any justification, economic or historical, for the belief that closer economic contact with a European Union will tend to stimulate growth in our economy."

The desirability of growth is itself one of the unchallenged assumptions in Britain today: unchallenged, that is, except by Peter Simple at one end of the spectrum and the hippies and drop-outs at the other. Thus Dr. Mishan draws attention to some of the undesirable side effects of economic progress and the failure of the present economic system to take indirect costs into account.

Pollution of the environment is gaining increasing attention as a result of such disasters as the discharge of chemical waste into the Rhine and the wreck of the Torrey Canyon. The less obvious, but just as deadly, long-term effects of insecticides have been pointed out by Rachel Carson in *Silent Spring*, while the effects of petrol exhaust fumes have provoked a bill in the California Senate seeking to ban the internal combustion engine from the state. Even the effects of noise are creating a reaction, as the planners of the third London airport have found.

Much of the argument in the sections on Business Fallacies and Fallacies about Economic Growth centres on these "hidden costs" of production. As Dr. Mishan puts it: "There is, among other interesting by-products of economic activity, a continuing growth of smog and air pollution: of effluent in rivers, lakes and seas; of

noise from ground traffic, air traffic, lawn mowers and diesel saws; of congestion in the towns and cities; of visual disturbances and uglification; of radioactive poisoning from nuclear fission, and from the disposal of the waste products of atomic energy plants—all having far reaching ecological effects on animal and plant life . . . If these "bads", or negative goods, were properly evaluated and entered annually into the estimates of 'real' national income, it might well disclose a prolonged decline of economic growth over the years."

The suggestion that industry should be required to compensate all those who suffer as a result of its activity, thereby paying the "real" cost of production, is one that will appeal to all concerned with the quality of life, although there would clearly be difficulties in its implementation, and, of course, tremendous opposition from many quarters, not least from industry itself.

As Dr. Mishan, himself, says: "I do not imagine the task of persuading the public not to worry about brain drains and the like will be easy. Current economic myths appear to be able to weather the facts of economic life remarkably well." No doubt many of the myths of today will still be with us in years to come, but for those who wish to understand the reality behind them, this book is well worth reading.