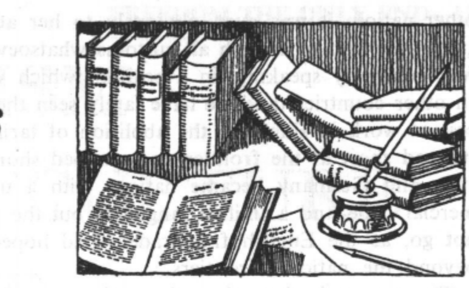
BOOK REVIEW

Fun With Economics



By E. P. MIDDLETON

ECONOMICS FOR PLEASURE by G. L. S. Shackle. (C.U.P. 1959. Paperback edition 1962. 12s 6d.)

IN A foreword to this book, the author, after saying how important a study of economics is for business and professional people, goes on to invite a wider public, suggesting that the subject can be read for enjoyment. But he admits that most people are put off by the "brain-teasing study of diagrams and equations;" so he has, he says, written his book "utterly free of such apparatus," and it can therefore be read for pleasure.

After ploughing steadily through its 258 pages, I can testify that I did so with about as much pleasure as I would get from a similar conscientious study of a railway timetable or the Government's *Abstract of Statistics*. As for the claim that it is free from diagrams and equations, this is certainly true, but what a price one pays for their absence! The whole book is an exercise to test the mental agility of a skilled mathematician. And to what purpose? None, as far as I can see, that has not been better done by dozens of other writers with a less scintillatingly complex presentation of argument.

The book purports to offer a plan of study of the whole field of economics, neatly chopped up into the following categories: Value, Production, Income, Distribution, Employment, Finance, Government and Trade, in that order — the haphazard arrangement of which reflects the modern economist's superficial approach to the subject. It is, thus, no surprise to read this in the opening paragraph of Chapter 1:

"Hatred, ridicule and contempt, it might be said without much exaggeration, are the lot of the economist, for he is the exponent of what used to be called the dismal science, that is still regarded as dismal *if no longer a science*. And dismal, in a sense, it is, since it deals with scarcity, with not being able to have as much of things as we should like."

Taking scarcity as his theme, then, Professor Shackle sets out to show that, since there can never be enough of everything for all of us, we have to make the best of it and choose, within the limits of availability, in a world where the system of distribution is a fixed pattern only modified by the government's accepted responsibility to attempt some re-distribution of the "national income" for the benefit of the poor and needy.

"Economics as a systematic study," he says, "dates from the middle of the eighteenth century. Amongst the problems which engrossed the early economists, distribution of income was pre-eminent. To them it appeared obvious that the nation was composed of unmistakable classes—labourers, landowners and those who owned and directed firms of which the chief tangible sign was a stock of equipment. The question was, how did the whole produce that resulted from the bringing together of land, labourers and equipment come to be shared out in certain proportions amongst those classes of owners of these means of production? No real answer was given to this question until, late in the nineteenth century, the modern theory of value showed that prices, costs, outputs and incomes are all explained and accounted for together by one and the same unified body of principles, which nowadays we call the "theory of value and distribution." Which shows how far we have got in a hundred years.

For Professor Shackle there are still three "old-fashioned" factors in production — land, labour and capital — enjoying their proper proportions of the distribution of wealth. Not for him to question the effects of a system whereby rent is funnelled off as a special premium for a privileged section of society, making nonsense of all economic theory which fails to take this into account. "Why then," he asks, "should it be necessary for anyone to pay anything for the use of land?" (which he has just defined as the economic term for all the resources of nature). His answer? "The reason is that, through a natural and universal human instinct tending to preserve the individual, the family and the race, land has been appropriated and cannot legally be used except with the consent of the owners." And he leaves it at that. His not to reason why. Mind you, he has read his Ricardo. "Ricardo was right in essentials, but the interpretation he put upon his own correct description of how the rent phenomenon works was mistaken" — because "writing in the years immediately after Waterloo, he thought that it was the existence of different grades of land that accounted for rent."

But, lest it be feared that the professor is not aware that there are moral and political overtones to this question of the recipients of rent, this is his concluding paragraph to the chapter on the subject:

"The idea of rent is only important from the point of view of the economy as a whole. If those who have political power declare the receipt of rent to be unjust, they can impose a tax on this form of income, and by the nature of rent those who receive this income will not be able to escape the tax. For rent does not help to keep any factor of production in existence. In so far as the landlord's income is payment for use of facilities he himself maintains in existence, the farm buildings, the drainage of the fields, the shelter provided by belts of trees, it is *not* rent. Tax that income away, and he will let the farm buildings fall into ruin, the drains silt up, the trees be cut down and sold. Rent is linked only with the gifts of nature." Ah — "But," he says, "let us disclaim any intention of putting landowners in a pillory. To own land and to receive rent for it is no more unnatural than to be a portrait painter of outstanding skill who can charge his clients £1,000 for his painting of them." You've heard that one before, of course. We come thus "naturally" to the term "rent of ability."

Ladies and gentlemen, I thank you. Let us now turn to the subject of profit, which he proceeds to discuss in a chapter beginning with a learned dissection of Marshall's theory of profit — a profitless exercise which may be skipped without loss.

The book is well larded, as you would imagine, with Keynesian concepts and references to Swedish schools and Austrian schools. Needless to add, the name of Henry George is nowhere mentioned.

As an example of the good professor's ability to look things in the face without turning a hair, one may take his chapter on "Taxes". "What ought we to require of a system of taxes; what test can be applied to find the best system?" And he obliges with the answer: "It can plausibly be maintained that a tax system should not discourage people from producing . . . Secondly (here follows a spate of verbiage which boils down to "the least costly to collect"). Thirdly, a tax system ought to rest as lightly as possible on those who suffer most from it. Finally . . . it ought to be, in some reasonable practical sense, "fair" . . .

In the chapter on "Deficits" (in the section entitled "Government") the author comes pretty close to pronouncing a judgment. Discussing "deficit spending," he says: "Debasement of the coinage was obviously wrong, but deficit spending by the government *in times of already full employment* is less readily stigmatised as wrong, perhaps because it is more subtle and its true nature more difficult to understand. A piece of paper, worthless in itself, does not lend itself to the practice of governmental robbery by the substitution of another piece of paper, also worthless in itself. But the worthlessness of the paper material of a banknote, or of the ink of an entry in the ledger of a bank, is of course beside the point. It does not justify a government in so behaving that the quantity of real goods which this banknote or book entry can purchase is halved or reduced to a fraction of what it was . . . Inflation destroys the basis and meaning of the market mechanism, renders prices illusory, robs some for the profit of others, and enables a few men to live richly on untaxed "capital gains," which are the very fruit of the inflationary process, while the pay of others for hard work sinks even lower in real terms." Yet, after defining inflation in this correct and unequivocal fashion, he can still, only a few pages later, talk of the "price, wages, price, inflationary spiral!" And this is the summing up of the chapter: "The practical problem for the government is to manage its own Budget so that aggregate effective demand just maintains full employment, *in a reasonable sense of the word 'full'*, without pressing prices upward. Economic theory alone, however, cannot tell us whether there is even a hair-line between unemployment and inflation, or whether we have to have some degree of inflation to avoid unemployment, or else of unemployment in order to avoid inflation."

On the subject of "Debt," the professor accepts stoically the right of governments to raise debts, and, equally stoically, the inevitable raising of the National Debt. And here, at any rate, the seeker after pleasure in economics may have his reward — albeit the laughter will be a trifle hollow: "The whole operation we have outlined," he says, "by which the government increases the economy's total stock of money and then borrows some of this money and spends it on schemes of equipment-building such as road construction, nuclear power-station development and so on, is precisely what would be appropriate in time of business 'depression' and serious general unemployment." The belly laugh comes in the last paragraph of this chapter: "A large internal national debt is like the scar of an old wound. That wound, when it was suffered, may have lost the nation some of its blood and strength; but the scar itself is of little consequence." Depending, of course, on whether you were a sufferer of a beneficiary.

On the credit side of this account it is possible to enter a couple of items that amount, more or less, to positive statements of opinion. Professor Shackle tells the reader who is committed to the proposition that, "the government is in the position of a guardian who knows what is best for everybody, and should control the economy in detail so as to give everybody what, in its opinion, is best for him" that "this book is not for him." On the other hand, he commits himself to this proposition: "That the government has the responsibility for keeping aggregate effective demand optimately related to available total quantities of the various means of production." Which is as good an example as I could find of his involuted style, as well as of his involuted economics.

The other item is his word on tariffs. He admits that tariffs disrupt international trade, though he is inclined to the idea that "protective tariffs are sometimes justified" — to protect "infant" industries, of course; though even he has the honesty to wonder whether the tariff, once applied, "will ever be removed." This, however, is his final word on the subject: "The theory of international trade studies the principles on which men make the best of a bad job, namely the circumstance that pools of productive resources are isolated from each other by natural barriers and man-made frontiers, and cannot therefore be combined in the ideally best proportions. Tariffs are a means of making a bad job worse. Most existing tariffs are the result of a failure of understanding or an insufficiency of vision or, at any rate, of a failure of nations to co-operate in a sufficiently daring mood of enlightened self-interest."