



Interpreting the Economists

IN presenting evidence before the Senate Committee of the Canadian Parliament on "Manpower and Employment" last year, a witness, discussing remedies for unemployment proposed by economists, threw doubt on their right to be taken seriously in view of the wide area of disagreement between them, exposed by a comparison of their published works. The witness was Mr. Harry Pollard, Director of Studies, School of Economic Science, Toronto.

ECONOMIC TERMINOLOGY

AN enquiry into unemployment inevitably draws attention to the science which concerns itself with this phenomenon. Economics, under the scrutiny of the layman, exposes to view only the manifold disagreement among its experts.

The reason for academic conflict is not difficult to discover. It is the result of the confused and confusing terminology used in the science. Any discipline necessarily must be based on *clear* and *consistent* definitions of terms. Such precision is not to be found in the study of economics.

One is led to the conclusion that little progress will be made in the solution of economic problems until first there is a solution to the problems of economics.

A first requirement to this primary solution is that there be an agreement as to terminology. Economists in conference are frequently speaking different languages. Economic writers use technical terms with a careless rapture which should dismay a serious student of the science. Certainly, the chaotic procedures are unlikely to distil confidence in the conclusions of the economists.

An analysis of economic definitions was made by E. C. Harwood in his book "Useful Economics" (American Institute for Economic Research: 1956).

He took a representative selection of economic text-books and examined the basic definitions therein. The 12 text-books were published between 1948 and 1954, and are used at: Virginia University, Carnegie Institute of Technology, Illinois University, Pennsylvania State College, Yale University, Dartmouth College, Pittsburgh University, Iowa State College, Wisconsin University, Linfield College, Michigan University, University College (London), New York University, Wabash College, Temple University, Northwestern University, and many others.

The following quotations are taken from Mr. Harwood's analysis:

"For example, in half the exhibits we find no attempt to use the word 'wealth' precisely as the label for anything . . .

"Of the six writers who make no attempt to indicate

a precise application for the label 'wealth,' four do use the term in an offhand way as though the reader must surely know what the authors intend to specify and of the other two one uses the term once, casually, and the other apparently does not use the word 'wealth' at all.

"Now there is nothing strange about the removal of particular terms from scientific discourse . . . However it is strange for technical terms to be discarded from a science without general agreement among the experts in that science on the adoption of new terms . . ."

Mr. Harwood refers to the attempts at definition by the other six writers. One includes land in his definition of wealth and two others define in such a general way that land *and* labour are included within the term.

The attitudes of modern economists can be summed up in the prize definition of wealth used in a text-book aimed at high school level where wealth is defined as "anything material, useful, that can be owned." This does not yet include the moon, but it does include pretty nearly everything else.

A widely used book for beginning students at the University of Toronto is "An Introduction to Political Economy" (by V. W. Bladen, University of Toronto Press: 1956). This book makes no adequate definition of wealth or any other term, yet a page is spent to describe "ilth" (bad wealth such as munitions!). It is an understatement to say that this is not conducive to the easy study of a subject which is admittedly complex.

Better procedure is to be found in Professor Currie's work "Canadian Economic Development" (Thomas Nelson: 1956) where in the introduction he takes time to give the economic definitions of *Land*, *Labour* and *Capital* — the classical factors of production.

Mr. Harwood continues his analysis with a discussion on the term "labour":

"In three of the exhibits the authors use neither 'labour' nor any other name to specify the human effort applied in processing things, although there is much discussion of labour problems. And in five others, although the word 'labour' is casually used, not even an approach to accurate specification is attempted."

The School of Economic Science uses the classical factors of production: *Land*, *Labour* and *Capital*. The term *Wealth* is used to describe the product of these factors.

Capital is defined simply as *Wealth* used to produce more *Wealth*. This is completely adequate and is not hedged by restriction or qualification.

The modern economist is apparently wary of the danger of precision. B. S. Keirstead is almost apologetic for "narrowing" his concept of capital "so severely that we exclude land, dwelling houses and all forms of durable consumers' goods" in his excellent book "Capital, Interest and Profits" (Macmillan: 1959). He reassures us, however, by pointing out that for more general analysis "more universal concepts would be appropriate." This apparently means less precise but more malleable concepts such as are used by Dodd and Hasek in "Economics: Principles and Applications" (South-Western Pub. Co.: 1948).

These authors — answering their own question "Is land *Capital*?" — indicate that land may or may not be *Capital* depending on the usage of that label. This is a remarkable demonstration of the inadequacy of the modern economics text-book.

No fault can be found in the definition of *Labour* given by the same authors. "By labour we mean effort directed to the creation of utility. This concept does not require that any distinction be made between physical and mental effort."

This clear statement is muddled just four pages later by a discussion of someone who brings together the factors of production and "organises" them. This new factor "the entrepreneur" organises the factors without "physical and mental effort," one must presume, and is therefore not included within the definition of *labour*.

To observe mental agility and evasive action of the highest order one has only to ask an economist to separate the entrepreneur from *Labour*.

INFLUENCE OF KEYNES

Perhaps the greatest impact on political and economic theory in modern times was made by J. M. Keynes with his "General Theory of Employment, Interest and Money" (Macmillan: 1957). This book — originally published in 1936 — has been described by Professor Samuelson as "arrogant, bad tempered, polemical . . . It abounds with mares' nests and confusions . . . It short, it is a work of genius."

Keynes does not use *Capital* as defined above, but does use two terms meaning the same thing. These are "saving" and "investment" which — he says — are "merely different aspects of the same thing." The core of his argument which involves such unproven assumptions as "the multiplier" depends on the separation of "saving" and "investment."

To separate something from itself is truly the action of

a genius. Much of Keynes' work is dubious hypothesis, but it has somehow achieved an authority based on its constant repetition. Many of the recommendations placed before the Senate Committee have for their basis an acceptance of Keynesian doctrine *as if it were true*.

Had Keynes used the classical definitions in his major work, he could have avoided confusion and saved countless students from unrewarding toil. It is an indication of the stature of the work that *Land* is not defined; *Labour* is not defined; and that although "Capital, marginal efficiency of . . ." and "Capital schedule of marginal efficiency of . . ." are defined, there is no definition of *Capital*.

This is hardly a complete analysis of modern economic theory, but it does serve to underline the failure to define fundamental concepts adequately. This failure, it is submitted, is responsible for many of the peculiar paths into which we are led by the contemporary economist.



UNAMBIGUOUS ECONOMIC DEFINITIONS

Political Economy: The science of the production and distribution of wealth.

Production: All processes carried on from the extraction or adaptation of raw materials to the finished product. (Note: Production of an article ceases only when it is in the hands of the consumer.)

Wealth: Any material thing produced by human labour so as to fit it for the satisfaction of human desires.

Land: All the material universe outside of man and his products.

Labour: All human exertion, mental or physical, directed towards the production of wealth.

Capital: Both wealth used in the production of more wealth and wealth in the course of production.

Wealth is distributed as:

Rent: The share of wealth that is attributable to the superiority of any piece of land over marginal land.

Wages: The share of wealth that is the return for labour.

Interest: The share of wealth that is the return for the use of capital in production.

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