Politically Impossible . . . ?

AN ESSAY ON THE SUPPOSED ELECTORAL OBSTACLES IMPEDING THE TRANSLATION OF ECONOMIC ANALYSIS INTO POLICY

or

WHY POLITICIANS DO NOT TAKE ECONOMIC ADVICE

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Preface

FOR OVER a decade the Institute has conceived studies of subjects it considered had been overlooked, or on which there was an imbalance of research and writing, commissioned the best available economists to work on them, and published their work in lengths varying from short papers to full-length books. It has often been asked to show how the policies emerging from these economic analyses could be put into practice, and why some had seemed to influence thinking in business and government while others seem to have been ignored.

The reply is strictly threefold. First, there is, and should be, division of labour between the economist who analyses, the politician who judges, and the administrator who implements. Second, the economist is not equipped, and he has no authority, to judge which of his conclusions are 'politically practicable' (or 'administratively feasible'). Third, if he allowed himself to be influenced by such considerations he would risk pre-judging the relevance or efficacy of his prescriptions and, worse, avoid pursuing his analysis on lines that are considered, rightly or wrongly, 'politically impossible' (or 'administratively impracticable').

The Institute has therefore no intention of venturing beyond severe economic analysis into judgments on political acceptability or administrative feasibility. Its constitution as a charitable trust would in any case preclude it from such a close concern with public policy.

What is within the competence and relevance of economists is to consider why economic prescription is adopted in some circumstances and neglected in others, why economists are heeded or ignored, why economic advice is fruitful and why it is abortive. How important are the possibly wide range of influences that bear on the formation of policy: from ideas to financial interest, with expediency, fashion, even personalia and others between the extremes? The circumstances influencing or deciding the translation of analysis into action will be the object of a new series, named after the best-known Institute Papers, the *Hobart Paperbacks*. The length will typically be between that of a *Paper* and a book, and the authors will be concerned, strictly as economists, with the interplay between ideas and policies.

The *Hobart Paperbacks* are intended to extend into political economy the economic analyses of the *Hobart Papers*. They will aim to maintain the authority, independence and lucidity for which the *Hobart Papers* have established a well-earned repute. Their authors are chosen for their optimum combination of these qualities. They will be asked to write unambiguously, not to avoid 'difficult' issues, and to be unremitting in pursuing their analyses and thinking to their conclusions.

The new series reflects two further tendencies in opinion among economists which have varied from period to period. The late Professor A C Pigou taught that the object of any inquiry 'may be either light or fruit, either knowledge for its own sake or of knowledge for the sake of good things to which it leads . . .

'In the sciences of human society be their appeal as bearers of light never so high, it is the promise of fruit and not of light that chiefly merits our regard.' The English classical economists were regarded as concerned not with 'economics' but with 'political economy'. They were interested in the politically decided legal and institutional framework of society as well as with the economic relationships conducted within it. Hence the concern of the old economists, from Adam Smith to John Stuart Mill and beyond, with the scope for individual activity in the national economy. In the last third of the 19th century, roughly from Stanley Jevons onwards, through Alfred Marshall and Edwin Cannan, economics was regarded as austerely confined to economic relationships. A more recent school of economic thinking, originating amongst some young American economists, J M Buchanan, Gordon Tullock, Anthony Downs and others, has applied economic analysis to the operation of political institutions, studying politicians as entrepreneurs aiming to maximize returns in votes from their allocation of resources among competing electoral claims. The new political economy thus studies the economic system as a bi-cameral mechanism responding to the citizen as consumer in the market and as elector in the polling booth.

These are the broad spheres of study that the *Hobart Paperbacks* will seek to illuminate and illustrate, in terms of their significance for the British economy in general, and also for government and industry in particular. The first *Hobart Paperback* is a discussion of the fundamental relationship between the evolution of economic ideas and their translation into policy. What makes some economic thinking 'politically possible' and other not?

This is the subject which Professor W H Hutt, a South African who spent most of his life teaching in Cape Town and now writes in the USA, discusses with examples from Britain, America and South Africa. Professor Hutt has often been right during the past 40 years on many fundamental issues: labour, money, economic planning and others. He is too modest to say that he has been belatedly acknowledged long after a piece of writing considered at the time to be unacceptably heterodox or unrealistic. His *Theory of Collective Bargaining* contained in 1930 truths about the power of trade unions too little acknowledged until recent years. His *Economists and the Public*, 1936, told truths long before their time. His *Plan for Reconstruction*, 1943, indicated a way of liberalizing a centrally-directed economy by easing out the interests that had become entrenched in it. His thinking on Keynesian thought in *The Theory of Idle Resources*, 1939, has recently been acclaimed by Professor Axel Leijonhufvud as a *locus classicus* on a central weakness in Keynesianism.[1]

Professor Hutt develops the original suggestion that, since economists should not think or act like politicians but should not preclude their judgment from being heeded by politicians, they should present their conclusions and advice in two stages. The former in its undiluted form should be the best that economics can teach, the latter in the 'second best' form diluted by political judgment. It could then be seen that the failure to act on economic advice is that of the politicians, who may sacrifice the best that economics can teach by misjudgment of what is 'politically possible'.

It may be that this assessment of an absorbing review of economic thinking, economists' advice and politics since the 1930s will also be regarded as coming long before its time. Whatever Professor Hutt writes is the work of an independent scholar, uninhibited by apprehensions about whether his opinion will be found palatable

[1] *Keynes and the Classics*, Occasional Paper 30, IEA, 1969.

or not. His new work should begin a new argument among economists on the form in which they should make their judgments to those who could profit from them. Whether he is heeded in the short run or the long run, his work will have been vindicated.

The Institute wishes to thank Professor G C Allen, Emeritus Professor of Political Economy, University of London, and Professor A A Shenfield, Visiting Professor of Economics, Rockford College, Illinois, for observations on an early draft that Professor Hutt has borne in mind in his final revisions. The constitution of the Institute requires it to dissociate its trustees, directors and advisers from the analyses and conclusions of its authors, but it offers Professor Hutt's essay as an original examination of the avoidable political frustration that often confounds the contribution economists can make to policy.

May 1971 EDITOR

The Author

W H Hutt was born in London in 1899 and after First World War service in the RFC and RAF as a pilot (1917–19), studied at the London School of Economics, where he took the B Com degree. After four years in publishing, he joined the University of Cape Town in February 1928 as Senior Lecturer. In 1931 he was appointed Professor and Dean of the Faculty of Commerce, and later also Director of the Graduate School of Business, which he inaugurated. He was elected Professor Emeritus in 1965.

Visiting Professor of Economics, University of Virginia, 1966; subsequent appointments at Rockford College, Wabash College, Texas A and M University and the Hoover Institution on War, Revolution and Peace, Stanford University (as visiting Research Fellow). From September 1970 Distinguished Visiting Professor of Economics, California State College.

Professor Hutt has published numerous articles and several books, including *The Theory of Collective Bargaining* (1930, re-published in the USA 1954), *Economists and the Public* (1936), *The Theory of Idle Resources* (1939), *Plan for Reconstruction* (1943), *Keynesianism – Retrospect and Prospect* (1963), *The Economics of the Colour Bar* (1964).

Author's Note

I RECENTLY told a leading American economist that I was writing an essay on the concept of 'the politically impossible'. He at once suggested a definition of the notion: 'All the reforms which would be really worth while undertaking.'

His reaction was not entirely facetious. It reflects, I think, a frustration felt by many. If wise changes are indeed ruled out by 'politics' it is a damning criticism of the contemporary working of democracy. The problem is one of the most serious confronting the inheritors of western civilization today. In this essay I try to reveal some of the roots of the 'impossibility' which we so often hear alleged.

My thinking on this subject has been directly influenced by Morley's classic, *On Compromise*, and two important articles by Professors Clarence Philbrook and Helmut Schoeck. Two recent works by Professor T W Hutchison have also greatly assisted me. I am grateful to Messrs Arthur Seldon and Ralph Harris of the IEA not only for criticism and ideas but for editorial assistance which has improved my exposition.

I have written this contribution while a Visiting Research Fellow at the Hoover Institution, Stanford University, and while occupying the post of Distinguished Visiting Professor of Economics at California State College at Hayward. I am indebted also to the Relm Foundation and the Principles of Freedom Committee for financial assistance and encouragement.

March 1971 WHH
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I. Theory: The Dilemma

If we accept a popular definition of 'politics', namely, 'the art of the possible', the words 'politically impossible' seem to imply a rather absurd contradiction.[1] Nevertheless, when someone says, 'The ideas you advance are sound enough, but any attempt to give them practical content would fail hopelessly, for reasons of which all politicians are only too well aware,' we know roughly what is meant. The speaker implies that candidates for election, and the party organizations through which they work, will refuse to have anything to do with suggestions they feel are first not *currently* acceptable among their traditional or potential supporters, or, second, incapable of being put into an *easily* acceptable form.

The purpose of representative government is to ensure the rejection of policies of which 'the people' (or those enfranchised) disapprove. A plan may be 'politically impossible', simply because of its demerits, which voters are expected to recognize. But it is often said to be 'impossible' to enlighten electorates on policies which, it is implied, would be profoundly for their benefit. The notion then is that it would be absurd to make the attempt. It is with these circumstances that the present essay is to deal. A policy may be economically wise, sociologically beneficial, morally desirable, fiscally feasible and organizationally practicable yet supposedly be incapable of statement in an electorate-satisfying manner.

In examining the implications of a situation so imagined, I shall be more particularly concerned with the frequent form in which the concept of 'political impossibility' appears, as a reason for the rejection of the kinds of policies that economists are inclined to recommend. 'That may be *economically* practicable,' one is apt to be told, 'but it is *politically* out of the question.' At times, words like 'as things are' are added, to mitigate the apparent dogmatism. The problem arises when the economist steps out of his role of pure theorist into that of an 'adviser' on policy. It is then that he is apt to be charged with 'lack of realism' if, in the words of Professor Clarence Philbrook, his recommendations are alleged to require 'for their fulfillment changes in things which must, for the purpose at hand, be treated as unchangeable.' Professor Philbrook continues: '. . . of course the economist, to give useful advice to society, must regard various things as in a significant sense beyond our power to alter.'[2] The crucial words here are, I think, 'for the purpose at hand'.

A policy may be 'politically impossible' because it is unconstitutional.[3] But the possibility may be affected also by the conditions of the franchise and electoral arrangements generally. There have been several studies of recent years in which attempts have been made to determine how constitutional restraints and voting procedures influence voters' choice.[4] This essay is only very indirectly relevant to these important studies. The reforms suggested may have more chance of success under some electoral arrangements than under others. The issue to be discussed here is the kind of proposal said to be 'impossible' because of the attitudes of voters, although otherwise it is regarded as good. I shall be questioning whether, under *any* sort of electoral procedures, a proposal which is ultimately for the benefit of 'the masses' can ever be held to be 'impossible' because they cannot be made to perceive their true interest.

The 'impossibility' of a suggested reform may be due primarily to its unacceptability among the people who finance a political party, allegedly the trade unions in Britain or 'big business' in the USA, rather than to its unpopularity with the electorate. In that event, it might be thought more likely to be popular with a rival party. But this possibility must not be given too much weight. As we shall see, *there are powerful forces today tending to cause opposed parties to adopt similar policies*.

All that can be said is that the *degree* of 'possibility' of proposals may vary according to the party in power or the party expected to support them. We may, for instance, assume that the Conservative Party and the Labour Party in Britain are sympathetic with and financed by different sectional interests, in return for openly-made or privately-made pledges. This link will obviously affect the kinds of policies likely to be suggested to them. A plan which might seem out of the question under a Conservative Government might be deemed to be a 'possibility' under a Labour Government and vice versa. Sometimes sectional rather than party considerations are important and the chances of a proposal going through will be dependent chiefly upon the practicability of 'lobbying' or 'log-rolling'. In other circumstances legislative changes (whether or not 'in the public interest') which would otherwise appear 'politically impossible' may be put through via party coalitions.

A project may be held to be 'economically impossible' for political reasons. This will be the position when, although ostensibly welcome as part of a party's policy, it is incompatible with other objectives which are explicitly judged (by the economist adviser) to stand higher among the politicians' priorities. For instance, in my judgment, we may expect politicians today to accept in the same programme commitments

(*a*) to 'fight inflation',
(*b*) to work for 'full employment' and
(*c*) to defend the untrammelled right to exert strike-threat power in wage-rate determination.

But having accepted all three they are likely to decide that (*b*) and (*c*) are more important objectives from the standpoint of vote retention or acquisition and hence we may expect ambitious or subservient economists to insist that (*b*) and (*c*) must be accorded 'a higher social priority', or words to that effect. Of course, as Professor T W Hutchison has said,

> 'pressures on the party political authorities are very great to avoid commitments to precise priorities involving a readiness to sacrifice some measure of one objective in return for more of another. . . . [Some] university economists, fearing perhaps a loss of influence with political patrons, seem to have fostered these utopian evasions, and to have followed the politicians in veiling in obscurities their marginal rates of substitution and estimates of the costs, in terms of other objectives, of a higher level of one particular objective.'[5]

The consequences have been 'rather disastrous', remarked Dr Graham Hallett in 1967.

> 'The Labour Government have employed more economists than any previous British government, yet few British governments

have produced in such a short time such contradictory and ill-considered economic policies . . . a mass of badly-drafted, inadequately thought-out provisions. . . .'[6]

The proposals so scathingly condemned were welcomed by the Government because, as promises, they appeared likely to be highly popular. But, as consequences, they seem to have contributed to the unpopularity of the party which embraced them and to the downfall in 1970 of the Labour Government.

On occasion perseverance with policies may become 'politically impossible' because, having been tried, they have been found apparently defective. This has relevance to a point to be emphasized later – that electorates tend to judge parties and governments by short-term results, which are sometimes, but not always, indications of long-run consequences.

The reader may feel I am placing too much weight on electoral opinion. 'Surely,' I may be told, 'it would often be more realistic to envisage outmoded but inflexible institutions as the real barriers to reform.' At times the most appropriate first approximation would be to put things that way. But when human institutions constitute the obstacle to recommended policy, the problem becomes that of reforming the institutions, and it is at that point that the political difficulty or 'impossibility' of winning the voters' acquiescence is encountered.

Economists, institutions and policy

What may be held to be 'institutionally possible' projects (i.e. feasible even on the explicit assumption that existing institutions are taken as unchangeable) will differ over space and from age to age. At times, certain economists can be said to have been at fault in their political judgments through their failing to envisage realistically how widely different the social frameworks of, say, communities emerging from a tribal past are from those of the western world. Professor Hutchison alleges that some economists have shown 'possibly a dangerous disregard of political values and processes . . . in the assumption that what is politically and administratively feasible in England will also prove to be so in West Africa or South America.'[7] Similarly, some economists might claim that, under the conditions of the 19th century, it was pragmatically wise to assume tacitly that the private use of coercive power in the form of the strike-threat was a fundamental democratic or human right. But if so, can they rightly make the same assumption for the latter part of the 20th century? Thus economists who were convinced that 'wage-push' was responsible for Britain's dilemma of depression or inflation in the 1930s (as it may be in 1971) yet failed to recommend steps to permit or force wage cuts, have been defended on the grounds that there was then no machinery in existence to bring about the required adjustments. But if the machinery was lacking at the time, their duty was to say so explicitly and to indicate the institutional changes needed.

This is one of the few issues on which I find myself differing from Professor Hutchison. Defending the attitude of Pigou in the 1920s and 1930s (below, pp. 57–8), he says that 'wage cuts and general wage policies were simply assumptions employed in highly abstract analysis, not a realistic policy possibility. There was then no machinery, and hardly any suggestion of machinery, for implementing general wage cuts.'[8] But I shall be suggesting that economists who perceived that wage cuts (especially market-selected[9] wage-cuts) could eliminate 'soul-destroying unemployment' and restore the wages flow ought to have indicated clearly the procedures or the machinery required, even if they added at the same time, as ordinary citizens with no more authority than anyone else, why they thought the electorate would reject the policy implied and why they thought it would be politically unwise therefore for any party to adopt it.

The civil service barrier to reform

A particular instance of an institutional barrier to the sort of reforms which many economists believe to be desirable is a civil service inflated through the adoption (beneficially or otherwise) of *dirigisme* and 'welfarism'. In the opinion of some economists, civil servants under contemporary conditions tend to have a built-in bias in favour of discretionary controls and against the co-ordination of the economic system through accountable entrepreneurial planning (i.e. under the social discipline of the loss-avoidance, profit-seeking sanctions). The prejudice in this case may indeed frequently be (unconsciously in the main) influenced by a sense of pecuniary interest: less government means fewer civil servants.

If that is true, it may be essential to allow for it in assessments of the vote-gathering function.

A quite different possibility is that of a 'conservative' bias in the civil service, particularly at the top, against the replacement of government by markets which may powerfully influence the acceptability of reform measures. As Dr Hallett has pointed out, this has been alleged in Britain. It is averred that senior civil servants have been 'as a result of their background and experience, conservatively inclined', while in the Treasury, particularly, they have exercised 'a powerful and rather sinister influence . . . giving the maintenance of Britain's position as an international banker priority over considerations of economic growth.'[10] But the bias of the younger civil servants in both Britain and the United States is more likely to reflect the current bias in the universities – strongly towards *dirigisme*. How serious an obstacle obstruction from this quarter could be to reforms in the spirit of 'classic liberalism' is not easy to assess.

Under representative government, then, electoral approval is the ultimate determinant of 'political possibility', and the major factor in this connection seems to be the sheer difficulty of *communicating* the true nature of a proposal – or a set of proposals, 'a platform' – to a sufficient number of voters. With better techniques or opportunities of communication, majorities might conceivably recognize the merits of a scheme which forms part of a programme. But, given existing techniques, inculcated ideologies and hardened stereotypes, they must be expected to reject it.

In imaginable cases, the main obstacle could be unscrupulous criticism expected from the candidate's opponents. The alleged 'impossibility' may be due to predicted opposition which will fail to deal with the issue on its merits but misrepresent both the objectives and the relevant facts. Certainly realistic fears of dishonest criticism have often seemed to be mainly responsible for the unwillingness of a party to espouse a good cause. Demagogic traditions can frustrate incentives for efforts at effective communication. The urge to strive for reform may be destroyed.

The psychological aspects of vote-winning, including the box of electioneering skills and tricks which have some resemblance to those of salesmanship in commercial marketing, are not the concern of this essay. But the possibilities of misrepresentation seem to be far larger in politics than in business. Because of the importance of continuity of transactions, the businessman, as Adam Smith said, 'would rather choose to lose what he has a right to, than give any suspicion of sharp practice'.[11] Also, as Schumpeter remarked, 'in the ordinary run of often repeated decisions the individual is subject to the salutary and rationalising influence of favorable and unfavorable experience.'[12] This does not mean that a politician's reputation for honesty and promise-keeping (or that of his party) is unimportant. But it is incomparably less potent a force in electioneering than is a good reputation in the commercial sphere. Every candidate will know that his success or defeat may depend upon some distortion, misrepresentation, exaggeration or downright falsehood on his own or on his opponent's part.[13]

Industrial and political marketing

In the market place, entrepreneurs contemplating the launching of a wholly new product may feel that investment in the project will be justified only if they can plan for an expensive campaign to make it known to potential consumers and to break down the consumption inertias of consumers who would benefit from the innovation and continue to use it if they tried it. Such advertising initiatives are often accompanied by costly 'promotional' schemes, special 'introductory' prices, free samples and so forth. Although superficially considered as 'persuasive' rather than 'informative', these devices are, as Professor Gordon Tullock has pointed out, 'all efforts to get information through'.[14] Electoral propaganda for novel proposals is often of exactly the same nature. But a product which does not come up to the claims made for it will not be re-purchased, whereas policies for which politicians may have made possibly extravagant claims, once adopted, cannot be so easily discarded. Moreover, when it comes to political propaganda, it seems that there can be nothing similar to the controls which may be applied to commercial advertising to discourage or prevent false claims. The voters' remedy (such as it is) when they feel they have been let down, rests only in the next following ballot.[15]

'Swing groups'

A 'politically strong' group may not necessarily be such by weight of numbers or because it constitutes a majority. It may be a 'swing group', courted by all parties. That is, there may be one or more groups of electors in a constituency each of which tends to vote as a *bloc* – either spontaneously or in response to leadership. And if, on a given platform or policy, the most likely result is a more or less equal division of votes among the candidates, it will be felt disastrous to offend such a group and beneficially decisive to win their confidence. In the United States, for instance, there are 'swing groups' in many constituencies of labour unionists, welfare beneficiaries, Negroes, Puerto Ricans, Jews, Italians, Catholics or Mormons, which can sometimes command a very high price (in promises) for their votes. This factor is not, of course, so important in a nation as a whole because the groups are dominant in different constituencies. But a swing group like the Negroes in the United States can possess a formidable power in Federal politics.

Referendum on individual policies

Unless the voter's preferences are consulted through a referendum, he is not asked to support some specific isolated reform. He is offered one *platform* or another, or perhaps several platforms to choose among. But one unpopular item in an otherwise acceptable programme may lead to its rejection. Naturally a candidate will try to keep silent on unpopular intentions of his party, but his opponents may, if they are alert, be able to force a declaration of undeclared objectives. Some important political changes have been possible only because they have been hidden in, say, a Bill dealing ostensibly with other things. But where changes achieved by such a method have occurred, either the Opposition can hardly have been alert or else they must have concurred in a hoodwinking of the electorate.

A sort of private referendum which can indicate the general state of preferences and assist the formulation of acceptable policies is the sample survey. The enquiries conducted by market researchers and opinion pollsters for the Institute of Economic Affairs in Britain in 1963, 1965 and 1970 to discover what people think about different forms of welfare services at alternative prices is an example of the sort of initiative which can and certainly ought to influence what is deemed to be 'politically possible'.[16]

'Unrealistic' economists, 'idealistic' politicians

Economists who make proposals which, superficially considered, appear unlikely to be taken up by any of the parties are sometimes subjected to gentle ridicule. And politicians who cling to alleged 'lost causes' or who press for reforms which cannot be turned into vote-winning issues are apt to suffer similar disparagement. Yet it is never absurd to attempt the difficult. What *is* foolish is to fail to assess the costs of the difficult in relation to the value and prospects of success. This precept is relevant even when the difficulty is due mainly to the fear that voting conduct is likely to be influenced by deception practised by rivals about the issues at stake.[17]

Unfortunately, the more serious falsehoods are often in the form of half-truths difficult to unmask for what they are, or innuendoes to challenge which may aggravate the harm intended. The effective exposure of a falsehood, when possible, can nevertheless be very damaging to the guilty party.

The costs of communication/information

Are there, then, truly *any* circumstances in which the exposure of political falsehoods is utterly impossible in the sense of being impossibly costly? And is it *ever* beyond the conceivable or the practicable to persuade an electorate to vote for a policy which would be in their interests?

Where effective communication with voters on a programme or an item in it is extremely costly, the risks of investment in a campaign to put it over may be formidable. A candidate who takes on such a campaign – perhaps investing his political future in it – is often described as 'politically courageous'. But his courage is similar to that of the wise risk-taker in business. He may be sensibly enterprising, and when he is successful his yield (which may not be pecuniary) may be enormous.

The politicians' judgment about the unpopularity of policies is, as Professor Schoeck has indicated, 'extremely susceptible to manipulation by opinion-makers: for instance, columnists. The pundits do not warn presidents and prime ministers to fear this or that; they simply write five columns about a new "political impossibility".'[18] Skilfully slanted questions in public opinion surveys may also assist in distorting the judgment of party advisers and candidates, although such surveys can, as I have said, play a positive role in disclosing the 'politically possible', especially if based on a knowledge of the costs of alternative policies. For the spokesmen of sectional interests to assert and stress that a proposal they dislike will lose an enormous number of votes to candidates who support it may be their most effective method of attack. Hence the origins of any 'political impossibility' may sometimes be traceable simply to its polemical asseveration. Thus, Professor Schoeck thinks that politicians in the United States 'have been made to believe', and talk and act 'as if 80 per cent of all voters hate big business and love strong labor unions',[19] although the truth is (he thinks) the reverse. Perhaps, he feels, it may all be 'just cultivated political timidity'.[20]

In their presentation of the opinion surveys referred to above, Harris and Seldon have argued with cogency that politicians of all parties in Britain have been misled by defective opinion polling into believing that 80 to 90 per cent of the British public approve of the welfare state and would not countenance private welfare services for which they paid in the market. This misconstruction has crystallized, they hold, through journalistic polemics and semi-scholarly writings in *The New Statesman, New Society, The Guardian* and *The Observer.* They maintain that the surveys conducted for the IEA show increasing preferences for welfare through the market. But their work and its inferences have been bitterly attacked in the journals, on broadcasting and elsewhere.

Political 'brands'

Some polemics seem to be aimed at the politicians rather than at the electorate directly. The object is more to influence opinion in the party hierarchies about what is electorally acceptable than to influence opinion among the voters themselves.

Often, a negligible proportion of the voters can be expected properly to understand very much about the issues. Hence real electoral choice must, perhaps, more frequently be between candidates whom voters regard as likely to be wise or honest and those whose wisdom or integrity they doubt. A party name may acquire a 'goodwill' similar to that which attaches to a trade mark or brand name. There are indeed many voters whose loyalty to the party name, no matter how much its policies may change, seems to be the only determinant of how they will vote. This phenomenon would probably prove to be very weak, however, if it were not for vote-buying pressures (p. 13) tending to force opposed political parties towards virtually identical programmes. 'Butskellism' and even

'MacWilsonism' have in Britain denoted the converging policies of the Conservative R A Butler and the Labour Gaitskell, of the Conservative Macmillan and the Labour Wilson. An American will vote Democrat because his father did and with all the enthusiasm he shows supporting his baseball team, but that is only because there is so little to choose between the parties. Republican eloquence and the content of the Republican platform are insufficient to create party disloyalty.

Electorates in practice rely heavily on the whole record of candidates and careful judgment of their character, taking on authority assurances about the soundness of policies advocated by candidates in whom they have faith. But candidates and their campaign managers are as expert in building up a spuriously favourable image as they are in stating the issues in a spuriously convincing manner. Fortunately, there is usually considerable healthy scepticism among voters. Voters tend to judge candidates and parties as union members judge their elected officials – by results, *but by short-term results*,[21] a point of central importance to which we return (pp. 12–13).

Good government and largesse

Politics, as Professor Tullock has put it, turn largely, although 'not entirely . . . on efforts to change preferences',[22] the preferences of voters. Such preferences may concern ends themselves or means to ends. The problems emerge principally in efforts to influence the voters' choice of means to ends; for in one sense the ends are mostly objectives which are almost universally accepted as (or admitted to be) 'good'. Thus, we all want to see (or claim that we do) 'equality of opportunity'; and we all claim we want to see 'justice' in the distribution of income between classes, races, the sexes, religious groups and the like (although we may not always agree about what is meant by 'justice'). We all want to see (or claim that we do) arrangements under which insecurity can be minimized for the individual who, in a changing world, wishes to avoid risks; and we all want government to carry out such functions as are needed for the co-ordination of free activities and cannot be provided efficiently through the market. We *all* want (or claim to want) peace.

All these achievements are those of 'good government'. But voters and groups of voters also seek ends directly through the electoral process. They try to maximize their individual well-being or income by electing candidates who promise not just 'good government' but largesse.[23] Now when nearly all are encouraged to seek to line their own nest through their use of voting power, we may get the phenomenon of nearly everybody trying to exploit everybody else via the state; or we may find the politically powerful being urged to exploit the politically weak. It is a process in which there are virtually no gainers but many losers; for (through reactions on thrift, on the allocation of resources, and on the magnitude and composition of the stock of assets) the people as a whole are disadvantaged. When all are incited, through the medium of elections, to try to grab as much as possible for themselves, society – the general interest – is damaged in two ways: not only is the resulting distribution arbitrary but the amount to be distributed shrinks. The ultimate question to answer is whether it is 'politically possible' to bring this truth home to electorates.

Conflict between short and long run

The most common or general difficulty is that what may be to the short-run advantage of electors is at times contrary to their long-run interest. Yet many voters – and not only those in the lowest income-groups – seem to be relatively little concerned about the long-run consequences. Nearly all citizens who try to assess a candidate's promises are more aware of their immediate interests (collective as well as individual) than of what is for their long-run benefit. This enhances the difficulty of effective communication when the ultimate advantage of the community is the chief policy objective. If the chance of 'pecuniary profit' is offered to electors in return for votes, remarked Schumpeter, 'experience that goes back to antiquity shows that by and large voters react promptly and rationally to any such chance'. But only 'short-term rationality asserts itself effectively'; hence 'it is only the short-run promise that tells politically'. Voters tend to be 'bad and corrupt judges of their own long-run interests'.[24]

Some readers may think therefore that the 'difficulty' of communication of a proposal may amount to an 'impossibility' whenever a candidate's opponent promises an alternative which offers immediate material rewards to his constituents, at taxpayers' expense. This was what the Liberal Lloyd George notoriously did, for example, when he was launching the 'welfare state' in Britain in 1909–10, offering the lower-middle and artisan classes 'ninepence for fourpence'. It was what the British Conservatives have been doing for years. It was what the Socialist Mr R H S Crossman was doing in his 1969 proposal for graduated pensions in which the benefits would be loaded in favour of the smaller contributors.[25] Because it may seem to be so easy to win the support of the intended beneficiaries by such tactics, any opponent will (almost of necessity, it may be thought) find himself forced to compete with similar promises.

Whenever prudence is a main issue a candidate may feel (wisely or unwisely) that it is impossible to take the lead and effectively stress the nemesis of profligacy. And mainly because collective prudence (or the reverse) is today a dominating issue in the 'democracies' (although seldom recognized as such) it seems as though there is an extraordinarily powerful tendency for great political parties (like the Conservative and Labour in Britain and the Republican and Democrat in the United States) to commit themselves to virtually identical programmes. The party organizations then have meaning only as machinery through which groups of politicians struggle against one another for office.

In such circumstances, leadership in opinion-making will, it might appear, have to be exercised from outside the vote-gathering process. According to this view, education of the public on important matters can hardly be entrusted to competing politicians. Society must rely upon independent opinion-makers who do not themselves seek election – agencies such as the press, television, the radio, the pulpit, the *literati* generally, the universities and school teachers.[26] The politicians' task must be to arouse the will to vote – for causes which they are able to embrace at times only because others (outside politics) have prepared the ground by information and informed debate.

Independent opinion formers

Those who think this way would not deny that a zealous, eloquent and tenacious political campaigner might win over a constituency for a line of action which others believed could never be presented in a sufficiently favourable light; but they cannot imagine candidates generally being able to take initially unpopular stands. If such 'realists' are right in their judgment, it follows that 'politically impossible' yet otherwise good and practicable policies are those for which electorates have not yet been conditioned by opinion-forming agencies independent of the vote-winning process. What appears to be needed is, in the late Richard Weaver's words, '. . . a group sufficiently indifferent to success to oppose the ruling group on principle rather than according to opportunity for success.'[27] Sometimes an individual politician will take a stand for the common good which conflicts with the party policy. He becomes thereby an 'opinion-former', but in so doing usually relinquishes prospects of early promotion in the party hierarchy and may face expulsion from his party.[28]

Most opinion-forming agencies do not, however, appear to fall into the class envisaged as 'independent' because they are not really unrelated to vote-procurement activities. They have tended to become part of the party apparatus itself. Editors, columnists, television and radio producers or commentators and the like may through affiliation, loyalty, contract, hope of reward, or other reasons often form a portion of the party machinery. With them, as with candidates, the immediately unpopular will tend to be anathema. The educative influences for which the public-spirited statesman must hope may have to be exercised through agencies of which the personnel are *persuadable*, i.e. subject to influence by reasoned argument and unperturbed by immediate unpopularity.

About the mass media it is impossible to be very optimistic. In 1874, Lord Morley had referred with forebodings to the consequences upon independent opinion of

> 'the multiplication of journals "delivering brawling judgements unashamed on all things all day long" . . . For a newspaper must live, and to live it must please, and its conductors suppose, perhaps not altogether rightly, that it can please only by being very cheerful towards prejudices, very chilly to general theories, disdainful to the men of a principle. One cry to an advocate of improvement is some sagacious silliness about *recognising the limits of the practicable in politics*, and seeing the necessity of adapting theories to facts.'[29] (My italics.)

But many of the great newspapers of today are edited with a high sense of public responsibility, and not only journals with whose general outlook I tend to concur. Most of them (in the western world) have been gravely misled on the great economic issues of today, as have the intelligentsia generally. Yet while the independent student of society must often deplore the cant of newspaper moralizing, he is aware at other times of sincere and profound ethical purpose. If the independent economists could communicate effectively with the editors – and this can be done, I shall maintain, only by a practice of *stating relevant political assumptions with the utmost explicitness* – the mass media might become the prime inspirers of reform.

The feeling that non-party opinion-makers can alone be relied upon to put forward unpalatable truths is fed by the recognition that it is virtually impossible to become a candidate in any party if one's convictions run counter to the interests of major pressure groups, such as organized labour, agriculture and the professions. A man asked to run for Congress under the Democratic Party was interviewed by a Democratic Governor and officials and asked what he thought about farm price supports. He was told, 'You have given us the wrong answer.' He replied, 'I am not going to change my views just to run for office.'[30] They found someone else, either someone who had the 'right views' or who was prepared to adopt them as part of the necessary compromise which politics demands.

University economists

Among the 'independent agencies' the universities are included, and under this heading we are concerned particularly with academic economists, whose task should be to communicate with their non-economist academic colleagues, with the intelligentsia generally and, as far as possible, with the general public. On the political acceptability of economic measures, their role in opinion-making ought obviously to be paramount. But economists have never yet been able to communicate directly and effectively with the mass of voters. Effective communication, even with the more intelligent and critical among non-economist opinion-makers, is hardly less difficult.

'The ordinary citizen's lack of judgement in matters of domestic and foreign policy . . . ,' said Schumpeter, 'is if anything more shocking in the case of educated people . . . than it is with uneducated people in humble stations. . . . The typical citizen drops down to a lower level of mental performance as soon as he enters the political field.' There is no mitigation, Schumpeter added, when the typical citizen 'gives in to a burst of generous indignation. This will make it still more difficult for him to see things in their correct proportions or even to see more than one aspect of one thing at a time.'[31]

Nevertheless it is the *intelligentsia* which has to be reached. Unfortunately, intellectuals are not receiving the lead which the economists ought to be giving them. This is partly because many academic economists ought to be thought of as exercising their influence within the party fold rather than as independent critics of the economic aspects of party policies. This is discernible not only in conversation and in their lectures but even in their textbooks. Most university teachers of economics obviously favour one or other of the parties even when they are not party members. *Rivalry* for influence with a party seems to create diversity of recommendations. 'Almost every possible course of action seems to be advocated by some economist or other,' says Dr Hallett.[32] Yet if economists are, party bias apart, disinterested, such influence as they exert works more or less in the same direction in most cases. What chiefly prevents more unanimity, and thereby the authority that attaches to expert and informed opinion, is the varying degrees in which the economists' recommendations have tacitly allowed vote-acquisition considerations to influence their suggestions.

University textbooks of economics abound in tendentious passages expressed in the jargon of economic science: and the origin of these passages can be discerned in their authors' judgment of acceptability with their favoured party. If my diagnosis is correct, we have here a partial explanation of the phenomenon to which Dr Hallett refers and hence the reason for the 'political impossibility' of many a reform which could have served the people of the western democracies with enormous beneficence.

Not all academic economists can be assumed to be disinterested. I argued 35 years ago that the economist's 'only way to permanent influence is to take a line which will be consistently acceptable to some powerful group or else to pander to the established convictions and conventional beliefs of society at large'.[33] Whether or not they have been aware of their motives, some 'realists' appear to have deliberately concocted justifications for the politically attractive. I referred above to the tendency for political platforms to contain incompatible objectives. But there are *economists* who seem to have gone out of their way to encourage opinion-makers to believe that incompatible ends *are* achievable, and who have indeed won thereby academic and other forms of prestige. Professor Hutchison refers to some recent apparent examples;[34] the reader will find references to additional seeming instances below.

It is of course beyond question that the economists' influence on the whole range of opinion-formers will be strongest if they can establish firstly their competence as experts *and* secondly their disinterestedness. With these two attributes they will be able to win authority, that is, faith in their knowledge and faith in their judgment. 'Authority' in this meaning tends to be acquired when apparent expertness is indicated by some measure of unanimity among those who claim to be experts. But the required agreement among academic economists has been largely destroyed, for the reasons indicated.

'Operational' economics

An important example is the tendency during the last three decades for economists to think it expedient, or their duty, to limit their recommendations to 'operational' policies. 'Operational' usually turns out to mean 'usable in the vote-acquisition process'. The economists who have continued to be openly interested in what could be achieved, if electorates were accurately informed, have been a minority.

The economists' error

As I tried to show in 1936,[35] the economists' desire to be influential has paradoxically tended to destroy their collective influence. Their endeavours to be effectual have led many, consciously or unconsciously, to swim with the political tide, and have obscured thereby what could have been a basic and impressive consensus. That economists who gain influence win prestige must also be borne in mind. Economists' reputations are achieved on the whole, says Professor Philbrook, by the measure in which their work 'discernibly influences practical affairs'. This leads to competition among them 'for reputation as "realists"'; and to 'a widespread practice of co-operation with "things as they are", without explicit criticism of them.' For the economist 'the least demonstrably ineffectual is he who advises others to do what he knows they will do without his advice.'[36]

Part V will consider the degeneration of economics since Keynes, manifested in the failure of the bulk of contemporary economists to explain rigorously how full employment (and a closer approach to *optimal* employment)[37] is achievable without inflation, by permitting the co-ordinative mechanism of relative cost and price adjustments to maximize the wages and income flow. And the economists' failure to emphasize this issue is, in turn, due to their groping for politically acceptable advice or their almost instinctive desire to avoid the apparent unsophistication of any reference to what might be felt 'politically impossible'. Had the convention I am suggesting below (in Part II) been followed, however, they could have put forward identical proposals for immediate adoption, but with categorical explanations of the vote-procurement realities which prevent better solutions from standing a chance of being accepted.

No harm would have been done to the prestige of economists as experts if those who restricted their proposals to 'operational' or palatable plans had, in this way, made their *political* assumptions crystal clear and explicit. Unfortunately it *appears* as though the economists whose proposals have been most strongly influenced by their assessment of political expediency have hardly been aware of the influence. There would have been no point, they have seemingly felt, in confusing the issue by even mentioning possible policies which everybody would know were ruled out by 'practical politics'. Otherwise, they have simply inhibited concern with what could conceivably have been practicable policy if effective communication with electorates *had* been assumable.

The growth of 'macro-economics'

The consequences, most vividly illustrated in the Keynesian era in the history of economic thought, have been insidious. A new branch of economics has become specialized – 'macro-economics', in which, through the concepts employed, the most pertinent issues are diverted from the students' attention. In presenting economic problems in terms of great aggregates, economists have, unwittingly, drawn a veil over the co-ordinative role of the pricing system. 'Prices have work to do,' said the late Benjamin Anderson.[38] Students introduced to economics via 'macro' studies – and that often happens today[39] – may hardly recognize the importance of Anderson's simple sentence. They may be left quite blind to the vital function of relative price changes. They may never perceive that, under freedom of preference concerning ends and freedom of judgment concerning means to ends, a changing, dynamic society can enjoy stability precisely by reason of price flexibility. If they lack this perception, how can their attention then be directed to the relevance of an appropriate framework of law and appropriate regulatory governmental functions within that framework to ensure the flexibility required? Because what is called 'macro-economics' needs continuous validation by 'micro', the separation ought never to have happened. The field of academic economics has been cut unnecessarily into two.

This general censure of 'macro' must, of course, not be taken as disparagement of all contributions under that name. The powerful but deplorable force of mere academic fashion has made it essential for some of the best economists to contribute to 'macro' economics. But I do not wish to tone down my strictures on the separation of 'macro' from 'micro'; and I would emphasize the conclusion that it has all happened owing to the wish (often sub-conscious, perhaps) of many economists 'to co-operate with things as they are', to repeat Professor Philbrook's phrase. This essay may throw some light on the soundness of this judgment.

Footnotes to Part I

1 Professor Helmut Schoeck has pointed to the contradiction in his article, 'What is Meant by "Politically Impossible?"', *Pall Mall Quarterly*, 1958, p. 48.

2 C Philbrook, '"Realism" in Policy Espousal', *American Economic Review*, 1953, p. 846.

3 Such a situation could reflect a deliberate restraint imposed by wise men of former times, distrustful of the small groups of private men who form governments, in an endeavour to entrench the rights of people against rulers (legislators and executives).

4 By Professors J M Buchanan, Gordon Tullock, and others; discussed in T W Hutchison, *Markets and the Franchise*, IEA Occasional Paper No. 10, 1966.

5 T W Hutchison, *Economics and Economic Policy in Britain, 1946–66*, Allen and Unwin, 1968, pp. 263–4.

[6] G Hallett, 'The Role of Economists as Government Advisers', *Westminster Bank Review*, May 1967, pp. 2–3. Dr Hallett is referring to the Selective Employment Tax, the Corporation Tax, the Capital Gains Tax and the Prices and Incomes Act.

[7] Hutchison, *op. cit.*, p. 274.

[8] *Ibid.*, p. 294.

[9] 'Market-selected' wage-rate and price adjustments, as distinct from adjustments imposed through 'incomes policies', are changes due to business entrepreneurs, striving to avoid losses, being forced to *offer* wage-rates (and *bid* prices for other 'inputs'), and *ask* prices for outputs, which will permit the preservation or restoration of full employment for assets and people in the activities they direct. In the economy as a whole, such a system of price-determination creates incentives for the use (including the re-allocation) of resources (assets and people) in such a manner as to maximize the community's real income (often called, today, 'aggregate demand').

[10] Hallett, *op. cit.*, Dr Hallett presents this opinion from Samuel Brittan's *The Treasury under the Tories, 1951–64*, Penguin Books, 1964.

Mr Brittan is the author of Hobart Paperback No. 2, *Government and Market Economy*, 1971.

[11] Adam Smith, *Lectures*, ed. E Cannan, OUP, 1898, p. 225. See also pp. 253–4.

[12] J A Schumpeter, *Capitalism, Socialism and Democracy*, 1942, 3rd Edn, p. 258.

[13] The worst example of which I know was the 'Chinese slavery' lie, which, believed by many righteous people, may have resulted in the Liberal Party victory in Britain in 1906.

[14] G Tullock, *Towards a Mathematics of Politics*, pp. 13–15. On the distinction between 'persuasive' and 'informative' propaganda and advertising, and on the similarities of such initiatives in political and commercial activities, see Harris and Seldon, *Advertising and the Public*, IEA, 1962.

[15] Misrepresentation of an opponent's policy and dishonest promises about a candidate's intentions (or those of his party) may of course be less harmful than some truthfully meant promises for the advantage of the politically powerful but at the expense of the politically weak.

[16] Research Report, *Choice in Welfare, 1970*, devised by Harris and Seldon, field work by England, Grosse & Associates, IEA, 1971.

[17] Nevertheless it remains the duty of would-be legislators to try to find methods of communicating effectively with those for whom they wish to legislate. This means *inter alia* anticipating and exposing misrepresentations (of intentions and of fact) of which their opponents are thought likely to be guilty.

[18] Schoeck, *op. cit.*, p. 49.

[19] *Ibid.*, p. 49.

[20] *Ibid.*, p. 53.

[21] This was Schumpeter's judgment.

[22] Tullock, *op. cit.*, p. 2.

[23] T W Hutchison, *Markets and the Franchise*, IEA, 1966.

[24] Schumpeter, *op. cit.*, pp. 260–1.

[25] It is sobering to note that Mr Crossman's scheme was denounced as a 'swindle' by a previous, Conservative, Minister of Pensions, whose own pension scheme was denounced as a 'swindle' by Mr Crossman.

[26] The fact that such agencies are not currently performing this function with any kind of objectivity is discussed on the following page.

[27] R Weaver, *The Ethics of Politics*, quoted in A C Brownfield, 'The Irrelevance of American Politics', *Yale Review*, Autumn 1970, p. 4.

[28] This possibility is less important in the United States than it is in Britain.

[29] Lord (Viscount John) Morley, *On Compromise*, 1874, Thinker's Library Edn, Watts, p. 16.

[30] R S Morrison, *The Contax Plan*, published privately, 1970, p. 87.

[31] Schumpeter, *op. cit.*, p. 262. While Schumpeter believed that genuine instances of such 'generous indignation' existed, he thought that this phenomenon was seldom spontaneous and 'in many instances . . . induced by the action of some (special interest) group' (p. 262, footnote).

[32] Hallett, *op. cit.*, p. 10.

[33] W H Hutt, *Economists and the Public*, 1936, p. 38.

[34] Hutchison, *Economics and Economic Policy in Britain*, *op. cit.*, pp. 265 *et seq.*

[35] Hutt, *op. cit.*, especially Chapter I; the whole book deals with the issue.

[36] C Philbrook, *op. cit.*, p. 847.

[37] 'Optimal' as distinct from 'full' employment of labour is achieved when the largest possible proportion of workers is permitted to be trained for and employed in the higher-paid and more productive kinds of work so that the smallest possible proportion is left available for the lower-paid and less productive kinds of work.

[38] [It is of particular significance that this is the concluding thought in Mr Brittan's study of recent economic policies – Ed.]

[39] A notable exception is A A Alchian and W R Allen's *University Economics*, Wadsworth Publishing Co., Belmont, California, 1964, 2nd Edition 1967.

II. A Solution: The Dual Formula

In 1934, in a lecture at the London School of Economics, Pigou referred to the severe temptation to which the ambitious economist was subject 'to make slight adjustments in his economic view, so that it shall conform to the policy of one political party'. But, he added, 'for the student to yield to that temptation is an intellectual crime. It is to sell his birthright in the household of truth for a mess of political potage.'[1] That he was sincere in this declaration no one would doubt. Yet his own attitudes towards policy were strongly influenced by *tacit* assumptions about the vote-acquisition process.

In 1953, Professor Milton Friedman enunciated an important relevant maxim. He said,

> 'The role of the economist in discussions of public policy seems to me to be to prescribe what should be done in the light of what can be done, politics aside, and not to predict what is "politically feasible" and then to recommend it.'[2]

But he has not, I think, always found it possible to live up to his maxim. In two of the chief proposals with which his name is associated, 'negative income tax' and 'floating exchange rates', his plea is basically that the politically conceivable alternatives would be worse, and that only 'dreamers' or the 'starry-eyed' would advocate impossible solutions. In using such terms he seems to be gently admonishing economists who insist upon prescribing 'what should be done in the light of what can be done', as he has himself so simply put it.

Economist's dual advice

His maxim implies that the economist's role is to do this (the ideal) and not to do that (the expedient). I suggest it is the economist's role and duty (in public policy discussions) to do *both*. Why should not advice proffered typically take the form of saying to the politicians (and indirectly to electorates) with complete candour, something like the following?

> 'In our judgment, the best you will be able to get away with is programme A along the following lines; but if you could find a convincing way of really explaining the issues to the electorate, our advice would have to be quite different. We should have to recommend programme B, along the following lines.'

I am not suggesting that economists ought ever to close their eyes to political realities. On the contrary, when they are concerned with the practical application of their science, they ought in every instance to bring voting prospects into the picture – but *explicitly*. A contemporary trend towards a return of economic science to what could be more appropriately described by the too long disused term 'political economy', in which the function of vote-gathering is formally treated as an economic factor, may turn out to be one of the most promising developments of this age. By 'political economy' so conceived is meant the study of man seeking objectives within a framework of scarce means (*a*) through the market and (*b*) through the state, the phrase 'through the state' meaning 'through politics and voting'.[3]

It is necessary to mention, although I do not propose here to discuss, the important consideration of administrative practicability. As Dr Hallett has insisted, 'it is not enough in economic policy to have a good idea; the practical problems of implementing it must be carefully thought out if it is in practice to do more good than harm.'[4] The expertise of the civil service is an imperative requirement if most broad legislative proposals are to be put into workable form.

Professor T W Hutchison is, I feel, thinking along the same lines when (writing in 1966) he refers to 'the assumptions of the non-political or a-political economics which has dominated the approach of economics till recently.'[5] He remarks that 'politics ... has recently become quite a fashionable subject for economists to write about.'[6] They are being forced in this direction because it is becoming increasingly clear that a major obstacle to rectification of the world's economic ills is lurking in the vote-acquisition imperatives associated with representative government.

To carry out efficiently their opinion-influencing role, economists who are allowing for voting reactions in their deliberations should, then, always be able to plan the presentation of their recommendations in a dual form: they should set out not only programme A, i.e. what politicians think the best attainable politically given the state of electoral opinion, but also programme B, i.e. what they suggest is good or ideal.

Can economists judge political practicability?

This proposition is likely to be contested on the grounds that it would call upon economists to make pronouncements about a field in which they can make no claim to special expertise. 'What qualifications have economists for judgments about the 'politically feasible'? If the politicians are not always right in their predictions of electoral reactions, will they not be more often right than economists who have not themselves experienced the hurly-burly of election-winning? My answer is four-fold.

First, constructive criticism of contemporary social and economic arrangements loses a great deal through a tendency for economists, concerned with their repute and standing, consciously or subconsciously, to inhibit discussion (or careful discussion) of, and to shun recommendations of policies they think 'politically impossible' or which they believe the politicians will regard as such.

Secondly, in *most* cases there will be no serious differences of opinion between politicians and economists in proposals which the latter judge to be, and describe as, *currently* unacceptable to electorates. But on occasion, the economists may have the advantage over the active politician which is expressed in the ancient maxim, 'the onlooker sees most of the game'. In a private communication, two economists declared a few years ago: 'Experience has made us sceptical of the capacity of politicians deafened by ears too close to the ground to judge what is "politically possible".'

Thirdly, my recommendations refer to policy espousal: they are concerned not with 'pure economics' but with 'applied economics' in which economists must necessarily treat as data all sorts of technological, sociological and voting phenomena. They can observe the conduct of elections, and the results of rival appeals, at least as disinterestedly and assess the implications at least as rationally as other citizens. But my suggestions do not rely upon an assumption that the economists' political acumen will impress practical politicians. What is much more likely to impress politicians (and opinion-formers) is what the economists may suggest must be ruled out by difficulty of communication.

Fourthly, because economists have tended to allow their recommendations to be influenced by *tacit* instead of *explicit* political assumptions, they have generally failed during the present century to think sufficiently rigorously about the relevance of the vote-procurement process. As Professor Hutchison has shrewdly commented,

> 'in the nineteenth century political economists . . . took, and were often highly qualified to take, much account of the political consequences of economic policies,' whereas today we often have 'a complete and possibly disastrous disregard of political values and processes, . . . especially from Oxford and Cambridge.'[7]

Hence although my proposal is that economists should ignore the electoral aspects in 'form B' stage of their policy recommendations, I am envisaging them acquiring, in Professor Hutchison's words, a realistic 'appreciation of the gulf which yawns between bright ideas and successful policies or legislation'.[8]

An objection of a quite different kind is that, in recommending what seems to be politically palatable – 'programme A' – the economist will be himself encouraging dissimulation on the part of the politicians. But under representative government, wrote Lord Morley, while 'a genuine lover of truth . . . will be wholly independent of the approval or assent of those around him, . . . when he proceeds to apply his beliefs in the practical conduct of life, the position is different.' In this passage, Morley the statesman was differentiating himself from Morley the scholar. He continued:

> 'The people from whom he dissents have not come to their opinions, customs and institutions by a process of mere haphazard. They have a certain depth in the lives of a proportion of the existing generation. . . . The most zealous propagandism cannot penetrate to them. . . . Only a proportion . . . in one society can have the nerve to grasp the banner of a new truth. . . .'[9]

And he quoted Herbert Spencer in support of the maxim that 'perpetual compromise is an indispensable accompaniment of a normal development' of social life.[10] But Morley never abandoned his scholarly role. It is only 'legitimate compromise', he insisted, when the scholar says: 'I do not expect you to execute this improvement, or to surrender that prejudice, in my time. But at any rate it shall not be my fault if the improvement remains unknown or rejected.'[11]

I have emphasized above the importance of communicating with electorates – informing them of aims, facts and inferences. Schumpeter observed that 'information and argument in political matters will "register" only if they link up with the citizen's preconceived ideas.'[12] This observation almost implies that the stereotypes of electors can never be effectively disturbed through the operation of the vote-winning process. But although wise statesmen will approach the task of communication with a realistic recognition of the preconceptions of the masses, categorical challenges on vital matters can be effective – especially challenges thrown out by people not touting for election. Schumpeter remarked further, however, that 'since the first thing man will do for his ideal or interest is to lie, we shall expect, and as a matter of fact we find, that effective information is almost always adulterated or selective. . . .'[13] This assertion brings us to the roots of the issue with which this essay is concerned. Schumpeter, addressing economists, asked the reader 'whether he has never heard – or said himself – that this or that awkward fact must not be told publicly, or that a certain line of reasoning, though valid, is undesirable.'[14] But is the presentation of policy likely to be more 'adulterated' if economists refuse doggedly to suppress 'awkward' data or to withhold a disconcerting chain of reasoning, and follow up by explaining the unwillingness of electorates or opinion-makers to listen to truth and logic?[15]

Footnotes to Part II

1 A C Pigou, *Economics in Practice*, Macmillan, 1935, p. 10.

2 M Friedman, 'Comments on Monetary Policy', in *Essays in Positive Economics*, University of Chicago Press, 1953, p. 264.

3 I have discussed some aspects of this trend of economics in an article on the path-breaking contribution in the subject, *The Calculus of Consent*, by J M Buchanan and G Tullock (Hutt, 'Unanimity versus Non-Discrimination', *SA Journal of Economics*, 1966). Other aspects are treated and other relevant contributions mentioned in Hutchison, *Markets and the Franchise, op. cit.*

[4] Hallett, *op. cit.*, p. 5.

[5] Hutchison, *Markets and the Franchise*, *op. cit.*, pp. 5–6.

[6] *Ibid.*, p. 23.

[7] Hutchison, *Economics and Economic Policy in Britain*, *op. cit.*, pp. 273–4.

[8] *Ibid.*, p. 262.

[9] Morley, *op. cit.*, pp. 121–2.

[10] Spencer, *The Study of Sociology*, p. 396, quoted in Morley, *op. cit.*, p. 123.

[11] Morley, *op. cit.*, p. 126.

[12] Schumpeter, *op. cit.*, p. 263.

[13] *Ibid.*, p. 264.

[14] *Ibid.*, p. 264.

[15] The brief quotations from Schumpeter in this paragraph are out of context and do not do justice to his powerful argument. He did *not* believe that representative government must necessarily work badly in the long run and he admitted that there is truth in the democratically-toned *dicta* of Jefferson and Lincoln. He was attacking weaknesses in what he described as 'the classical doctrine' of democracy. Yet what he conceived of as essentially 'democracy' is almost exactly what R Bassett, in his important book, *The Essentials of Parliamentary Democracy*, Macmillan, 1935, especially Chapter IV, denied 'democracy' to be.

III. Illustration: Monetary Policy

SUPPOSE AN economist is convinced that the most appropriate international monetary system in a civilized age is one in which the measuring rod of money in every country has a common, defined value; and, further, that the ideal money unit in such a system will have a value consistent with stability in a price index weighted, as far as practicable, so as to give equal proportionate importance to all components of real income (the flow of productive services). He could at the same time hold that, governments and politics being as we know them to be in the present century, the old-fashioned gold standard would be a more expedient system solely because, under the kind of convertibility obligation that standard requires, politicians in office could be subjected to a simple understandable monetary discipline. In thus recommending, he would be candidly admitting the inferiority of the gold standard for an imaginary or predictable future era, in which the propensities of governments to manipulate the value of the money unit in the interests of election-winning had been constitutionally overcome. He would be saying, in effect, 'Because we have not yet reached such high standards of electoral wisdom or of integrity in government, we have to be content with the second-best solution. Given current realities, the practical way to achieve greater order in international monetary relations would be a return to the pre-1914 gold standard system. That would, at any rate, render "politically impossible" the creeping, crawling, chronic inflation which has plagued mankind since the 1930s.'

It is important to emphasize that, in taking such a line, the economist would not allow his readers to accept the current myth that inflation is a scourge which governments try, with varying success, to keep in check. Yet this very myth, accepted by the critics of governments as well as by governments themselves, is one of the consequences of economists generally failing to make explicit their assumptions about the vote-acquisition process.

Let us now imagine the economist going further and contending that, because the world's governments have not yet re-embraced those standards of responsibility and integrity which caused the gold standard of pre-World War I to operate with such fantastic success, he cannot recommend any return to it. He might then argue:

'The best that can be hoped for is something like the present system of an International Monetary Fund with Special Drawing Rights; for this does not call upon governments to abandon the use of monetary policy in election winning, and they are not likely to renounce that. Indeed, no government in power could dare do so because the opposition could make too much political capital out of the unpopularity of non-inflationary co-ordination of economic systems during threatened recession.'

Analysis of monetary policy, as a branch of an economics in which governmental activity is viewed realistically as interwoven with market activity, must explicitly and repeatedly stress the connection between the value of the money unit and the vote-acquisition process.

But we can now imagine the economist going still further and arguing:

'Even the present IMF system with SDRs is not adequately adjusted to the vote-acquisition realities of this age. The yield in votes to creeping inflation tends to decline as public scepticism grows about a government's commitment to a doughty endeavour to fight off the inflationary dragon. Inflation loses its co-ordinative power in proportion to the extent to which it is expected; when it is expected, the depreciation of the money unit, however expertly engineered, fails to prevent lay-offs and unemployment; the *rentier* fails to be specially exploited because interest on bonds rises, perhaps to twice the yield on equities, providing thereby as good a hedge against inflation as is available to the investor in shares; while under fixed exchange rates, declining activity causes external pressures for deflation or forces unpopular steps to bring about price–cost adjustments, due to a worsening in the balance of payments.

'The situation eventually compels resort to a proliferating bunch of "controls" applied to the remnants of the free market system.

The "controls" all tend to repress productivity and all have a regressive incidence. We can, for instance, expect exchange controls, import controls, such abominations as the United States "interest equalisation" law,[1] and eventually "incomes policies" with extra-legal governmental coercions or "persuasions" and the imposition of legally enacted wage-rates and prices on the coordinative mechanism of the market.

'This way of keeping prices down will normally be preferred by governments to neutral restraints via non-inflationary monetary policy; for the particular prices or wage-rates to be repressed can be selected in such a manner as to minimize the prospective loss of votes. The propensity of governments to act in these ways, especially when balance-of-payments pressures grow, can be lightened by resort to floating exchange rates. Governments can then follow "a policy of benign neglect" of parity considerations and save themselves a host of worries about inflation consequences. This solution is certainly a lesser evil when compared to such evils as exchange control, import quotas, and all the other paraphernalia for the collective overruling of remaining free market values. In itself, it enables a continuous market valuation of currencies influenced by the independent inflations which national monetary autonomy permits.

'The chief obstacle which makes floating exchange rates appear "politically impossible" is the pig-headedness of certain officials and bankers who are today acting as unreasonably as the officials and bankers who resisted currency debasement in the 1930s. But they were at last overruled then and they can be overruled again. Let the value of currencies be determined in a surviving free market, with no governments having to be shackled by monetary contracts with the world in their essential vote-acquisition function.

'Of course, floating exchange rates involve the sacrifice of the benefits of better-coordinated international economic activity. The abandonment of contractual relationships between national currencies has to be deplored in itself. But every "politically palatable" alternative is even worse.'

If economists who have advocated a return to the gold standard system, or adoption of the SDRs under the IMF, or floating exchange rates had throughout put their case in these realistic terms, continually reminding the opinion-making agencies of the underlying vote-gaining assumptions, the consequences upon policy of that form of exposition could have been profound. Solutions explicitly stated but rejected on *political* grounds would not for that reason have remained impotent. The creators of public opinion would have begun to perceive more clearly that the interests of the small group of private people who form governments, or of those conspiring to replace them, or of those who finance their election campaigns, have unduly dominated policy.[2] That is, if tacit assumptions about political considerations had been replaced by explicit assumptions, the ultimate reaction on voting conduct could have been diametrically different.

Footnotes to Part III

[1] Under 'interest equalisation', Americans investing outside the United States are taxed heavily, e.g. 15 per cent of the capital in the case of investment in equities.

[2] The incentives which actuate politicians are no less difficult to discipline in the social interest even if they are frequently non-pecuniary and public-spirited. In his study of 14 Canadian prime ministers, Mr Bruce Hutchison remarks that, 'with two exceptions', all 'were animated by . . . an insatiable appetite for power', yet 'none profited financially from his office'. (Bruce Hutchison, *MacDonald to Pearson – The Prime Ministers of Canada*, Longmans, Introduction.) Even so, Mr Hutchison has to show that corrupt motives were endemic among Canadian legislators. Thus, although Prime Minister Laurier 'remained a poor man, the Liberal machine' he headed 'was demonstrably corrupt' (*Ibid.*, p. 69), and Prime Minister Mackenzie King also 'led a party convicted of graft' (*Ibid.*, p. 133).

IV. Illustration: Income Transfers

CHANGING EXPERIENCE in the working of representative democracy has been largely conditioned by the failure to entrench (by constitution or powerful convention) what may be called 'the Tocqueville principle', namely, that majorities should have no right to enrich themselves at the expense of minorities via the voting mechanism. John Stuart Mill, in his classic advocacy of representative government, insisted that the beneficiaries of relief payments should be denied the franchise. Such viewpoints are not opposed in principle to the use of the proceeds of proportional taxation to assist persons who are needy 'through no fault of their own', i.e. whose relatively poor condition is not due to some remediable defect of character or incentive. Nor do economists who think that the essence of real democracy is being destroyed when the politically powerful can vote themselves part of the income of the politically weak necessarily condemn attempts through progressive inheritance taxes to mitigate the arbitrary advantage enjoyed by people 'who have chosen their parents wisely'. In general, economists in the 'classical' tradition simply disapprove of the use of governmental power to transfer income from the provident to the thriftless, or from the industrious to the indolent, or from the competent to the incompetent, or from the enterprising to the risk-avoider, or from the politically weak to the politically strong. But the economists' decisive dilemma has been that in practice it has often seemed unrealistic to expect governments to deny themselves power by promising majorities (or the politically powerful for other reasons) that, by voting correctly, they will be rewarded via income transfers as distinct from good government.

Income transfers before the franchise

Income transfers for the benefit of the destitute and the unemployed seem never to have depended solely upon the voting strength of the beneficiaries. Whether through enlightened self-interest[1] or the burgeoning humanitarianism evoked in Britain during the progress of the industrial revolution we found taxpayers' acquiescence in material income transfers (well *before* the enfranchising of the masses). 'Relief' (money supplied by ratepayers) supplemented private charity and church alms-giving for the mitigation of dire distress. This was before politicians promising largesse had brought in the vote-acquisition factor; and it is relevant to notice aspects of experience under such conditions, in early 19th-century Britain, when considerations of good social morale or simple generosity and charitable altruism were the dominant incentives.

Many of the effects were remarkably similar to the phenomena which indiscriminate assistance is widely believed to be creating today. The harmful consequences were indeed being discussed and debated at length during the 1820s and 1830s. Problems of motivation and character deterioration had created heart-rending dilemmas for humanitarians not unlike those which plague well-meaning reformers of the present generation. A groping for remedies led public-spirited observers to press for the Poor Law amendments of 1834 which, harshly in the judgment of many, abolished 'outdoor relief' and provided generally that, while an unemployed person admitted to the 'work-house' should enjoy better food, clothing and shelter than could have been his lot outside, he would be denied gin, beer or even tobacco; deprived of the conventional amusements and excitements of his class; and subjected to an educative discipline intended to rehabilitate him – to reduce for him the likelihood of his having once again to apply for relief.

It is easy to represent reforms in that spirit as inhumane. Dickens did so with enormous success in an age in which the middle classes prided themselves on their righteous concern for the well-being of the 'lower orders'. Professor Samuelson says, in his influential textbook, that the purpose of the reforms was to render unemployment 'as uncomfortable as possible'.[2] Unqualified, that judgment is hardly just. There was nothing callous in the make-up of men like Nassau Senior or Edwin Chadwick who sponsored the amending Act or of humanitarians like Malthus and Archbishop Whately who advocated the reforms it embodied.

Certainly the burden of local taxation was a major factor prompting demands for a change in the system. But taxpayers perceived that expenditures on 'out-relief' were aggravating the very evils they were intended to alleviate. The purpose of the Act was not to punish those who found themselves without employment.[3] The aim was to reduce their number. The hope was that, under the 'work-house' regime, able-bodied persons would no longer refuse work because they could rely on relief, as they were believed to have been doing in large numbers.

The sincerity of many – perhaps most – of the contemporary critics who regarded the new Poor Law as oppressive is not questioned. But pure compassion in the middle and upper classes, undisciplined by sociological insights, had not been without responsibility for the deteriorating situation that had developed since the Speenhamland system of 1795. Illegitimacy and large families had for instance become, in the words of a contemporary Poor Law commissioner, 'a source of emolument', while the mothers receiving relief did not 'in reality keep the children; they let them run wild'.[4] It may be wholly coincidence, but steady annual increases in expenditure on public assistance in the United States between 1940 and 1967 were accompanied by equally steady annual increases in the percentage of illegitimate births to all live births – from about 17 per cent to 30 per cent for non-Whites and from about 2 per cent to 5 per cent for Whites.[5] As Mr Henry Hazlitt has pointed out, the commissioners' description of conditions in the 1830s 'could easily pass as a description of conditions in, say, New York City in 1971'.[6]

Speenhamland in the Seventies?

How much more serious must we expect the consequences to be when politicians can batten on the natural desire for an easier life of those assisted as well as on the generous acquiescence of the taxed. In today's affluent society, the ill-effects are necessarily different in many respects. Yet similarities, and the possibility of comparable consequences, if Mr Hazlitt's view is substantiated, remain.

This century has witnessed continuously weakening inhibitions against vote-buying at taxpayers' expense, as the parties have grown bolder through their desperate fight for votes and their recognition that early disaster has not followed the process. So far, at least, though there may be signs of a change in Britain, promises of ever-increasing income transfers have always gained more votes than they have lost. And progressive taxation has grown continuously. Beginning in Britain in 1910 and in the United States in 1913, with initial upper rates for Britain of 8½ per cent and for the United States of 7 per cent, the politicians found it not only 'politically possible' but highly profitable over the course of the following three decades to force the upper rates to 97½ per cent and 91 per cent, respectively.[7] In the United States during the decade following 1960, in spite of growing affluence and prosperity, expenditure on vote-buying via public assistance multiplied fourfold. And if we bring in food stamps, school meals, child welfare and other social services, aggregate expenditure nearly tripled within ten years – from about $7 billion to about $20 billion.[8]

Naturally, a government's aim is to maximize the prospective yield in votes from any promised amount of income to be transferred, and experience seems to show that this can be best achieved when the process is clothed in phrases suggesting high moral rectitude, charity and generosity. Votes are most effectively purchased through financial support of what the public regard as 'good causes'. Widespread and sincere altruism on the part of many taxpayers has remained powerful in supplementing the pseudo-altruism of the politicians. It has weakened resistance to income transfers in the form of 'social services'. The beneficiaries of such transfers may include, in addition to 'the poor', 'the deserving' for other reasons. The United States Agricultural Assistance Program was put through on the grounds that there were large numbers of poor farmers; but *all* farmers were included in the programme (all farmers are always 'deserving') and most of the income transfers in this case have been enjoyed by persons with incomes well above the US average. As Professor Brozen has put it, 'the program has been a poverty program for rich farmers'.[9]

In Britain council houses are occupied by relatively rich as well as by poor tenants, medical prescription charges are 'exempted' for rich as well as poor expectant mothers, pensions (only fractionally earned by social insurance contributions) are paid to rich as well as poor people in retirement, and so on. In general much or most of British social benefits are enjoyed by persons with incomes around or above the average.

It would be misleading to leave the impression that the lower income-groups are powerful as voters in inverse proportion to the size of their incomes. It was the votes of the lower-middle classes and not those of the poor which originally made it 'politically possible' to get progressive taxation adopted in Britain and the USA. What Professor Hayek has described as 'the better-off working class and the lower strata of the middle class, who provided the largest number of voters',[10] constituted the group whose electoral support brought in the welfare state in Britain. Moreover, 'independent studies in the United States, Great Britain, France and Prussia agree that, as a rule, it was those of modest income who provided the largest number of voters that were let off most lightly' following the introduction of progression. The figures, with similar data for other countries, clearly show that, 'once the principle of proportional taxation is abandoned, it is not necessarily those in greatest need but more likely the classes with the greatest voting strength that will profit'.[11]

The political attractiveness of income transfers for the benefit of the *lower* income-groups appears, however, to have grown since the Second World War. In the United States, at least, and probably in Britain, pure generosity and altruism of an enormous number of acquiescent taxpayers seems to provide a partial explanation. But, more important, such transfers seem to have become more acceptable by one large sector of middle-income voters, organized labour. It has come to be believed in the USA that supplementation of the lower incomes, even at the initial expense to some extent of the middle incomes themselves, reduces competition (current or potential) from the poorer classes, in much the same way as unemployment benefit. In other words, because income transfers to the poor tend to replace wages for the poor, the latter can be permitted to demand without supplying, and hence kept off the labour market. The fact or illusion that this is to the advantage of the better-off workers to whom the TUC or the AFL–CIO (or similar organizations with powerful electoral influence) are responsible has probably been the chief reason why the poorest classes have been allowed (by the consensus of voters) to become apparent beneficiaries from income transfers during the last two decades.

'Apparent' beneficiaries first, because, although US families in the under \$2,000 per annum income group now receive more in 'hand-outs' than they pay in taxes, the outcome must have been to dilute the real income of all in terms of the flow of wanted things;[12] second, the consequences upon the morale and productivity of the poorest classes have been deplorable;[13] third, any redistribution effected through income transfers probably amounts to little more than a mitigation of the tendency of other policies (to which Professors George Stigler and Aaron Director have drawn attention) to batten on the poor at one end and on the upper incomes at the other for the benefit of those in the middle. Professor Stigler enunciates 'Director's Law' as follows:

> 'Government has coercive power which allows it to engage in acts (above all, the taking of resources) which could not be done by voluntary agreement of all the members of a society. Any portion of society which can secure control of the state's machinery will employ that machinery to improve its own position. Under a set of conditions . . . this dominant group will be the middle-income classes. Empirical investigation appears to establish that the necessary conditions for this law are created in the United States through farm policy, minimum wage laws, social security, public housing, public provision for higher education, tax exempt institutions, and "welfare expenditures". . . . Public expenditures are made primarily for the benefit of the middle classes, and financed with taxes which are borne in considerable part by the poor and the rich.'[14]

It is because progressive income taxes have been seriously parasitic on an income source – the real capital stock – that we find an increasing pressure on governments in 'welfarist' communities to impose regressive taxation – indirect taxes (purchase or sales taxes, 'employees'' and 'employers'' social security contributions, and the like). A recent study by the head of the Population Division of the United States Bureau of Census[15] shows that families with incomes below \$2,000 per annum have about 44 per cent taken from them in federal, state and local taxes, which is a much larger proportion than is taken from all higher income-groups up to \$50,000 per annum. What government takes in taxes from this income-group (under \$2,000 per annum) is of course much less on the average than is handed back in various forms of hand-outs.[16] But for no other income-group can this be said. Because of the regressive effects of state and local taxes, we find that for families over the wide income range, \$2,000 to \$15,000, the incidence of the aggregate tax load is approximately proportional at about 27 per cent; but even families in the \$2,000 to \$4,000 group must pay more in taxes than they receive back in the form of actual income transfers (as distinct from benefits in the form of government expenditures on education, justice, defence, etc).[17] Moreover, when the consequences upon the magnitude and structure of the aggregate volume of wage-multiplying assets (pp. 39 *et seq.*) is brought into the reckoning, it is difficult to believe that the poorest classes are not the net losers by a formidable amount.

The gravest detriment of all may well be the character-destroying consequences upon the 'beneficiaries' of relief. A very small proportion of persons of conventional working age in the under \$2,000 group would be incapable of earning much more than present gross family incomes (including hand-outs) if the incentives were there, and especially if minimum-wage and union-imposed barriers were removed.

Very important among the non-poor 'deserving' beneficiaries from income transfers are the voters employed as civil servants (national or local). When the proportion of civil servants to the aggregate number of voters is rapidly increasing (the number of public employees in the USA has grown three times as rapidly as the population growth rate), the temptation to buy their votes by largesse in salaries, wages and fringe benefits naturally increases in proportion. In this case the income transfers are disguised and do not appear as such in the statistics.

But people in this sector of the electorate are sometimes in a position to win more private gains through their power as voters than via resort to the strike-threat, when it is allowed them. The two sometimes support one another. Thus, the public transport workers and refuse collectors of New York provide, perhaps, the most notorious instance of voting power and strike power being able to force income transfers at taxpayers' expense, as well as at consumers' expense. (In Britain, the present Government's resistance to pay demands in public services and nationalized industries may, conceivably, presage an important change of attitude.)

If all that had been involved in the income-transfer process had been the diversion of income from rich to poor, economists would have been mainly concerned with evaluating the criteria through which it is thought to be just to take from some and to give to others – in other words, the taxation formulae and the 'hand-out' formulae. They would have discussed such questions as: By what percentages should lower incomes at various levels be enhanced, and by what percentages should the higher incomes at various levels be subjected to differential taxation? Yet in the USA I can trace no rigorous investigations into justifiable or suitable scales, except for progression as a means of offsetting regressive taxes, and some discussion of the effects of 'negative income tax' proposals on incentive. Much more than simple income transfers are involved, however; and it is essential for us to face the whole question of the vote-acquisition imperative as the paramount factor in redistribution of income.

Income transfer and capital depletion

What are called 'income transfers' are initially transfers of capital. When the annual income of a rich man is reduced via taxation by \$50,000 or \$100,000, the sum transferred in any year remains capital until the state decides to devote it to consumption uses or to dole it out directly to voters who will, it is known, consume it.[18] If it is invested in collectively-owned assets, and only the income therefrom transferred to the poor or the deserving, it will remain capital. Theoretically, this could occur. But it would be foolish for governments to regard capital transfers of that kind as capital and treat them as such; for that is not the purpose of the transfer. Most politicians would judge it to be very difficult, if not impossible, to buy votes with capital maintained in collective ownership. Electors want early, not deferred, payment. Hence, to be used effectively against political rivals, it is essential to allow the capital itself to be exterminated. Hence also the concentration on immediate personal services and the relative neglect of capital investment in the British National Health Service (and, to a lesser extent, state education).

Economists have to recognize this reality, and it is perfectly logical therefore for them to advocate, as the second-best policy or the lesser evil, progressive income tax plus 'negative income tax' (i.e. cash payments for the poor in proportion to their poverty).

'Lesser evil' because economists ought not to make such a recommendation without drawing explicit attention to the squandering of the people's capital. This is how a British economist who was an MP and Chairman of the London Labour Party, the late Evan Durbin, clearly regarded it as long ago as 1940. He said:

> 'The process of taxation has already halved our rate of saving and reduced the collective saving of the rich to nothing. If it goes much further, the increase of taxation will wipe out social saving altogether. . . . The continuous extension of the social services, and the steady rise in the proportion of the national income that is taken in taxation, imposes a strain upon the capitalist system that has already reduced its potential pace of development and will reduce it still further.'[19]
>
> 'The people at large must be made to think about, and care for, something less immediate than better housing and family allowances.'[20]

For political reasons, he thought, the electorate had to be pandered to. The rank and file of the Labour Party organization – 'the main core of party intolerance and unwisdom and intransigence'[21] had to be appeased, for without them a Socialist government could not retain power. It would be essential, however, for his party to 'reduce their social service proposals to the minimum consistent with the retention of political power.'[22]

The squandering Durbin alleged is the most pertinent attribute of both the 'negative (or 'reverse') income tax' policy and other (even less defensible) forms of income transfers with egalitarian objectives. It is one of the clearest cases in which, although the economist may feel impotent in any attempt to inculcate collective prudence, it is his duty to make crystal clear how the poor or other beneficiaries are encouraged to consume the sources that feed them. Reactions due to his disclosures of policy implications may begin, indirectly and eventually, to influence 'swing voters'. It is true that Durbin's exposure, published in 1940, of the enormous wastes due to the then British social services was, superficially considered at least, quite inert. But it may simply be that the time was not then ripe. He seemed to think at the time that a Labour government could 'abolish' the social services, except for a remnant (which he described as 'jam')[23] that would remain expedient because his own Labour Party (to say nothing of the other parties) had taught voters to expect this form of income transfer. He believed, however, that his scheme could be made politically acceptable by nationalizing a sufficient segment of the economy. This would ensure, he thought, that it could retain power by buying votes via promises of higher wages to an enhanced number of public servants.

Durbin's purpose in his recommendations along these lines (as well as in his parallel insistence that the strike-threat, as the cause of wage-rate rigidity, had to be eliminated in a Socialist order) was precisely that of putting into circulation ideas which could be expected to influence opinion-makers only gradually – over a long future. He was not deterred by the apparent absurdity of his suggestions nor by fear of the ridicule and misrepresentation which were to be expected.

Negative/reverse income tax and the 'disadvantaged'

In a humane age, the vote-gaining power of income transfers promised by candidates is (as suggested above) magnified when its advocacy can be clothed in phrases that suggest compassion and concern for 'the disadvantaged'. That constitutes the strong political advantage of the social services in kind over 'negative/reverse income tax' in cash. *Ceteris paribus* \$100 or \$200 given to a poor voter is likely to win more votes if channelled through new social services 'anti-poverty' programmes than if simply paid to him by cheque or voucher.

On the other hand, at a roughly equal expense to taxpayers, that same voter might get \$150 or \$300 through reverse income tax because in that form most of the enormously wasteful expenses of administration of the social services could be cut out. As with so many private charities, administration costs absorb a large proportion of the sums collected. Moreover, 'negative income tax', as conceived by Professor Milton Friedman, reverse income tax in one form discussed by the IEA Study Group[24] and the British Government's Family Income Supplement would not destroy work incentives to the extent to which public assistance does, because it would only partially (50 per cent in the FIS) offset the amount by which a family income fell below a stipulated figure. Moreover, the real value of the transfer could be higher because social services are not supplied to individual requirement; the cash transfer would be spent by the recipients. Thus, the case for replacing the social services by 'negative/reverse income tax' might appear to be overwhelming. But such a judgment ignores, firstly, the attractiveness of an appeal to the heart, and, secondly, the offsetting disadvantage of a threatened loss to many civil servants (who are also voters) of their jobs or of prospects of promotion. In the USA at least the votes of government employees may conceivably be rated even more important than those of 'the poor'. From the standpoint of what is usually accepted as 'the general good of society', the economist can see that the 'reverse income tax' kind of income transfer is the lesser evil.

The crucial issue of this essay is encountered when for tactical reasons the 'reverse income tax' is advocated without the 'evil' in 'the lesser evil' being adequately and continuously stressed, and without the basic vote-acquisition consideration being enunciated with the utmost frankness. The policy requires handling with no inhibitions about the electoral aspects of economic reality which, one sometimes feels, have come to be regarded almost as though they were pornographic.

If it were 'politically possible' for 'reverse income tax' to be accepted solely as a substitute for all other forms of electoral vote-buying, the outcome of such a substitution would be a magnificent achievement. It would mean the abandonment of kinds of control of men which curb freedom and are an affront to human dignity. It was largely because of this virtue of his proposal that Professor Friedman was inspired to put forward his scheme (in his great book, *Capitalism and Freedom*). Its adoption on his terms would be welcomed by all concerned about the survival of liberty in a world in which political power-seekers increasingly appease the intolerant. But it would not cease to be a means through which candidates for election would compete in generosity at the expense of taxpayers. And its supporters must openly avow this as a serious calculated risk.

Professor Friedman has made no unjustified claims for his scheme. Yet it so resembles the notorious Speenhamland wage supplement of 1795 that it is impossible not to retain misgivings. The chief merit of the plan is one which he does not himself claim: that it exposes the vote-purchasing incentive for income transfers.

He admits the danger of demagogues having 'a field day' under it. But, he says, we must evaluate 'the world as it is, not in terms of a dream world'. The dangers, he insists, 'are all present now and have clearly been effective. The crucial step is, how do we get out of the mess into which these pressures have driven us?'[25] 'Dream world' refers, in effect, to the 'politically impossible', namely, a world in which politicians cease to appeal to the have-nots with promises of transfers to them at the expense of the haves.[26] But if we are ever to have a better world, someone must dream; and he must dream of an era in which the masses are no longer bamboozled.

The 'vote-buying' process

Must such a dream necessarily remain impotent? The most urgent problem of our age for those who give most urgency to the preservation of democratic institutions is that of restraining the 'vote-buying' process. To state that any move in that direction would be extraordinarily difficult is a platitude. To assert that it is 'politically impossible' is to substitute 'impossible' for 'unlikely'. Schumpeter would have been more inclined to accept the adjective 'impossible'. He said:

> 'Rational recognition of the economic performance of capitalism and the hopes it holds out for the future would require an almost impossible moral feat by the have-nots. That performance stands out only if we take a long-run view; any capitalist argument must rest on long-run considerations . . . the long-run interests of society are so entirely lodged with the upper strata of bourgeois society that it is perfectly natural for people to look upon them as the interests of that class only. For the masses it is the short-run view that counts.'[27]

Moreover, the easy path to prestige and political power, Schumpeter showed, is the flattery and virtual bribery of the masses. He did not exaggerate. Even John Stuart Mill, from the time he contemplated entry into politics, was guilty of flagrant flattery of 'the working classes'.[28] And there is little doubt that the verdict of history will be that the British Tories of this generation bought the farmers' votes, just as the Labour Party bought the council house tenants' votes. Moreover, it can hardly be disputed that the British Tories (led by Disraeli) shamelessly bought the trade union vote in the 1870s just as the Liberal Party did between 1906 and 1914. I return to this question shortly.

Schumpeter's persuasive argument leaves me less dogmatic than he was. The reasonableness of protecting the community's capital (whether in 'private' or 'collective' ownership) from dissipation is capable of being brought effectively to the attention of the 'independent opinion-makers' in the *intelligentsia*. We have meticulous legislative provisions to secure the actuarial soundness of commercial insurance operations so as to guarantee that insurers' capital is treated as such and not utilized as though it were income. Yet we have allowed increasing proportions of the people's capital – the stock of assets the accumulation of which (together with the accumulation of knowledge) has alone multiplied the yield to human effort over the years – to be eaten up in the form of 'welfare handouts'. The people are being deluded every bit as much as the policy-holders in an actuarially unsound life insurance venture.

Of course, economic growth has not been reversed. Research, inventive skills, entrepreneurial acumen and private thrift, although all too often discouraged, have not been suppressed and their fruits have continued to be enjoyed by all (including the classes for whom no credit can be claimed). That is, technological progress and managerial ingenuities have been making possible a rate of net accumulation of assets which, in the absence of squandering in vote-buying, could have prodigiously raised the real earning power and security of people with the lowest incomes.

Why should not the whole of the proceeds of the progressive element in income taxation and the whole of the proceeds of progressive inheritance taxes be utilized to write off the community's collectively-owned 'negative' capital, namely, the national debt, thereby lightening the load of the proportional element in taxation? (for the interest burden would gradually decline). And when there is no further 'negative' capital to write off, why should not a fund of collectively-owned positive capital be accumulated and invested on the taxpayers' behalf, again being utilized to lighten the load of the proportional element in taxation? There is nothing 'starry-eyed' about such ideas, however politically hopeless the prospect of the reform contemplated may now appear to politicians.

The Tocqueville principle

The notion of formal constitutional entrenchments is, of course, quite foreign to British traditions. But if there were some manner in which the right of politicians to defraud those who have elected them (knowingly, or recklessly, or otherwise) could be outlawed along the lines suggested, a whole range of what are today regarded as 'politically impossible' reforms would at once become conceivable.

Broadly, what needs to be entrenched is what has been named 'the Tocqueville principle'. As I conceive of it, it goes beyond the scope discussed here. It would limit the power of legislators by denying them the right to discriminate against living persons on any grounds whatsoever – not only race, colour, ancestry, religion and sex but also property or income. But on a person's death, a rule designed to render very costly the concentration of property-ownership in a few hands could mitigate the blatant arbitrariness of differential inheritance as a cause of differential incomes, with little harm to incentives and, if carefully thought out, with no encouragement – indeed positive discouragement – to private capital squandering.[29]

Many 'opinion-formers' have become (wholly or partially) operators of the party apparatus and hence under some compulsion to advocate only what is calculated to be acceptable to electors who cannot be awakened to their long-run interests (pp. 12–13). Under this heading there are included, to quote Schumpeter, 'groups to whose interest it is to work up and organize resentment, to voice it and to lead it.'[30] Moreover (Schumpeter added, referring to this group), 'Capitalism inevitably . . . creates, educates and subsidises a vested interest in social unrest.'[31] In some measure, such groups appear to be parasitic upon the traditional party system of the 'democracies'; and they can be powerful even when they do not resort to 'activist' methods but rely upon vote-acquiring tactics. These people are the real exploiters of the have-not classes whose blind envies they arouse. And it is because of the scope that the institutions of representative government and a free society offer them that the entrenchment of 'the Tocqueville principle' (by constitution or powerful convention) may yet prove to be indispensable for the survival of political and economic democracy.

Progressive taxation and inheritance

My chief teacher of economics, Edwin Cannan, strongly defended progressive taxation on the basis of the decreasing marginal utility of income (as had also economists of the calibre of Von Wieser, Carver and Edgeworth). My early writings show the extent to which I once uncritically accepted this politically popular viewpoint.[32] It was a viewpoint which enabled economists to tell the working man: 'We are your friend, you know,' and allowed, for instance, the economist politician Hugh Dalton to claim to be a disciple of Cannan. But the faith of economists in the beneficence of the progressive principle was founded on the fallacious belief that the utilities of income to different persons can be compared. Subsequent recognition of this fallacy does not, of course, prevent perception of the injustice to the relatively poor of restraints on market-determined income-distribution imposed collectively or collusively by monopolies of employers and trade unions when they have a regressive effect by bearing more harshly on the lower incomes. Nevertheless, the breaking up and dispersion of ownership in property which would be gradually brought about by steeply progressive inheritance taxes without capital squandering could do something to mitigate the feeling that differential inheritances results in an obvious arbitrariness in the distribution of property, and hence causes market-determined distribution to be unjust.[33]

The virtue in the democratic process is that the masses have the power to change rulers in a peaceful manner so that rule in the interests of a few is prevented. The vice is that, because the masses have not learned how to discern rulers who will legislate for their advantage, governments are today engaged in dissipating their people's heritage. But if I seem to be disparaging the electoral wisdom of 'the masses', I am in effect criticizing the people who create mass opinion, both from within and outside the political arena. It is the persuadable among the editors, the columnists, the television and radio commentators, the academics, the clergy and the teachers generally who must be won over. I see no reason why it should be 'impossible' to demonstrate to them that, while redistribution of property ownership via progressive inheritance taxes could occur without serious harm to the society of which the masses are a part, currently effected income transfers with egalitarian intentions have gravely harmful effects, the consequences of which are likely to be felt mainly in the future, with their source then possibly undiscernible.

It ought not to be 'impossible' to demonstrate that, under proportional taxation, voters in the lower-income groups would be unlikely to approve of the mass of 'free' services and hand-outs which characterize modern democracies. Voters have fallen for the policy under the illusion that the burden is borne by the rich. But the proportion of aggregate tax revenues obtained from the higher incomes is so small as to make hardly any difference to the burden borne by the rest. Through the illusion that the weight of governmental 'welfare' expenditures falls wholly or mainly on the shoulders of the wealthy, the people have come to tolerate a much larger burden of taxation than they otherwise would have done. If it were understood that the costs of most of the social services fall principally on those who consume them, we should probably find the majority of people voting to show their preference for devoting their hard-earned income to ends of their own choice (and quite possibly to less wise ends).[34]

In Britain, strong support for these opinions is available from two statistical sources: first, the Central Statistical Office, which has presented figures showing that (over a wide range of income, and including only the very highest and the lowest) people pay in taxes more or less as much as they receive in benefits;[35] and, secondly, the IEA Research Report, *Choice in Welfare 1970*, referred to on p. 8 above, which indicates a growing preference for privately purchased welfare services over state welfare services.

Moreover, among the voters there must be a large number of thrifty persons who could form an important 'swing' vote, in spite of contemporary policy and indoctrination tending to discourage providence. But if they could be shown that what is taken from them in taxes for the income transfers is not being so used as to assist any permanent raising of the earning powers of the needy, but consumed in petty short-term mitigations of their condition, is it beyond the bounds of the conceivable that they could be moved to vote against the system? Could they – a vested interest – not be led to perceive the dissipation (in 'free' services and unearned 'doles') of the stock of assets which magnify the yield of the people's labour? Could not a taxpayers' revolt be the consequence?

'Live with ugly reality'

At this stage, it is likely to be objected that, whatever the disclaimers, this is dreaming of the 'politically impossible', asking for what is, under the opinion climate of the age, hopelessly impracticable. I expect to be told:

'The adoption by economists of your recommendations about the "dual form" of exposition[36] can be expected to have no more effect upon what is "politically possible" than Canute's commands could have upon the waves. You economists must learn to live with the ugly realities of political life.'

But the proposals do not exclude recourse to other strategies. They emphasize that, when economists begin to bring out into the open their political assumptions in policy espousal, two consequences may be expected to follow: first, a powerful educative effect on public understanding – especially among the truly independent opinion-formers – and, secondly, an improvement in the quality of the economists' own thought.

I am probably as pessimistic about the likelihood of persuading economists generally to adopt the 'dual form' maxim as any among them who otherwise recognize the merits of the argument. Nevertheless, a widespread acceptance of the maxim, improbable though it may now seem, would have far-reaching repercussions. And circumstances can arise under which concrete realities force agonizing re-adjustments in the convictions of a sufficient number of opinion-formers to influence the beliefs and behaviour of the people (pp. 50–2). Constitutional changes to bring to an end the ability of candidates to offer the enrichment of the numerous at the expense of the few, or of the powerful at the expense of the weak, may (as has been suggested) eventually become essential if representative government is to survive assaults from the totalitarians of all kinds.

A new tax limitation to government

The constitutional-type enactment required is simple. It would assert the over-riding principle that, after a short, defined, transitional period, and subject to two apparent exceptions, governments shall have no power, through legislation or executive action, to enrich majorities at the expense of minorities, that is, no power to discriminate against living citizens on grounds of property or income. The enactment would provide also for the strictest independence of the courts responsible for its interpretation. The effect would be that all income taxation of living citizens would have to be proportional, falling with equal weight (the same percentage) upon all incomes down to the income level at which the sum collected would fall short of the cost of collection. But there would be two apparent exceptions. Firstly, a modification of the proportional principle in income tax would offset the regressive consequences of any surviving indirect taxes. Secondly, a degree of discrimination against the higher incomes would be permitted when their recipients explicitly authorized the higher proportional rates against their broad income-group through referenda in which the taxation proposals were submitted in detail to the groups affected together with specification of the collective objectives to be financed.

With such a constitutional-type rule, a wide discretion could remain with the legislators to levy sharply progressive inheritance taxes (their height depending on the sum received by each beneficiary and not upon the total sum bequeathed). But governmental discretion in using the proceeds would have to be constrained by a rule that the capital acquired would remain capital and be applied solely in alleviating the burden of proportional taxation – at first by the liquidation of the collectively-owned 'negative capital' (the national debt), and subsequently in the accumulation of a fund of collectively-owned positive capital, to be invested for the taxpayers' benefit in profit-yielding (and wage-multiplying) assets.

Interim reforms

This brief enunciation of the fundamental reform which appears to be needed for the preservation of representative government must not be allowed to leave the impression that no reforms worth while are conceivable until such a basic change has come into being. One can certainly hope that some reforms in the required direction will come about, say, before the close of the century. But even if some leading statesman should take up the proposals in the two preceding paragraphs, no one would expect to see (this century) in Britain or the United States any such constitutional reforms. Because an economist frankly faces the unlikelihood of early success in ridding the political system of a basic vice, he is not debarred from suggesting other (less 'difficult' but still difficult) reforms in 'the interests of the people'.

Changing age-composition in favour of the younger voters (and in Britain and the United States the boost to their numbers which will follow the extension of the franchise to 18-year-olds) is increasing the relative importance of the group which has most to gain in the long run from the abandonment of collective 'squander-mania'. It ought to be possible to bring home to this group the foolishness of current trends. But it is unfortunately possible that, through indoctrination in the schools, the younger the voter the less concerned he will be about the advantages for him of collective thrift over his whole life.

David Ricardo believed that attempts by majorities to transfer to themselves the fruits of thrift, capital, skill and enterprise would have such self-evidently adverse repercussions for the poorest classes that 'men very little advanced beyond the very lowest stations in the country cannot be ignorant of it'. He thought indeed that

> 'the man of small income must be aware how little his share would be if all the fortunes in the kingdom were equally divided among the people. He must know that the little he would obtain . . . can be no adequate compensation for the overturning of a principle which renders the produce of his industry secure.'[37]

Such optimism might be judged today to have reflected wishful thinking. But Ricardo was a shrewd, hard-headed business man. He was emphasizing a truth which is today inert simply because it is not being put to the people, not because it has been submitted to them and rejected. The point could be effectively communicated to electorates if the mass media presented all sides of the argument. The indoctrination barrier is indeed stronger among the intellectuals – the opinion-formers – than it is among the masses (pp. 13-14). Unless observable or demonstrable circumstances are explicable by them, economic theories will fall on barren soil. But the harm wrought to the masses by current policies, which is obvious to the economist, must be capable of demonstration.

It is easy to understand the pessimism of those who feel it would be hopeless to expect electors accustomed to receiving what they regard as income without effort to vote for income from work instead. But although the numbers of persons receiving 'relief' ('public assistance', 'supplementary benefits') have grown enormously in Britain and the United States[38] (as well as elsewhere), and although they often have the power of a 'swing group', the net short-term gainers must still form a minority. The pertinent problem is less how to communicate effectively with the recipients of 'relief' than how to do this with the majority who are standing on their own feet. As the politicians know, taxpayers' acquiescence cannot be simply taken for granted. There are evidences of growing resentment at 'squandermania'. If the independent economists made the consequences of current policies plain, the trend of policy might prove to be rapidly reversible.

The welfare system of the Western world has emerged not solely through the cynicism of vote-buying politicians. It has come into being largely because of the altruism and generosity of spirit on the part of many disinterested taxpayers who themselves make up a potential and formidable 'swing vote', including those key persons, the 'independent opinion-makers'. Must this group be expected to react unfavourably to an effort to end the pauperization of a large segment of the less affluent? Why should it be 'impossible' for a convinced and inspired leader to make it clear that the recipients of 'welfare' are being wronged in so far as they are denied the inducement to work for a living? Suppose a British Prime Minister or an American President of the future announced a policy which replaced state aid by high-wage employment for all able-bodied men and women;[39] and suppose he emphasized and demonstrated the human degradation which the system has been observed to cause throughout the whole history of industrial society since the 18th century. Let us imagine, for instance, a future Prime Minister or President saying something like the following:

'The lessons of history show conclusively that continued dependence on relief induces a spiritual and moral disintegration fundamentally destructive to the national fibre. To dole out relief is to administer a narcotic, a subtle destroyer of the human spirit. The Government must quit this business of relief.'

Some will object that no politician would dare to use such phraseology. Others will charge that the passage discloses lack of compassion – or heartlessness – on my part. Yet this passage consists entirely of phrases used by President F D Roosevelt in his

State of the Union message in 1935;[40] and that was in a year in which the real wage-rates at which employment outlets for the unskilled were available stood at a mere fraction of those currently available in the United States. There is nothing harsh in the make-up of reformers who, like the Roosevelt of 1935, would like to eradicate a system which universally operates 'to destroy the human spirit'. A platform with such objectives is not 'politically impossible'.

Footnotes to Part IV

[1] Beggars may become vagrants, vagabonds or criminals.

[2] P Samuelson, *Economics*, 7th Edition, p. 31.

[3] But it *was* earnestly held that persons should not be protected from the consequences of their own folly when the protection was observed to be encouraging its perpetuation.

[4] Quoted in H Hazlitt, 'The Poor Laws of England', *The Freeman*, March 1971, p. 142.

[5] H P Miller, *Rich Man, Poor Man*, Crowell, 2nd Ed., 1971, p. 60.

[6] Hazlitt, *op. cit.*, p. 142.

[7] F A Hayek, *The Constitution of Liberty*, Routledge, p. 310.

[8] Yale Brozen, 'Towards an Ultimate Solution', *Saturday Review*, May 23, 1970, p. 30.

[9] *Ibid.*, p. 60.

[10] Hayek, *op. cit.*, p. 310.

[11] *Ibid.*, pp. 312–3.

[12] Pp. 40 *et seq.*

[13] For instance, O W Cooley, *Paying Men Not to Work*, Ch. 5.

[14] G Stigler, 'Director's Law of Public Income Distribution', *Journal of Law and Economics*, April 1970.

[15] Miller, *op. cit.*, p. 17.

[16] This group received back (in 1965) 126 per cent as income transfers (i.e. their net gain was 82 per cent): *ibid.*

[17] *Ibid.*, p. 17.

[18] This argument is unaffected by the theoretical possibility that the taxpayer's consumption (not his savings) is reduced by the amount of the transfer.

[19] E F M Durbin, *The Politics of Democratic Socialism*, 1940, p. 293.

[20] *Ibid.*, p. 298.

[21] *Ibid.*, p. 289.

[22] *Ibid.*, p. 298.

[23] *Ibid.*, p. 298.

[24] Christopher, Polanyi, Seldon, Shenfield, *Policy for Poverty*, IEA, 1970. This study preferred 'reverse' to 'negative'.

[25] Milton Friedman, *Newsweek*, October 7, 1968.

[26] He asks, 'Will there not be continued political pressure for . . . higher and higher rates of negative income? Will the demagogues not have a field day appealing to have-nots to legislate taxes on haves for transfer to them? . . . These dangers clearly exist.' (*Ibid.*)

[27] Schumpeter, *op. cit.*, pp. 144–5.

[28] *Economists and the Public, op. cit.*, Chapter XI.

[29] A parallel and supplementary reform, perhaps essential for 'political acceptability', would be tax reform to discourage the private squandering of capital and the encouragement of thrift.

[30] Schumpeter, *op. cit.*, p. 145.

[31] *Ibid.*, p. 146.

[32] *Theory of Collective Bargaining*, 1930, p. 107.

[33] The late F C Benham thought that progressive taxes on capital ('wealth') could be used for this purpose. Provided the proceeds were used as suggested here, the effect would be the same, if the incentive consequences could be assumed to be the same. (*Agenda for a Free Society*, ed. A Seldon, IEA, 1961, pp. 114–5).

[34] Anthony Barber, the British Tory Chancellor of the Exchequer, has been recently reported as describing the reversal of a trend towards rising taxes and increasing welfare expenditures (a trend which had lasted for more than a quarter of a century) as designed to increase the individual citizen's 'incentive to increase his earnings and to have greater freedom in how he spends and saves his income'.

[35] I have referred above to similar data for the United States.

[36] Above, pp. 24–5.

[37] Quoted by Hutchison, *Markets and the Franchise, op. cit.*, p. 9, p. 10 (footnote).

[38] In the United States, they amount to about 12 million today, in the UK to half a million.

[39] This alternative could be achieved by abolishing minimum wage laws together with a law over-ruling strike-threat enforced barriers to any person currently receiving less than a certain income from increasing his income. The principle of 'the rate for the job' implies such a barrier when it prevents anyone from accepting any employment which managements would otherwise find it profitable to offer. The market-enforced minima for able-bodied men and women would soon be incomparably higher than any state aid at present available.

[40] Roosevelt's phrases I have used here are quoted in a most impressive paper on the welfare state read to the Governmental Research Association by Dr Roger Freeman of the Hoover Institution. The text is printed in the *Congressional Record* of 5 October, 1970.

V. Illustration: Keynesianism

THE HARM wrought through the failure of economists to bring political economy and vote-gaining imperatives realistically into the study of economic problems can be further illustrated by the Keynesian phenomenon. The clash between Keynes and those he called 'classical' economists arose ultimately out of issues clouded by vague tacit assumptions on both sides about the 'politically possible'.

The classical analysis and prescription

The 'classical' economists can be said, broadly speaking, to have diagnosed economic depression as caused by repression of aggregate purchasing power (the flow of wages and other income). The income constriction was caused, they held, through input prices (costs) and output prices having been forced higher than the people (as investors or consumers) were able (or willing in the light of price expectations) to pay out of uninflated income for the full flow of productive services and products. In simpler terms, goods and services (including labour) were being priced at levels which people found beyond their pockets, so that unsold stocks piled up in the shops and warehouses, workers were laid off, factories had to work below capacity, and equipment had to stand idle. While this condition persisted, the flow of profits and wages was held down. Because prices were too high, people simply found themselves with insufficient income to make normal purchases in the absence of inflation. Then as now, high prices meant low 'real income', and that meant in turn low money incomes as long as (to take Britain) the pound sterling was to continue to be convertible into gold and allowed to retain its purchasing power.

The 'classical' prescription for the cure of such a condition was, firstly, prevention of its emergence, through avoidance of an inflationary boom (in which the price structure of a community became distorted), and, secondly, if a depressed economy had inadvertently come about, to rely on 'economic pressures' to force the required value re-adjustments. It was thought that the unwillingness of people to remain unemployed, and the unwillingness of the owners of assets to see their resources idle or idling, would gradually force a downward shift of costs (wage-rates and interest on capital) and product prices. This would in turn restore both the ability and the willingness of people to absorb the full flow of inputs (whether of labour or capital) into the replacement of stocks consumed, or into replacement and accumulation of fixed or longer-life assets. That is, reduced money costs would enable manufacturers to use their assets more intensively and bring back laid-off workers into their jobs; for the manufacturers could then charge prices at which their customers could and would make their normal purchases. And 'customers' here meant not only final consumers but also other manufacturers buying outputs of capital goods to replace or add to their stock of assets and outputs of materials to add to 'work in progress', and merchants buying goods of all kinds to replace or add to their stocks.

Moreover, the 'classical' economists recognized that governments had some responsibility for the defence of, or the facilitation of, this co-ordinative process of costs and prices and hence for the downward cost and price adjustments needed. But they tended to rely heavily upon the assumption that those who were *mainly* responsible for unemployment and depression, namely, trade unions that forced the price of labour in some important sectors of industry too high, were most severely punished by their members' privation, worry and shame of being without jobs. The pre-Keynesian economists thus relied in part upon 'individual' incentives which, they believed, would tend to bring about recovery. Some of the economists whom Keynes would have termed 'classical', such as Edwin Cannan, recognized also and spoke out strongly against political aggravation of depression via 'unemployment benefit'. In Britain in the 1920s and 1930s it had taken a form which was alleged to be 'subsidizing the occupation of being unemployed', as Cannan once put it.

Economic adjustments thought politically impossible

Nevertheless, pre-Keynesian economists seemed loath to draw attention, with adequate explicitness, to the neglected role of government in suppressing anti-social monopoly pricing practices, whether by trade unions or the price rings of businessmen. That was understandable enough in Britain where nothing resembling anti-trust laws existed save mere remnants of the old common law against restraint of trade, and where a long tradition (which began back in 1824) of non-interference with trade union activities stood in the way. But the harm caused by the chaos due to strike-threat power was clear enough to all dispassionate observers. And if British economists had been able to speak with some unanimity in the late 1920s and early 1930s, more or less in the following terms, subsequent history would, I suggest, have been quite different.

> 'The present hardships of the unemployed are inevitable in view of a situation which ties the hands of all political parties. The temper of the unions today is such that collective action to restore the flow of wages through wage-rate adjustments in competitive markets would arouse so much indignation in trade union circles, and so many opportunities of political misrepresentation, that no government could survive the attempt. Hence the transition to prosperity, instead of being rapid and planned, will have to be haphazard, long drawn out and painful. Contemporary institutions – the practice and tolerance of monopoly by labour and capital – destroy any hope of a rapid and orderly rehabilitation of the economy. Political realities (due to governments' conviction that the true position cannot be explained to the nation or their unwillingness to risk the unpopularity accompanying an attempt to explain) force the community to be resigned to a long and arduous path to recovery.'

One reason why economists did not speak out in this way was that, as the difficulties of the 1930s were looming ahead and encountered, the idea was growing that there might be a *politically* easier economic solution, which would not imply that it was government's duty to risk sacrificing votes. The notion began to catch on that, if aggregate purchasing power was deficient because aggregate supply was deficient (owing to input prices and output prices having been forced – by trade union or other monopolistic pressures – above full employment levels) this deficiency might be remedied in some manner by the stimulation of aggregate demand.

In Britain the writings of A C Pigou, Hubert Henderson, Dennis Robertson, Henry Clay and others contained passages in which the responsibility of unduly high wage-rates (in some industries) for recession, and hence for an unduly low flow of income and wages, was clearly stated.[1] But these economists appeared to speak with two voices. They all significantly fought shy of explicitly recommending the market-selected price and wage-rate adjustments needed to restore the income flow in an economy suffering from value disco-ordination, or some cruder method of mitigating it along 'incomes policy' lines.

For instance, Pigou alleged in 1927 that the current wage policy was 'responsible for adding some 5 per cent to the volume of unemployment', a 'post-war development' which he regarded as 'an extremely serious matter'.[2] At that time he did recommend reducing labour costs, although with supplementation of wage-rates by income transfers. But later, having dropped his wage-subsidies proposal,[3] he still conspicuously refrained from recommending the only remaining non-inflationary solution, that of pricing labour's inputs lower so that they would be within reach of final consumers' pockets. Before the Macmillan Committee of 1931, in spite of agreeing that at reduced real wage-rates 'you would employ more people', he insisted that he did not suggest, 'as any form of remedy, lower real wages in the depressed industries'. Instead, he suggested, unemployment would be diminished 'if the conditions of demand could be so altered that there should be a higher demand'.[4]

'Practical difficulties and frictions'

Now demands for outputs in general (and hence for inputs) can be raised under the conditions Pigou was postulating only through the reduction of input prices or via inflation. Yet he insisted that he was 'not advocating a reduction of real wages'.[5] And in 1933 he embraced the opinion that 'for prosperity to be restored either money costs must fall or money prices must rise'. But, he contended, 'The practical difficulties in the way of the former solution have proved so serious and the friction to be overcome so great that the main body of instructed opinion has turned towards the latter.'[6]

Here we run into the crux of the matter. What 'practical difficulties', what 'frictions' were met with in attempts to increase the wages flow via market-selected wage-rate and price adjustments. When and where was such a policy tried out? Certainly there were union resistances to market pressures. But Pigou was discussing the role of government in recession. I suggest that no 'difficulties' or 'frictions' were encountered by the Government because no attempts were made; that the prospective 'difficulties' which discouraged such attempts were all concerned with vote-acquisition, and that the prospective 'difficulties' were magnified *precisely because the majority of economists were talking with two voices.*[7]

Professor Hutchison scathingly criticizes Professors R Lekachman, E A G Robinson, L R Klein and Mr M Stewart for having unfairly charged Pigou (and others) with having advocated wage-cuts and non-inflationary policies.[8] But they always stopped short of doing so. The trend of the analyses criticized suggested again and again that Pigou and the rest were about to grasp the nettle and advocate reforms conducive to price and wage flexibility, but they did not go further and do it. There is thus something to be said in defence of Professor Lekachman and the others, because they were misled through glaring inconsistencies between the analytical findings and the policy recommendations of the pre-Keynesian economists whom they attacked.

Far from questioning Professor Hutchison's contention, however, I am giving it a special emphasis. Keynesian ways of thinking were quite widespread in Britain (and, indeed, in the United States) before the publication of Keynes' *General Theory*. What has caused misunderstanding is that in 1936 Keynes turned on many of his former supporters precisely because they had, directly or indirectly, argued that wage-rate reductions could restore the flow of wages and income, although they had always been careful to insist that such a solution was 'unrealistic' (for unexplained reasons), and to make it unchallengeably plain that they were not advocating unsophisticated remedies. Keynes and his young advisers felt uncomfortable at having to rely upon the argument that (my wording) 'a little inflation would be much better'. It was this that inspired Keynes (or his young advisers) to invent the 'unemployment equilibrium theory'.

We ought to be careful not to attribute Keynesian-type ideas to the economists who, just after the British devaluation of 1931, were prepared frankly to recommend 'inflation' in the United States as an *emergency* measure, and to *call* it 'inflation'.[9] The distinguishing attribute of what I have called 'Keynesian-type' thinking before *General Theory* was the impression that cheap money is not inherently inflationary. That impression was left so successfully in Keynes' *Treatise on Money* in 1930 that Roosevelt's monetary policy of 1933, reflecting the policy implications of that book, could claim that the aim was to 'maintain a dollar which would not change its purchasing power during the succeeding generation'. Keynes' policy prescriptions were always clearly intended as *generally* applicable for incipient recession.

Keynesian error provoked by political anxiety

The economists who (before 1936) supported Keynes in rejecting the policy of working for more efficiency in the co-ordinative mechanism of the pricing system (by eliminating the arbitrariness due to restrictive practices, including strike-threat influences) did not explicitly say: 'The virtue of a "cheap money" stimulus rests primarily in its *political* practicability. It will not lose votes for a government which adopts it.'

In most cases, economists who inclined to a cheap money solution seemed oblivious of any bias towards 'the politically acceptable'. On the face of it, they were simply believing, in increasing numbers, that a deficiency in aggregate demand meant something different from a deficiency in aggregate supply. Nevertheless, the root cause of such thinking in 'the new economists' (the Keynesians') inhibitions is to be found in vote-procuring considerations. Groping for some means of getting the economy's wheels turning again, without being so 'unrealistic' as to refer to a supposedly 'politically impossible' solution (market-selected price and wage-rate adjustments), they came to abandon the view of *production* (to replace consumption or to add to the stock of assets) as the source of demands (for the services of men and of assets). They fell instead into the serious error of thinking of *consumption* (often conceived of as 'spending')[10] as in some sense the origin of the ability to demand. Confused by their recognition that the *form* of consumption determines the *form* in which production may be expected to replace (or add to) what is consumed, they were led into the fallacy that the *volume* of consumption is the source of the *volume* of demand for production. Instead of thinking in micro-economic concepts and relationships they thought in macro-economic totals.

The thesis that underconsumption is the origin of recession is, of course, tailor-made for political acceptability. It meant an enormous advantage for the popularity of 'the new economics' against the old. It implies that income transfers to 'the poor' will restore a declining economy because 'the poor' are less thrifty than 'the rich', and so will 'spend' not 'save' the income diverted to them. And this notion having once been accepted, it was easy for the venerable but naïve idea of the 'monetary cranks' (such as Silvio Gesell and J A Hobson) to become respectable, namely, that men and assets were idle because insufficient was being spent on them. The 'old-fashioned' pre-Keynesian economists (such as Edwin Cannan, L von Mises, Lionel Robbins, Theodore Gregory, and F Lavington and Benjamin Anderson) had regarded as platitudinous the notion that in depression there was insufficient uninflated money income to ensure the purchase of normal outputs; they held that the whole point at issue was the reason why *outputs* in general were insufficient to generate the required uninflated money income. The new ideas implied that a fiscal or monetary policy which, superficially viewed, could seem inflationary, might prove non-inflationary by drawing forth larger outputs via enhanced entrepreneurial optimism due in turn to boosted prospective spending. If so, it could bring about the restoration of aggregate output – the very reaction on which the 'classical' theory itself relied for recovery.

This was the type of thinking which was tending to win growing sympathy in British official circles during the late 1920s and early 1930s although (possibly because of opposition from the Treasury and old-fashioned bankers) deliberate inflation had not yet become a 'politically possible' policy. It became respectable only when the sophistication of Keynes' *General Theory* (published in 1936) conferred stronger apparent authority on such notions. There was, of course, no controversy whatsoever among economists about the ability of 'a little' inflation to induce a restoration of output. (But so could 'a little' wage-rate reduction – a corollary which no Keynesian ever thought it expedient to mention.)

It was the *other* consequences feared which gave rise to non-Keynesian resistance. The 'old-fashioned' pre-Keynesian economists doubted, firstly, the ability of any country adopting a policy of spending itself into prosperity to fulfil its obligations to convert deposits or currency into gold (and failure to do so was regarded as national dishonesty or akin to the incompetence which caused private insolvencies); and, secondly, the possibility of avoiding inflation under any 'cheap money' system. But the economists who became influential and gained coveted reputations (Keynes and his early disciples in Britain and the 'New Deal' economists in the United States) were those who could encourage governments to think there *was* a politically easier way of maintaining sufficient popularity for re-election than that of eradicating by governmental action the privately contrived obstacles to the restoration of the wages-flow – not least monopolistic trade unions and industrial associations.

'Political' presentation of inflation

The 'new economists' were careful not to advocate inflation openly. Indeed they showed exceptional ingenuity in presenting their proposal in such phrases that its inflationary foundations were hidden. Even in the 1930s, open advocacy of 'mild inflation' in Britain and America would have gravely weakened the vote-winning virtues of the policy. Voters and, even more important, opinion-makers (including bankers) had become obsessed in their bias against any breach of monetary obligations with the world. The sheer prejudice of the intelligentsia, and especially of 'old-fashioned' bankers, against purposefully engineered 'debasements' (as they regarded deliberate depreciations of currencies), however innocuous or gentle the 'debasements' envisaged, was the obstacle to the only 'politically possible' means to recovery. 'Inflation' was politically suicidal. But an inspired insight enabled the Keynesians to perceive that, if called something else, 'the maintenance of effective demand' for instance, it can become respectable and even respected, like 'family planning' for 'birth control'.

In wisely obscuring the inflationary essence of their proposals, 'the new economists' recognized also, although less clearly, that any openly declared inflationary policy would be largely self-defeating. The co-ordinative merits of a depreciating money unit depend upon the maintenance of 'the correct climate of opinion', i.e. upon misleading the public about the planned speed or duration of any inflation deemed expedient (in the light of developing circumstances) from time to time. For otherwise costs would rise in anticipation of increased product prices, and interest rates would rise so as to frustrate the intended exploitation (Keynes said 'euthanasia') of the *rentier*.

To view the course of events in perspective, it is important to repeat that Keynesian ways of thinking had been powerful in Britain and the United States long before the publication of Keynes' *General Theory*. The so-called 'monetary cranks' like C H Douglas and J A Hobson do not seem to have commanded much respect in influential circles in Britain, although the arguments of Foster and Catchings had a real impact in the highest circles in the United States.[11] Nevertheless, the notion that 'cheap money' could bring prosperity and mitigate unemployment without serious contra-effects was growing in industrial and business circles in both continents. And all this time ideas such as Keynes had expressed in his *Tract on Monetary Reform*, 1923, in his *Economic Consequences of Mr Churchill*, 1925, in numerous articles and speeches, and in his *Treatise on Money*, 1930, were making the 'cheap money' way of trying to cure recession seem plausible. Keynes could not be dismissed as a crank. Either his ideas or similar ideas had kept in circulation the hope that there might be an easy way out of recession. These ideas had encouraged government passivity or procrastination in the economically fundamental but (supposedly) politically dangerous steps required to mitigate the depressive effects on the wages-flow of the private use of coercive power in strike-threat form. Through this influence, Keynesian notions may have been more responsible than any other factor for Britain dishonouring the gold standard in September 1931, and indirectly for the prolongation of the depression. Keynes' personal influence during the late 1920s and early 1930s is difficult to assess. Perhaps the extraordinary publicity he then received was due to his swimming with the tide. But what his *General Theory* did was to give explicit academic status to ideas which had already been rapidly gaining general approval in influential, governmental and business circles. Immediately after its publication I was moved to comment on its 'alluring and politically easy suggestions' and to refer to Keynes having 'for years believed and preached . . . what many persons of influence in finance and politics have found it easy to believe', and that it could 'prove to be the source of the most serious blow that the authority of orthodox economics has yet suffered'.[12]

It did indeed have that consequence. And yet, if Keynesian criticisms of governmental policy in Britain had been couched in terms which placed adequate explicit emphasis on 'the political factor', the ultimate consequences of otherwise identical policy recommendations would have differed radically. Suppose Keynes, in 1930 or 1931, had said more or less something like the following. Would not the response in the press and parliamentary debates have been radically different?

> 'The position in Britain has become desperate. Year by year the economy operates at well below its full capacity and the Government is unable to do anything effective about it. We all know that the unions have forced real wage-rates in several crucial industries too high to permit the good living standards and employment security which would otherwise be within our reach. But the union hierarchies control too many votes for any government to do anything about them. They act as "pigs", "sabotaging British industry",[13] yet nothing can be done. In forcing up wage-rates and labour costs, strike-threats and strikes cause outputs that can be paid for to decline and compel thereby the lay-off of many workers. The result is that high wage-rates bring about a reduction in the wages-flow. Therefore I advocate a little inflation to make up the deficiency in the wages-flow that unions have created, and hence restore general prosperity. It need not be much inflation – just sufficient to reduce *real* wage-rates to nearer their free market level. That is all that is necessary. But it will do the trick by reducing real wage-rates.
>
> 'Such a reform is politically possible: it will entail no loss of votes because its effects will be concealed. But "classical economics" stands in the way. Its exponents *hint* at union responsibility for unemployment and low average wages but dare not recommend, any more than their critics dare, action to curb strike-threat power. And so our economy limps along, crippled by spanners in the pricing system, and solely because we have not had the courage to resort to the only *politically* possible way out – mild inflation. The inflationary solution will satisfy not only

the political parties but the union officials also, because they will be able to claim the credit for continuous increases in *money* wage-rates which the market will enforce as long as inflation continues. "Classical economics" has failed to give the answer because it has overlooked the vital factor, namely, that any acceptable policy has to be compatible with the business of acquiring votes.'

An attack on the 'classical economists' along such lines would have been justified, at least in part. Pigou's great book, *The Theory of Unemployment* (1933), hinted at but did not explicitly declare union responsibility for unemployment. And other economists (as we have seen) failed to speak out. They all felt that governments could not then be expected to legislate against the will of so powerful a vote-controlling institution. In 1971, as this is written, the present Government appears likely to do so in Britain.

Unemployment equilibrium

But Keynes' tactics were to destroy the whole authority of 'classical economics',[14] with no reference to the avoidance by its expositors of explicit reference to the basic vote-gaining issue.

The central prong of his attack was the wholly fallacious 'unemployment equilibrium' thesis – the idea that price reductions to restore full (or optimal) employment are somehow self-frustrating. Cutting costs means cutting aggregate demand, his theory implied. This fallacy, now almost universally recognized,[15] is the crucial originality of *General Theory*. Schumpeter felt that Keynes would have liked to rely wholly upon it but that he kept wage-rate rigidity 'in reserve', i.e., that Keynes regarded the method of pricing labour as a second line of defence. But Keynes himself did not consciously rely upon wage-rate rigidity or 'wage-push' in any passage in *General Theory*. It was critics like Professors Franco Modigliani, Gottfried Haberler and Don Patinkin who demonstrated that wage-rate rigidity was an assumption implied by the argument, although Keynes himself had been unaware of it. And it was his disciples who bolstered the rigidity assumption by reliance on the wage-earners' 'money illusion'.[16] My explanation is that Keynes was using all his ingenuity to escape having to base his thesis as a whole on a frank and categorical assumption about the 'political impossibility' of persuading any government to protect or facilitate a labour-pricing process subject to the co-ordinative discipline of the market. This is what two British Governments, Labour and Conservative, have now accepted in principle must be done to tackle the curse of inflation, after 40 years of stop-gap policies ending with the discredited 'incomes policies'. I return to the significance of the apparent change in British policy (pp. 80–2).

Professor Samuelson, referring to the unemployment equilibrium notion as '. . . the most shocking view in the *General Theory*,' comments that

> 'what is most shocking in a book is not necessarily most important and lasting. Had Keynes begun his first few chapters with the simple statement that he found it realistic to assume that money wage-rates were sticky and resistant to downward price movements, most of his insights would have remained just as valid.'[17]

The truth is, of course, as Professor Haberler has pointed out, that 'as soon as we assume wage rigidity and wage push . . . the main difference between Keynes and the classics disappears', while without that assumption 'the Keynesian system simply breaks down.'[18] That is, it was the 'classical economists' (the pre-Keynesians) who had pin-pointed the source of a constricted wages flow and income in 'wage push' (i.e. collective bargaining pressures) and resistance to wage-rate adjustment, although they failed specifically to recommend the policies needed to remove the constraint they diagnosed because they thought them 'politically impossible'. But Keynes, perceiving that it would be politically suicidal to mention the unmentionable, saw a way out through the most successful conjuring trick in history which, deceiving an audience that wished to be deceived, led to its being hailed as a great discovery, as revolutionary and important as Einstein's theory of relativity. I am not accusing Keynes of intellectual dishonesty. He deceived himself with his 'conjuring trick'. That is how I have come to regard his 'unemployment equilibrium' notion, together with the subsidiary theories with which it was bolstered. Professor Harry Johnson says that classical economics stood in the way of a 'sensible' solution in the 1930s.[19] Certainly it hindered the policy which in the event proved to be 'politically possible'. But the 'classical economists' were to blame only for their reluctance to *explain* why acceptably rapid co-ordination through price adjustment was 'politically impossible'. They would never have resisted on *theoretical* grounds any policy recommendations put forward by others based on an assumption that, because trade union influences on money wage-rates were reducing the wages flow and causing depression, the only 'politically possible' way out was 'inflation', which could mitigate the situation by reducing real wage-rates, thereby crudely restoring co-ordination in the economy.

Keynesian macro-economics unhelpful for political decisions

Although other fallacies confuse the *General Theory* the remainder of it is primarily devoted to an examination of the mechanisms through which money expenditures are believed to bring about reduced real wage-rates (in terms of 'wage-goods'), higher prospective yields to investment, and hence fuller employment. And much of what has become modern economics consists in the elaboration or development of this part of Keynes' contribution. It seems almost as though most economists who write on what we now call 'macro-economics' have been trying to devise an apparatus which can be used by fiscal and monetary authorities to judge the optimal rate of depreciation of the money unit. The concept of 'optimal rate' here really means a speed of inflation so adjusted to emerging circumstances as to maintain a delicate balance between the prospect of loss of votes through unemployment (or recession) and loss of votes through inflation.

The econometric and macro-economic developments of the Keynesian apparatus may help us in understanding how different ways of changing the number of money units in relation to changes in output (and in relation to the other causes of change in demand for monetary services) are likely to have different consequences. But they do not help one iota in the sort of practical decision-making by, say, the Governor of the Bank of England or the economic adviser to the British Treasury, or Professor A F Burns of the Federal Reserve Board or Professor Paul McCracken of the Council of Economic Advisers. Had the new methods which Keynes and his successors have put at the world's disposal assisted a solution of the basically *political* problems of monetary policy, some consensus or unanimity would have crystallized about what steps ought to be taken in a given situation. But obviously there is not. For instance, Professor Samuelson seems to differ so fundamentally from these noted American economists that, in commenting on the award to himself of the Nobel prize for economics, he thought it appropriate to make clear (without mentioning names) that he regarded their recent decisions and advice as disastrous. He obviously felt that the inflation they have been able to bring about is too mild, and he charged them by implication with having created 'cruel unemployment'.

The phrases he used could not be better devised for electioneering purposes. 'You do not kill the patient to get at the tapeworm,' he said. 'There must be a better way than this cruel trade-off between unemployment and prices.'[20] '*A better way*.' This is what Keynes was telling the politicians in the 1920s and the 1930s. Keynes meant (my words) 'better than not inflating a little', or 'better than permitting deflation'. But when Professor Samuelson thinks of 'a better way' today, he means 'better than inflating too mildly'. What else can his strictures imply? In the 1930s mild inflation was enough. With the expectations which have been generated during the last decade and a half, *mild* inflation is no longer sufficient to prevent unemployment. The monetary experience of 1958 to 1970 amply confirms this inference. The expansionists are in time driven to advocating not merely more than *mild* inflation but *rising rates* of inflation, not only *high* but *accelerating* inflation.

Futility of inflation

Successive editions of Professor Samuelson's best-selling textbook seem to reflect his gradual perception of the ultimate futility of the inflationary nostrum. In the 1948 edition of his *Economics* he told his young readers that 'a mild steady inflation of, say, 5 per cent per year . . . need not cause too great concern'. In the 1955 edition he reduced it to 3 per cent; in the 1958 edition he came down to 2 per cent[21] and in the 1961 edition to below 2 per cent. In subsequent editions (the seventh and eighth), he specified no percentages at all.[22] Yet now, relying on the full authority of a Nobel prize-winner, he tells the world, by implication, that the heartless Nixon regime is inflating too mildly for the circumstances which its other policies have created. But in common with the rest of the neo-Keynesians, he avoids any explicit reference to the origins of those circumstances. The origins are to be discerned, as he knows well enough, in the political unpopularity of reforms calculated to arouse the opposition of a privileged sector of society – the highly organized labour unions – believed to wield decisive voting strength. This is the position in the USA and Britain today, just as it was in the early 1930s.

When challenged by Frank D Graham, Keynes himself eluded the issue of the political unpopularity of policy with characteristic finesse. Professor Graham had suggested[23] it was appropriate to refer to the labour unions as 'rackets', because Keynes himself had implied that they would always be responsible for unemployment (under any international monetary regime which required a common money unit of defined value – the topic of debate). But if unions acted anti-socially, Graham suggested, they constituted the problem which had to be tackled. Keynes was silent on the point.

Cruelty of inflation

In truth, the notion of 'a better way' ought not to be envisaged as 'a play-off' between unemployment and higher prices. The evil to be eradicated is the disease of disco-ordination in the pricing system, of which unemployment and inflation are *alternative* symptoms. More of the one may mean less of the other. But since the quiet abandonment of Keynes' 'unemployment equilibrium' thesis, every economist again knows that, if the disease is incurable, that is simply because of a supposedly irremediable defect in the institutions of representative government – the assumed 'political impossibility' of reform to establish a framework of law under which the disruptive price consequences of strike-threat power are curtailed or eliminated. It is the responsibility of economists always to assert this disturbing truth in every relevant context.

Professor Samuelson refers to 'cruel unemployment'. Inflation is equally cruel. The Nobel prize-winner's failure to mention also the cruelties caused by a depreciating currency reflects the contrast that people harmed by it are regarded as politically weak, whereas trade union leaders who fear that unemployment is likely to generate pressures to wage-rate adjustments disadvantageous to their private interests are politically strong.

Is the 'politically impossible' becoming possible in Britain?

It is indeed a new awareness of these very cruelties which seems to be forcing a revolutionary change of outlook and policy in Britain. Recognition of the injustices suffered for so long by the politically weak – the old people and many of the lower-income groups – reinforced an awareness of the inefficiencies of an inflationary system. The misgivings aroused led to a full-scale investigation of the phenomenon by a Royal Commission.[24] The Commission's report was followed by a general welcome by the public of its proposals – *inter alia* for reform of the unions. Of course the Labour Government's Bill to curb the worst abuses of union power encountered bitter opposition and it was abandoned in 1969. But the Conservative Government's more far-reaching Bill appears likely to pass in 1971. Such legislation would reverse so long a tradition that undue optimism about the early achievement of more justice in the labour market could lead to acute disappointment and discouragement for those who have fought for it. But the point now at issue is that it was the 'cruelties' of inflation which eventually forced a reluctant Labour Government to take unpopular action and a Conservative Government to follow with more chance of success.

But suppose Professor Samuelson had stated his political assumptions openly, would he not then have been forced to say something like this?

> 'Although it is politically quite out of the question, there is an incomparably better method of achieving prosperity – one which could eliminate cruel unemployment without inflation. It would involve increasing the uninflated wages flow,[25] partly by raising the employment level but partly by absorbing a larger proportion of workers into higher paid kinds of work. This would be the consequence of downward market-selected wage-rate and price adjustments. But to allow such a solution would arouse the antagonism of the AFL-CIO and that would involve too many lost votes to any party advocating or adopting it. For that reason it is not worthy of further consideration.'

If Professor Samuelson had spoken in this kind of way, bringing thereby the relevant – indeed vital – political factor of vote-acquisition into the picture, and if a sufficient number of his economist colleagues had supported him, such reactions as his authority commanded would have been diametrically different. A tendency for the vote factor to change would have been the consequence. People would begin asking, 'Why is the dismissed alternative "not worthy of consideration"? If the obstacle to what is desirable is simply the opposition of an identifiable group which is acting anti-socially, why should we put up with it?' The number of votes likely to be lost through advocacy of a policy aimed at boosting an uninflated wages-flow (and raising profits and prospects of profits also) would have been reduced. In other words, a return to what Keynes, shortly before his death, called (unexpectedly but respectfully) 'the old classical medicine' would have become less 'politically impossible'.

Keynes encouraged neglect of the cause

Keynes' dissatisfaction with the Cambridge economics of the 1920s is certainly understandable.[26] The economists' typical attitude to the continued appearance of depression apparently convinced him that they were encouraging mere passivity on the part of governments towards chronic idleness of men and assets. That his own kind of thinking had been far more responsible for that passivity would never have struck him or his young advisers. Yet governmental failure to take legislative steps to stop the strike-threat depletion of the wages-flow was certainly due mainly to a conviction which the Keynesian type of thinking was encouraging, namely, that there was a relatively painless remedy – 'a better method' – the reduction of real wage-rates via 'cheap money'.

My judgment of Keynes is that he himself would never have risked offending the unions, even in the 1920s. He was held in respect in political parties, and he knew that the remarkable influence attaching to his pronouncements would evaporate at once if he were so unsophisticated as to refer to politically unthinkable possibilities. In 1930 he had expressed 'grave doubts whether an indiscriminate public opinion, reinforced by the votes of the wage-earners, in favour of raising wages, whenever possible, is really the best means . . . for attaining . . . the betterment of the material conditions of the working classes.' It was 'inexpedient', he said, to attempt to achieve this aim 'by the method which reduces the rewards of capital below what is obtainable in other countries. . . . It never pays to render the entrepreneur poor and seedy.'[27] If justice and charity required that the working classes should be better off, income transfers, not high wage-rates, were called for.

But Keynes refrained from translating this philosophy into unequivocal policy recommendations (such as appear now – February 1971 – to be contemplated by the British Government). I do not suggest that any political party would have been likely to give any support to such proposals at that time. But both Keynes and the economists he later criticized were to blame in the 1920s and 1930s for having inhibited more candid references to the political obstacle to recovery.

And so back to the central argument of this essay. The steps needed to reco-ordinate a depressed economy have throughout been 'politically impossible' largely because the economists did not frankly describe them before tacitly dismissing them on the grounds of currently adverse public opinion or the voters' collective ignorance or short-sightedness.

Footnotes to Part V

[1] Several pertinent passages are conveniently quoted in Hutchison, *Economics and Public Policy*, *op. cit.*, Appendix, pp. 277–301.

[2] Quoted *ibid.*, p. 278.

[3] Pigou continued to advocate a disguised wage subsidy in his recommendations of public works of a 'boondoggling' nature, i.e. provided for other reasons than that of collective entrepreneurship exploiting the least-cost time for investment in public goods – when labour for such purposes appeared to be exceptionally cheap.

[4] Quoted in *ibid.*, p. 283.

[5] Quoted in *ibid.*, p. 283.

[6] Quoted in *ibid.*, p. 288.

[7] Of the leading British economists of the 1920s and 1930s E Cannan, L C Robbins, F A Hayek, T Gregory, F Lavington and A Plant were among the minority pleading unequivocally for price flexibility.

[8] *Ibid.*, pp. 285–95.

[9] This was recommended by a group of eminent Chicago economists – F H Knight, Henry Simons, Jacob Viner, Aaron Director, L W Mints – together with the suggestion that the harmful drug should be dosed in the least dangerous form, through public works. (J R Davis, 'Chicago Economists, Deficit Budgets, and the Early 1930's', *American Economic Review*, June 1968.)

[10] This confusion survives. We still often see references to 'saving instead of spending'. W H Hutt, *Keynesianism, Retrospect and Prospect*, 1963, pp. 104, 184–5, 218, 252–4, 257–60, 436n.

[11] M Rothbard, *America's Great Depression*, 1963, pp. 177 *et seq.*

[12] *Economists and the Public*, pp. 245–7. These passages were inserted in the text in page-proof.

[13] These words were used *privately* to one another in February 1931 by Sidney and Beatrice Webb. (*Beatrice Webb's Diaries*, Longman, 1956, Vol. II, pp. 283–4.) As a Cabinet Minister, Sidney Webb (Lord Passfield) would have been expected to act against the 'saboteurs'. He did not.

[14] W H Hutt, *Keynesianism, Retrospect and Prospect*, Regnery, 1963, pp. 19, 36.

[15] 'Keynesian Revisions', *South African Journal of Economics*, 1965.

[16] In *Keynesianism*, I was myself led, just as Schumpeter had been, into inferring that Keynes relied (as a second line of defence) upon wage-rate rigidity, because only such an assumption appeared to make any sense of his theory; and I even gave him credit for recognition of 'what other economists have called "the money illusion"' (p. 161). Professor Leijonhufvud has pointed out that the inference is insupportable: *On Keynesian Economics and the Economics of Keynes*, Oxford University Press, 1968; *Keynes and the Classics*, Occasional Paper 30, IEA, 1969.

[17] P Samuelson, in Lekachman, *Keynes' General Theory – Reports of Three Decades*, p. 332.

[18] G Haberler, *ibid.*, p. 291.

[19] H G Johnson, *The General Theory after Twenty-five Years*, AER, P & P, May 1961, p. 26. Professor Johnson maintains that Keynes' 'polemical instinct was surely right . . .', for 'neo-classical ways of thinking were then a major obstacle to sensible anti-depression policy'.

[20] *Business Week*, October 21, 1970, p. 90.

[21] In 1959, Dr E C Harwood emphasized that Professor Samuelson offered no explanation for the change from 5 to 2 per cent, as it was in the fourth edition, 1958. (American Institute for Economic Research, Book Review Supplement, 1959.)

[22] It is amusing to notice that, just about the time that Professor Samuelson had, in gradual stages, reduced what he regarded as a tolerable annual rate of inflation to 'below two per cent', the actual annual rate of inflation in the United States began rising (from 1962 to 1970 inclusive, according to the price index for gross national product, which covers both private and government outputs) at the following annual percentage rates: 1·1, 1·3, 1·6, 1·8, 2·8, 3·2, 4·0, 4·7, 5·2.

[23] The debate is in the *Economic Journal*, 1943, pp. 185–7, and 1944, pp. 429–30.

[24] Royal Commission on Trade Unions and Employers' Associations, 1968.

[25] By 'uninflated wages flow' is meant the aggregate value of the flow of wages measured in pounds or dollars (or other money units) of unchanging purchasing power.

[26] But if Keynes had really absorbed F Lavington's teachings (he was editor of the series in which Lavington's major work, *The Trade Cycle*, 1922, appeared), the *General Theory* might never have been written.

[27] Quoted in Hutchison, *Economics and Economic Policy*, *op. cit.*, p. 279.

VI. Illustration: The Strike-threat System

A STRONG tradition of leniency towards the implications of union activities had existed among the pre-Keynesian economists. Sir John Hicks once suggested that this was because British economists had always been supporters of the 'Liberal' Party which had throughout relied largely upon the votes of the trade unionists.[1] My interpretation of the situation is somewhat different. First, no political party dared risk losing the votes which unpopularity with the unions would mean in any constituency with considerable numbers of unionists. Second, the economists also were striving for influence, irrespective of party, not only for personal ambition but through pure public spirit. They felt instinctively that they could only harm their objectives if they antagonized organized labour.

The classical economists

In Britain the phenomenon goes back to the early years of the 19th century. After the passage of the Combination Acts of 1799 and 1800[2] both Tory and Whig members of parliament in industrial constituencies began competing with one another in promises to get those Acts repealed. During the same period, leading economists tried to get the ear and the confidence of the emerging British labour leaders. Their purpose was no doubt the laudable one of persuading them to act wisely, a purpose which required supreme tact. Direct condemnation of the unions' methods would have been thought poor tactics. That is why McCulloch, the most uncritical expositor of *laissez-faire* doctrine, could have his writings quoted approvingly in the preamble of trade union rule books of his day. McCulloch's failure to speak out against the strike-threat system was due to his wish not to attenuate in any way the ability of his political friends to assure the new vote-influencing institutions, the unions (which were legalized in 1824), that the economists were not hostile to 'labour's' aims.

In 1936 two chapters of my *Economists and the Public* were described as *The Influence of the Trade Unions upon J S Mill*, and *The Continued Corruption of Economic Thought.* I thought in 1936, although I do not today, that McCulloch and other utilitarians had supported the repeal of the Combination Acts simply because of their assumptions about inherent internal weaknesses in all monopolies, which made laws against 'conspiracy' redundant – weaknesses which, in the absence of those Acts, would have brought home to the community the complete inefficacy of the strike-threat system. I now feel that if the economists did think that, it was mere wishful thinking: that both McCulloch and Mill embraced a crude *laissez-faire* – a hands-off policy towards the private use of coercive power (the threat to disrupt the productive process via the concerted withdrawal of labour) – because they were tacitly concerned with 'the vote-acquisition' necessities of governments and oppositions. It was that which led Mill to contend that fixing wage-rates by strike-threat duress was 'mere moral compulsion', and to describe attempts to restrain such compulsion as 'odious' – indeed, just as indefensible as the enactment of maximum wage-rates, which had been resorted to at one time under the Statute of Labourers. This in spite of his admission that 'combinations to keep up wages . . . are seldom effectual, and when effectual . . . seldom desirable'.[3] Only a similar motivation can explain his second line of defence for the toleration of the strike-threat system, namely, that 'all economical experiments, voluntarily undertaken, should have the fullest licence';[4] for in other monopolies – equally describable as 'experiments' – he advocated state interference.[5]

Avoidance of criticism of unions

The historical development of this opinion-phenomenon subsequent to Mill is indicated in passages I used in 1936. Since Mill's time, '. . . the course of politics made it even less easy for any economist wishing to retain influence in the political field to be critical of unionism. The power exerted by organized labour on politicians is well illustrated by a contemporary comment on the passing of the Trade Union Act of 1871, which abolished specific legislation respecting intimidation, molestation and coercion by unionists. The writer was E S Beesly, one of the most prominent workers for the trade union cause in the 'sixties and 'seventies. "It was generally believed in the House," he said, "that not a dozen members would go into the lobby with the mover and seconder." But when the day came, and the members found that there was no escape for them, sooner than risk offending their unionist constituents, they allowed the second reading to be carried without a division. . . . Such an exhibition of slavish cowardice was never seen.[6]

'In 1893 Nicholson charged the leaders of public opinion with damaging "the constitutions of the British working men" by the "adulterated sweets of sentiment and flattery."[7] And in the same year Clem Edwards could describe the Trades Union Congress as "to the politician a ready indicator of 'paying opinions'."[8] By the 'nineties some of the large trade unions exerted vast political influence, and phrases like "a living wage", "collective bargaining", and so forth, acquired, to use the words of Mr L L Price, a "great argumentative advantage".[9] The Press, of course, reinforced the tendencies arising from Party politics playing upon the newly enfranchised democracy. They dared not publish anything which might offend the large labour organizations. Mr Sidney Webb was certainly able to make disparaging remarks about the futility of the Trades Union Congress of the 'nineties in his *History*. But as Edgeworth pointed out, "hardly any writer in the capitalist press would venture to imitate so frank a criticism of a trade union body".[10]

'The influence of trade union growth upon the minds of politicians need not necessarily have affected economists. But the tradition set up by Mill was certainly followed by permanent inconsistencies in the science. The weaknesses were not entirely new. The idea that "labour's disadvantage in bargaining" led to the earnings of the working classes being unduly low had occasionally appeared as a sort of unexplained and very unimportant attachment of the economic theory of certain writers ever since Adam Smith. Wage-rates were supposed to be forced, in some undefined sense and in some undefined degree, below the level determined by "supply and demand". Discussions of the point sometimes mentioned formal or tacit monopoly among employers, but more usually "labour's disadvantage" was regarded as a quite separate factor. After Mill's time the idea took on a much greater importance, and it became, therefore, an even more astonishing and unexplained inconsistency. Economists then began to talk about "unequal bargaining power", and the phrase seems to have been regarded as having an obvious meaning. Practically the only attempted expansion or explanation of it was a further empty phrase. "Labour is a perishable commodity", it was said, as though the services of all other productive resources were not equally perishable! The gradual recognition that the effects of collective bargaining upon distribution could be tackled through the theory of monopoly might have led to a consistent treatment. One would have expected that the very conception of monopoly would have suggested doubts of some of the earlier explanations of "unequal bargaining power"; for the workers' bargaining weakness was generally supposed to be at its worst when the employers were most obviously subject to competition among themselves, as under the so-called "sweating system" for example. But having demonstrated the indeterminateness of the distributive arrangements under bilateral monopoly in the case of collective bargaining in separate fields, the later economists jumped to the quite unjustifiable conclusion that distribution in general might be re-arranged in the workers' favour by such means. This theory of how the spoils of monopoly might be divided between capitalists and workers in individual cases was, however, never absorbed into any complete theory of distribution. The economists sometimes seemed rather ashamed of their "bargaining power" argument and were apt to refer to its unimportance. Yet it remained as an unexplained inconsistency serving no purpose other than that of enabling economists to deny that they were opposed to trade unionism. How serious an influence this inconsistency has had is a question which historians will some day have to consider. It certainly destroyed the specificness of economic teaching at the very point at which its message should have been most unequivocal. A frank admission of the futility of private or State wage-fixation as a remedial agency ought to be the starting-point of all social studies concerned with the problem of relative poverty. An honest recognition of the same fact should form the foundation of all academic discussions of "industrial relations". But the economists' weaknesses have resulted in whole social philosophies having been based on an extraordinary blindness to or a dogmatic denial of this truth, and in the efficacy of wage-fixation being calmly assumed by practically all "sociologists".'[11]

Futility of strike-threat

The reference to the 'futility' of strike-threat determination of wage-rates may easily be misunderstood or misrepresented. The private use of coercive power can win sectionalist gains for unionists retaining employment after labour costs have been forced up. But the gains are at the expense of

(*i*) laid-off comrades,

(*ii*) excluded workers who could otherwise have raised their earning power by accepting profitable employment in the occupation affected,

(*iii*) consumers, and

(*iv*) investors who, at the time at which they invested (when they decided to retain, replace or add to the resources used in any activity), failed to make due allowance for strike-threat possibilities.

The distortion in the composition of the stock of assets which occurs through entrepreneurial avoidance of exploitation (in an economy in which abuse of the strike-threat is tolerated) not only reduces the source of 'aggregate demand' (that is, the community's real income) but also the wages flow.

The reader may feel that, though all this may be true, it remains 'politically impossible' today, in any industrial country, to attempt effectively to restrain strike-threat power. In Britain the Labour Government tried in 1969 to check the misuse of union power, but in 1971 the Conservative Government is succeeding in what their Labour predecessors had tried, without avail, to achieve. And in the United States, if only in carefully guarded language, there are continual references in influential circles to the need for restraint. On the day that this passage was drafted, the United States Assistant Treasury Secretary, Mr M L Weidenbaum, is reported to have said (November, 1970) that he personally favours

> 'a conscious effort to create a new climate in which more reasonable and sensible wage-cost-price decisions are made and particularly in those areas of the economy where substantial concentrations of private economic power exist. . . . Until this climate is achieved or until these substantial concentrations of private economic power are reduced, I find it hard to see how

> we can arrive at these two desirable and inter-related objectives – the return of full employment and sustained reduction in inflation.'[12]

Clearly, Mr Weidenbaum regards it as inexpedient or impolitic to direct this veiled threat at organized labour specifically. But all his readers will know, and he knows they will know, that if business, including big business, is in any measure responsible for pricing output beyond the reach of income (subject to any degree of inflation) the remedy lies in anti-trust initiatives. It is precisely because labour is protected from anti-trust proceedings that the problem arises. Mr Weidenbaum is dealing with a situation which emerged because official policy in the United States has been based on the expectation, or rather hope, that increased productivity would justify cautious monetary expansion. But when powerful inflationary indications showed that these hopes had been disappointed, Washington seems still to have thought that (to use Professor V Salera's words),

> 'it could meet major companies and talk them out of proposed price increases. . . . Why shouldn't price moderation reflect assumed "economies" of production at high rates of capacity utilization? Actually workers were getting more dollars for producing less per dollar. Productivity was in steep decline.'[13]

The reality is that the 'concentration of private economic power' which is responsible for the dilemma of unemployment or inflation which Mr Weidenbaum is discussing is so easily identifiable that one cannot help wondering whether it can still be claimed to be 'politically impossible' to reduce its power or even wholly to dissolve the power of the strike-threat continuously to reduce the flow of uninflated wages and income. Why should not government spokesmen come out wholeheartedly with a 'courageous' (as commentators would be inclined to describe it) identification of labour union pressures as responsible for the dilemmas which constantly confront the world's statesmen?

Lack of candour in advocates of incomes policies

The advocates of 'incomes policies' in the United States are at last coming close to doing just that. They are now frankly identifying 'wage-push' as responsible for the expediency of inflation, although they typically still fight shy of explicit reference to the crucial expediency, or the discomforting truth, that inflation is deliberate and purposeful. Like the Keynesians 40 years ago, they do not yet feel bold enough to inform the public that pushing up end-product prices is a crude means of correcting an incipient depression of the wages-flow of which wage-push is the direct cause. Thus Professor Gardner Ackley, formerly Chairman of the Council of Economic Advisers, has recently insisted that the object of an 'incomes policy' must be to reduce 'excessive wage claims'. Professor Herbert Stein, a present member of the Council, states categorically that 'the rate of inflation . . . will depend upon the wage-rate increase probably more than anything else.' And the Chairman of the Federal Reserve Board maintains that 'the inflation that we still experience . . . rests on the upward push of costs – mainly rising wage rates.' But Mr Lawrence Fertig, in the title of a masterly article, describes those and similar opinions as 'Right Diagnosis – Wrong Prescription'.[14] The prescription is indeed for an attempted solution of the politicians' dilemma which has just been abandoned in Britain as a complete failure. Economists must now begin to speak unequivocally.

Unions' political power exaggerated

This is one of the fields in which what I have called earlier 'the polemical asseveration of "political impossibility"' on behalf of the vested interests has intimidated party organizers and candidates. Even in the United States, where the power of organized labour as a swing group in elections and a source of 'campaign funds' seems to be stronger than in any other country, the voting strength of labour unionists amounts to no more than 15 per cent of the voters, while unionists constitute less than a quarter of the labour force. Moreover, some believe that more than half of the union members are involuntary. They join and acquiesce in union rules simply because they would otherwise be deprived of their livelihood. The three-quarters of the labour force who are not unionists represent the class most seriously hurt by strike-threat and strike consequences. They are hurt both as consumers and because, through union exclusiveness, considerable numbers of them are shut out (displaced or excluded) from more remunerative and productive employments), and possibly even more because entrepreneurial avoidance of prospective duress-imposed costs impairs the composition and volume of wage-multiplying assets. Can it be 'politically impossible' to explain the issues to a sufficient proportion of this three-quarters of the labour force to be able to reverse the trend? In the United States the issue will soon become unavoidable. In Britain, the chance of this occurring has not seemed so bright since early last century.

'Incomes policy' the second-best political alternative

Nothing could be plainer than that the politicians now perceive the responsibility of the strike-threat system for the constricted wages and income flow and hence for unemployment. But it is just as obvious that they find it 'politically impossible' to say so, or to recommend direct action for the advantage of the general body of wage-earners. They tend therefore (although this does not seem to apply today to the ruling politicians in the UK) to grope towards an 'incomes policy' solution as the alternative to inflation. And, even this policy, they feel, must be enunciated in such a way that its real purpose is hidden, with the result that 'controls' on the pricing system may be at cross-purposes with the basic co-ordination objective. To satisfy the economically illiterate, there must be a pretence of 'impartiality'. The people need to be told that both wage-rate increases and 'profit margins' must be curbed. Yet if the restoration of the wages and income flow is the purpose, prospective yields ('profits') must be raised, not curtailed. Certainly, 'impartiality' may require some guarantee that such restrictive practices as may be alleged (and supported by evidence) for which organized labour is not responsible shall be tackled simultaneously. That is, however, too difficult for politicians to explain to editors, clergy or university students. Given the current stereotypes of the opinion-formers and the masses, it behoves politicians therefore to pose as impartial between sin and virtue. But why should virtually all the economists be following suit, as they seem to be doing today, at least in the USA? If economists pressed unanimously for the deliberate maximization of prospective yields, which was indeed Keynes' remedy in 1930 (pp. 70–1), as well as in his *General Theory* once the fallacious unemployment equilibrium element is expurgated from it (pp. 64–5), could it not be made self-evident for all opinion-formers that market-selected price and wage-rate adjustments are the means to prosperity with stability and distributive justice?

Britain's Industrial Relations Bill

Adopting the 'dual form' of exposition advocated here, the economist can describe the Industrial Relations Bill currently under discussion in Britain as a move in the right direction.[15] He can explain that its virtue is that it goes as far as is likely to be accepted as 'politically possible' today, although it must be regarded as a mere step towards what Professor A A Shenfield called a few years ago[16] 'the emancipation of labour'. It does no more than curb the private use of coercive power.[17] But the strike as such is a type of warfare, and in war there is never any presumption that victory will be for the righteous. The achievement of a humanitarian order with distributive justice and the optimal use of the community's resources demands that the strike-threat as such be eliminated as a determinant of the price of labour. The truth is that in the 'good society' there is no substitute for the determination of *all* prices, of labour as well as the services of assets and entrepreneurs, under the social discipline and co-ordinative pressures of the unrestrained market.

But neither the 'opinion-formers' nor the voters can be expected to understand the economists' insights on this issue. The electorate must be led towards such a perception by concrete experience of reforms which increase labour market freedom by gradual degrees. For that reason the British Bill is welcome. It is a step which will at any rate disturb, even if it does not dissolve, stereotypes which have for years been barring the way to relative security and affluence.

One almost universally misunderstood consequence of the strike-threat system which the economist needs to clarify is that the harm does not reside *mainly* in the detriment suffered by innocent third parties, or in the harassment of salesmen at home or abroad, or in the inefficiencies due to industrial unrest and the maintenance of workers' resentments (preservation of a sort of war psychology conducive to effective strike warfare and threats of such warfare), or in the sacrifice of outputs caused by long periods of strike idleness of men and plants. These are merely the most conspicuous evidences of the burdens from which the people, particularly the poorer classes and races, cannot at present escape. The major burdens, of which all disinterested economists are aware, are much less conspicuous: the distortion of the production structure[18] and of the composition of labour employment – a distortion which must curb or reverse the real income growth that would otherwise be generated by society's savers and entrepreneurial enterprise. Not only does the present system exterminate part of the source of demand for labour; it has regressive consequences upon the distribution of wages and income[19] and recession-creating effects which, as we have seen, render inflation politically expedient.[20]

Footnotes to Part VI

[1] J R Hicks, in *Economica*, May 1931, pp. 244–5. Hicks' words are '. . . most economists were – in a wide sense – Liberals; Trade Unionists were also Liberals . . .'

[2] These Acts may be said to have consolidated into one Act about forty previous Acts and the traditional common law forbidding 'conspiracy' (i.e. agreements in concert about the prices to charge for commodities, including labour's contribution to the cost of commodities).

[3] *Principles of Political Economy*, Ashley Edn, p. 936.

[4] *Ibid.*, pp. 938–9.

[5] An even more blatant case than J S Mill's, involving an economist of lower stature, was that of Thorold Rogers. Originally a pure Bright, Cobden, Bastiat exponent, on entering politics (from academic life and the Church), he began to write just as do those modern 'labour economists' who act also as labour consultants, arbitrators, conciliators, mediators, and so forth. W H Hutt, 'Misgivings and Casuistry on Strikes', *Modern Age*, Fall, 1968.

[6] E S Beesly, *Letters to the Working Classes*, 1870, p. 20.

[7] Quoted in *Economic Journal*, 1894, p. 367.

[8] *Economic Journal*, 1893, p. 694.

[9] *Ibid.*, 1898, p. 468.

[10] *Ibid.*, 1894, p. 499.

[11] *Economists and the Public*, *op. cit.*, pp. 202–5.

[12] Quoted in *Business Week*, 21 November, 1970, p. 23.

[13] *Wall Street Journal*, 24 November, 1970, p. 18.

[14] L Fertig, 'Our Faltering Economy: Right Diagnosis – Wrong Prescription', *Human Events*, February, 1971.

[15] The Bill can be briefly summarized as follows: (*a*) it establishes an industrial relations court with power to fine unions which are guilty of certain 'unfair labour practices' or permit 'wild-cat' strikes. The provisions here resemble those in the United States Taft-Hartley Act, but the British Bill, if passed, is likely to be more effective because of the more efficient administration of justice in Britain and her politically neutral courts. (*b*) It weakens abuse of the 'closed shop' device. (*c*) It

imposes a 'cooling off' period before strikes may legally be called when they may harm the national economy. (*d*) It makes labour contracts enforceable in the courts, although there are loopholes obviously intended to mitigate the impact on labour opinion.

[16] At a meeting of the Mont Pelerin Society, 1967.

[17] The nearest parallel yet in the United States is President Nixon's suspension of the Davis-Bacon Act, which requires the payment of prevailing wage-rates on federal housing projects. As a gesture, the suspension may be important.

[18] The composition of society's stock of assets is biased towards what entrepreneurs predict will be relatively unexploitable by the unions.

[19] I.e. it causes the injustices of an income distribution strongly influenced by an arbitrary power to disrupt. It means the pricing of labour's input and products according to the principle of 'might is right'.

[20] As a crude yet decreasingly effective means of rectifying union-precipitated unemployment.

VII. Pessimism and Prospect

A DEPLORABLE pragmatic tradition has thus developed under which economists have tended to inhibit careful exposition of 'politically impossible' solutions. And that very inhibition has contributed to the 'impossibility'. Alternatively economists have come to believe themselves not to be concerned with 'political' issues, yet have in practice allowed a subconscious self-censorship to condition their thought and teachings – a censorship based on their tacit judgment of what electorates will welcome, stomach or reject. When they do declare categorically that a proposal is 'politically impossible', they are usually indirectly praising it, even if their real purpose is to destroy what is suggested. They are implying that it has to be renounced solely because politicians will not believe they will be able to persuade electorates (or those who finance their campaigns) to accept such a proposition; or else that (for other, less disinterested reasons) the politicians themselves will be unwilling to make the proposal an issue for public debate or discussion. But the harm wrought occurs chiefly when objections due to the supposed vote-acquisition defects of recommendations remain unexpressed.

The attitudes so created have been inclined to engender an unwarranted pessimism about the prospects of fundamental reform. We must never regard the opinions of voters on any issue important to their well-being as in any sense unalterable. That is why the explicit statement of proposals which are not pressed, or which are even categorically dismissed on account of evident current unacceptability, may be able to play so fruitful a role. A long educative period may have have to precede many fundamental reforms under democracy or even under other forms of government. Thus it would be possible for a Hindu statesman to condemn the caste system as an obstacle to a much needed modernization without advocating its immediate eradication. He could state his case in non-emotive, dispassionate terms and commit himself to take no action without the widest general approval for any reform. In that way he could avoid provoking consternation and revolt.

The 'impossible' does happen

Nevertheless, the relative difficulty of getting changes accepted by the people prompts the question, expressed in Professor Philbrook's (rhetorical) words, 'Should we not . . . distinguish among conceivable changes according to whether we stand some reasonable chance of actually effecting the necessary shift of attitude? Why waste effort by making suggestions which we cannot hope will be accepted?'[1] My answer to this question is weighted differently but is essentially the same as Professor Philbrook's. He points to the truth that proposals which most often seem to be least likely to be accepted by the people may be the most desirable. This is certainly a consideration which magnifies the importance of refusing to accept public opinion in any form as inevitable and unalterable. But my own answer is empirically inspired. Changes in public opinion of a kind which nearly all experienced observers would have regarded earlier as 'inconceivable' do occur in practice.

Schumpeter's almost terrifying pessimism (in spite of his courageous realism) cannot be accepted. He gave no consideration whatsoever to the possibility that eventual discernment of the very perils to which he was pointing might lead, given the inspired political leadership necessary, to a sufficiently widespread democratic majority supporting reforms in the spirit of the 'Tocqueville principle' and acceptance of the rule that all forms of scarcity contrivance (affecting skill-acquisition as well as outputs) should be impartially suppressed because they cause recession, as well as for the regressive incidence. If the economists spoke out, such a solution could not be ruled out as 'political impossibility'.

Again and again in history the 'unbelievable' has occurred when disaster has threatened. This generation has witnessed the formerly totalitarian-minded German people, confronted with the dismal prospects of 1946–7, accepting the Erhard philosophy of 'prosperity through competition', and enjoying the consequential 'miracle recovery' of the following decade.

That threatened disaster may force a government to retreat from a policy long thought of as politically lucrative was the British

Labour Government's 1969 attempt to curb the abuses of strike-threat power. It proposed legislation then which would have been regarded ten years previously as 'politically suicidal'. Although its attempt failed the *volte-face* had important consequences on opinion. Public attitudes now make it appear possible that the Conservative Government will be able to win votes, rather than risk the near-certainty of losing them, by departing from what had been widely accepted as irreversible policy for generations.

Naturally, the proposals have had to be described to the electorate in terms which do not appear to threaten the careers of the union hierarchy or the status of the unions. The objective of the Industrial Relations Bill, in the Prime Minister's (Mr Heath's) words, is 'not shackled trade unions, but free, strong and responsible trade unions'. But it is now beginning to appear almost as though it will be 'politically impossible' *not* to persevere with a Bill which will effectively curb strike-threat power. For the last election was won on the promise to end inflation, while (for reasons reiterated above) the subsequent continuance of strikes has caused reluctant perseverance with the old policy of inflationary validation of duress-enforced labour costs, with prices generally still tending to rise (written in March, 1971). The Prime Minister's opponents are already making political capital out of his having 'failed to deliver', having themselves done everything in their power to obstruct delivery.[2]

That shrewd politician, Mr William F Buckley, Jr, of New York, recently commented on the extraordinary fact that official encouragement of and official provision of facilities for birth control are now widely accepted in the United States, although for many years practically all politicians skated clear of the issue because they felt that any stand in defiance of religious opinion generally would be politically suicidal. Today not only is 'family planning' officially promoted but in several states abortions have been legalized.

And who would have believed only a decade ago that legislation to prohibit resale price maintenance could be sponsored by any British political party let alone achieve enactment? Yet mainly as a result of the cogent logic and skilful exposition of a single scholarly 'opinion-former', Professor Basil Yamey,[3] one of the most burdensome forms of restrictive practice has now been largely eliminated in Britain,[4] with benefits for the economy which subsequent inflation has to some extent obscured.

Has the 'impossible' become imperative?

At other times, politicians seem to have had a sufficient sense of responsibility or a sufficient concern for their careers to stop short of precipitating disaster through capital consumption or runaway inflation. Thus, the Labour Government in Britain was forced a few years ago to forego the rapid expansion of welfare services which electors had been promised because it feared that higher tax rates would reduce prospective tax revenues. Labour politicians began to advocate the imposition of charges for services hitherto 'free'. And discussion of the Government's predicament seems to have helped to create the climate of opinion which permitted the Conservative Party to win an election although pledged to halt inflation, to cut down on welfare expenditures, to impose welfare charges, and to reduce taxes. The new policy in 1971 has again reversed a trend. Recipients of medical and dental services are now to be called upon to contribute more towards the cost – a reform which, significantly, has permitted more generous aid to the genuinely needy. What is important, however, is that the reversal of direction appears to have occurred just in time to have prevented disaster.

Unexpected changes in South Africa

Even more remarkable are the opinion-changes which seem to be occurring in the attitudes of the white voters of South Africa towards the non-whites.[5] So profoundly do these attitudes appear to have modified over the last two decades that cabinet ministers find it expedient to make pronouncements of a kind which, say, only a single decade ago would have been felt to be seriously damaging to their party. Much of the credit must be accorded to the small Progressive Party, with its one solitary Member of Parliament, which has doggedly exposed the stupidities and occasional inhumanities of the existing treatment of non-Whites. That Party has not been deterred by the seeming 'political impossibility' of attempting to challenge current colour attitudes by legislation proposals. Yet these attitudes, inculcated for generations by the dominant Church (and especially among the deeply religious Afrikaners), by teachers, by trade unions and by Nationalist and Labour politicians, seemed to constitute an impregnable barrier to basic change. But since the inauguration of Apartheid, a realization of the economic inefficiencies – the sacrifice of real income and prosperity – caused by colour bars has been the ally of dreamers undaunted by the cry of 'politically inconceivable'.

One of the main subjects of discussion in the South African Parliament of recent years has been labour shortage, and this in a land where millions of non-whites are excluded from opportunities in order to protect the incomes of white artisans and labourers. But the Minister responsible for African affairs told Parliament recently (September 1970) that, within the Bantustan areas, Government policy recognizes 'no ceiling' in the promotion of Africans to the highest positions in the public service, in mining, in industry or in commerce, provided 'they grow into these top positions from the bottom', i.e. that they do not expect to 'be shoved in at the top'.[6] What is important in the present discussion is not the sincerity of this policy statement but that the Minister dared make it. Not long ago, it would have been 'unthinkable'.

Nevertheless, the Government vote-gaining or vote-retaining incentives remain the obstacle to more rapid progress towards more racial justice in South Africa and the increased prosperity which would accompany it. The United Party – the main opposition party – has continuously hinted at the need for more mitigation of the inequalities of opportunity which operate against the advantage of the non-Whites. But their spokesmen seem always careful not to say anything which might lose them votes. They must not, they feel, offend organized labour. And the Government, faced with United Party criticisms, constantly try to trap Opposition spokesmen into the vote-losing gesture of displeasing the unions by asking categorically for wider non-White opportunities. For instance, a Government spokesman recently asked 'whether it was United Party policy that the Post Office should train non-Whites to serve Whites behind counters, and as engineers, telephone technicians and telephonists (to serve white subscribers).'[7] An Opposition spokesman replied evasively that the policy of his Party was that of 'ensuring the security and standards of living of the white worker, making full use of the untapped labour potential of the country.' The Government then charged that their United Party critics 'scream to high heaven that the Government should train more non-Whites, but when we ask in which jobs the non-Whites should be placed they recoil from their policy and refuse to disclose their point of view.'[8]

There are, broadly, two sources for the pressures which are prompting opinion-makers in South Africa not directly engaged in the vote-acquisition process to break down time-honoured stereotypes and persuade the white proletariat to vote differently. The first, to quote *The Financial Mail*, is 'the pressures of economic growth, or burgeoning demand for labour.' The gates must be opened to the non-Whites, says that journal, because of 'the sheer impossibility of drawing on South Africa's limited pool of white talent indefinitely for all the skills, the management and the leadership that an economy of this size and potential demands. The reforms will come.'[9]

The second reason why opinion-formers not in politics have felt compelled to change proletarian attitudes has been world criticism of the 'petty' or 'negative' aspects of the 'separate development' policy.[10] Thus, a leading Afrikaner intellectual, Professor W de Klerk, recently called upon a predominantly Afrikaner audience to reject 'the godlessness of racialism and protectual mastership'. *The Christian Science Monitor* reports that 'significantly, his speech was greeted with enthusiastic applause'. And other Afrikaner intellectual leaders are taking a similar line, calling for a gradual elimination of discriminatory practices based on race or colour. Are they asking for the 'politically impossible'? A few years ago most South Africans would have answered 'yes'. Today, many are hopeful. It would be wrong to leave the impression that leading Afrikaner opinion-makers can yet be said to favour the abandonment of 'separate development' policy. What they are tending to condemn more and more is discriminations and injustices which occur within its framework.

Prospect of economic collapse to make the 'impossible' possible

In referring above to the 'miracle recovery' of Germany, I suggested that the prospect of disaster was the main factor in permitting acceptance of the Erhard reforms. Now it seems to me that economic collapse will increasingly threaten the western democracies if they try to persevere with their attempts to restore employment via inflation when everyone has come to expect inflation to occur. As we have seen, this is what has been happening. The developing situation may well force an early choice between democracy, political and economic, on the one side and totalitarianism described as 'democracy' on the other. If 'stagflation' – recession in spite of inflation – eventually causes countries like Britain and the United States to be stampeded by the pressures of short-sighted thinkers and commentators, the intelligentsia would be most hurt in the beginning.

The danger looming before the western world is a possible outcome of the gradual drift of traditionally free enterprise countries towards a totalitarian concentration of economic power due to reactions to 'stagflation'. The drift originates in the almost self-perpetuating *political* weaknesses of which reluctant inflation is the consequence. Because governments have shrunk from the task of exposing the responsibility of the unions for chronic incipient recession, and have been able to hold off rapidly worsening unemployment only through inflation, society strives to protect the real value of its capital in the remaining sectors of the economy in which the price mechanism still operates with relative freedom. Governments then feel compelled eventually to suppress such efforts. That is basically why 'incomes policies' and other kinds of totalitarian control have to be resorted to. When the leaders of opinion realize the dangers, will fundamental reforms remain 'politically impossible'?

In spheres in which the free market survives, people are in a position in some measure to defend the real value of their savings. They can do so not only by refraining from investment in fixed-interest securities (unless a high enough rate of interest mitigates the consequences of inflation) but even more effectively by insistence upon 'escalator clauses'[1] in contracts for the remuneration of the services of men and assets. President Johnson's Council of Economic Advisors described escalator clauses as 'vast engines of inflation', a very subtle reversal of the truth. It is true that the attempt to preserve the real value of wage-rates fixed under the strike-threat (as inflation more or less 'validates' them by confiscating part or all of what had been conceded) makes further inflation seem politically inevitable or expedient. That is what gives a spurious plausibility to the Council's maxim. But the vital point is that, adopted on a sufficiently wide scale, covering not only salary and wage contracts but rent and hire contracts (and accompanied by the logical concomitant of escalator clauses – insistence upon 'index bonds' for loans and mortgages),[12] the result would be to force governments to return to the monetary integrity of the pre-1914 era. It is in order to extinguish this expression of social discipline that, when more and more people begin to understand the situation, governments which wish to persevere with inflation ask for totalitarian powers of wage-rate and price fixing, through income policies, freezes, and the like, together with all the other apparatus of control repugnant to democratic principles.

Footnotes to Part VII

[1] C Philbrook, *op. cit.*, p. 851.

[2] 'He is in the process of pushing up prices,' wrote Mr John Grant MP, in January 1971. 'It is not too early to predict that the promise that won him the last election will lose him the next one.' This assertion is a perfect example of the 'polemical asseveration of "political impossibility".' *The Spectator*, 2 January, 1971.

[3] B S Yamey, *Resale Price Maintenance*, Hobart Paper 1, IEA, 1960 (1st Edn).

[4] A recent decision of the Restrictive Practices Court has legalized RPM for medicines. But the prices of medicines are met for the most part by the National Health Service.

[5] Professor Hutt is the author of *The Economics of the Colour Bar*, IEA Paperback, 1964.

[6] Quoted in *The Financial Mail*, September 1970, p. 928.

[7] *Ibid.*, p. 1034.

[8] *Ibid.*, p. 1034.

[9] *Ibid.*, p. 928.

[10] If these criticisms had been better informed, more honest and less bitter, their effects would have been felt much earlier. For instance, the influential *New York Times* has, through grossly slanted and biassed reporting, gravely misled its readers about the aims and methods of the separate development policy. Its influence has therefore been rather to perpetuate than weaken the causes of racial injustices in South Africa. The reporting of *The Christian Science Monitor*, on the other hand, has been far more dispassionate and effective in disturbing South African leaders, although its condemnation of racial injustices has been no less severe.

[11] I.e. clauses in agreements under which payments (such as wages or rents) are to be made in money units of constant purchasing power.

[12] Index bonds are securities in which the repayment of capital is in terms of money units of the same real value as those which were invested.

VIII. The Key: Communication

THE DEFECTS in the present system of representative government may be traceable to successive extensions of the franchise, motivated by vote-hungry politicians who sought additional voters for their election or re-election with little concern for the consequences in decades to come. As Professor Hutchison has remarked of the biggest extension of the franchise in Britain, that of 1867, 'on the supply side it emerged from the rival manoeuvring of political entrepreneurs seeking to create and get hold of a future political market....'[1]

The same was true of the 1884 extension which finally brought about virtually complete adult male suffrage, and in 1918 (however convincing the justification) the ultimate inclusion of women. Moreover, an identical motive can be seen to be determining the currently engineered extension of the franchise to the 18-year-olds in Britain and the United States.[2]

Universal suffrage having been achieved, the required conditions for freedom and the protection of minorities under proletarian supremacy which were perceived and enunciated by J S Mill, even more clearly by Tocqueville, and by others, can be restored only via the general acquiescence of the masses. Can that acquiescence be won? Far-reaching institutional reforms are essential. These reforms will have to conform to the historical law that all great, peaceful changes in the arrangements of mankind have occurred in such a way that the old form has remained while a new reality has come into being. And in turn the method must be that of working for 'politically possible' reforms in the direction required but always accompanied by recommendations based on the assumption – explicitly presented as such – that alternative reforms which could promote the interest of the people still more satisfactorily happen to be 'politically impossible', i.e. incapable of being so explained that a majority of voters (or the opinion-makers on whom they rely) could be expected at the time to recognize their merits.

The purpose of the democratic form of representative government is to permit the changing of governments peacefully and in such a way as to minimize misuse of state power. In particular, democracy has the purpose of preventing the withholding of opportunities from any class or from the masses generally, i.e. of ruling out opportunities for oppression or exploitation via governmental power. That the proletariat now has ultimate sovereign power is the supreme merit of the system. That that power has not yet been limited in the manner that the kingly power formerly came to be limited in the world's monarchies is the source of its vices. Democracies do not appear to have learned yet how to prevent discrimination against the politically weak, whether they simply lack relative numbers, or shrewd leadership, or for other reasons the ability to exploit the power of a 'swing' voting group.

The proletariat's interest in capital

The efforts at power-acquisition by politicians who promise exploitation of the 'haves' are facilitated by the patent sincerity of a mass of disinterested supporters. But their campaigns are universally accompanied by grotesque factual distortion, reliance on the ignorance and indoctrination of those led and (in the USA, at least) the deliberate engendering of envy and violent feelings. Their appeals are basically effective, however, because, in the short run, it is obviously possible for some 'have-nots' to benefit through expropriation of the 'haves' via income transfers. And relatively few among the classes believed to benefit are much concerned with the long run, while the consequences are not apparent to the generous-hearted acquiescent citizens who are not beneficiaries. Under universal suffrage, if the improvident are in the majority, or if they constitute a determining 'swing vote', they are in a position ultimately to pauperize a nation as long as politicians can rise to wealth and power through outbidding one another in generosity at the taxpayers' expense.

The situation must confirm Schumpeter's misgivings if we are convinced that it is impossible to do anything effective to communicate with the masses (via the 'opinion-formers' or otherwise) in their own interests. For it is not for the benefit of proletariats anywhere that investors be robbed of their savings, whether wholly or partially, irrespective of whether it happens through sudden dispossession or via progressive taxation; while even inheritance taxes tend to be poverty-creating rather than poverty-mitigating if they are accompanied by the squandering of the people's own capital. We have tended to acquiesce too uncritically in the suggestion that there is no effective way of convincing electors generally of the burden on the *poorest* caused by progressive taxation – its ultimate regressive consequences – when it is accompanied, as it universally is, by dissipation of the wealth transfers effected, the extermination of wage-multiplying assets.

It is not impossible to show the people of Western Europe and the United States that attempts to redistribute income through direct and indirect vote-buying must tend in the long run to hold back what could have been a far more rapid advance in their material well-being. Moreover, they could be shown that, if taxation and other policies had aimed explicitly at the encouragement of thrift and enterprise, the accumulation of wage-multiplying assets could have won even more prodigious benefits for the 'have-nots'. It is not beyond the bounds of imaginative common sense to suppose that the message could be communicated. There is no reason to be cowed by the fear that it would be 'politically impossible' because it would be difficult

The attempt could be launched in the first place by an adequate number of economists beginning, steadfastly and unobtrusively, to resort to 'the dual form of exposition'. The advantage will lie partly in the incomparably stronger emphasis laid on the assumption of 'as things are' in recommendations. Those arguing for any policy so proposed and those opposing it will both know that its proponents are influenced by their observation and judgment of specific weaknesses in the electoral system – weakness alleged to be responsible for ultimately remediable misconceptions on the voters' part; and that very knowledge can be expected to have important reactions. The economists will then be quietly exposing the responsibilities of that small group of people whose private interests block the path to more freedom and material well-being for mankind, namely, the legislators and ministers of all parties who, necessarily entrusted with massive powers in a free society, have been inadequately restrained by constitutional provision or tradition.

Direct and indirect education

Whether the communication occurs most appropriately via 'the opinion-formers', or whether it is more effective when aimed directly at the voters is important. In both Western Europe and the United States the bulk of 'the opinion-formers' are, for reasons which Schumpeter discussed at length, even more indoctrinated than the masses. To use a phrase of Professor Hayek, they are largely 'dealers in second-hand ideas'. Their reaction to notions which conflict with accepted convictions tends to be emotional rather than critical. Schools and universities of the last few decades have failed to instill in the minds of the intelligentsia the habit of open-mindedness and willingness to understand and weigh unfamiliar theses.

Moreover, many of the apparent 'opinion-formers' are in practice almost professional opinion-*followers*. As we have seen, they are necessarily so in some measure when they are allied (by loyalty or contract) to the parties. They will stubbornly resist 'conversion'. It will be essential to disturb long-inculcated stereotypes and prejudices. The intelligentsia may sometimes have to be by-passed.

The range of the 'politically possible' could be widely expanded if economists could transmit conceptual clarity in a few simple but fundamental considerations, which opinion-formers and the masses could understand. Editors, columnists and commentators generally have yet to be shown, for example, that the loss-avoidance (or profit-seeking) incentives have nothing 'sordid' about them; that reliance on such incentives means that, provided the appropriate governmental agencies are carrying out their essential role in the functioning of the free market,[3] ultimate economic power is vested in the people through a democratic 'consumers' sovereignty'; that when producers and consumers co-operate through intermediaries, the former are disciplined by the market so that each economic objective is sought up to the point that other objectives become more important; that free scope given to 'loss-avoidance' incentives does not rule out the achievement of any human objective up to that point; that thrift is in no sense correlated with lack of generosity, but is an expression of responsibility for one's individual and family future; that there is nothing predatory or disorderly about the process of competition[4] (as distinct from practices which, in tendentious or loose writing, are often *called* 'competition'); and that the rights of substitution which make up the competitive process are society's protection against selfishness and acquisitiveness or lack of concern by some for the good of others. If these truths were effectively communicated, attitudes towards current attempts to achieve distributive justice via the strike-threat or taxation and hand-outs would be incomparably more critical.

It may well be that, because of the impossibility of effectively informing voters of the true causes of all sorts of 'social evils', we have to accept them as for the time being inevitable. Slums, urban decay and poor housing persist chiefly because the public acquiesce in rent controls, housing subsidies, short-sighted property taxes, repression of interest rates and 'make-work' restrictions in the building and construction trades. But such public acquiesence is itself a product of a dogmatic belief that it is 'politically impossible' to enlighten the electorate.

In the western world, all political parties now seem to compete by promising to alleviate the 'poverty' (in the sense of relatively low incomes for some) which seems pertinaciously to plague us, and for which everywhere the opposing party (or 'economic forces beyond our control') are typically held to blame. Yet we are told that it would be 'suicidal' for any candidate to promise positive steps to remove any of the causes which aggravate inequality of incomes, such as, to mention the two major factors operative in the western world, legally enacted minimum wage-rates and strike-threat consequences. In particular, it was assumed almost universally until recently that it would be 'political dynamite' for a party openly to discuss, however tactfully or obliquely, any really effective curbing of strike-threat power, although it is known to reduce the flow of wages, to render the distribution of that flow less equal and less equitable, to harm the workers' employment security, status and independence, to destroy pride in workmanship and service, and to cause inflation to be politically expedient. It can be shown that the use of strike-threat power has not redistributed a solitary penny from the rich in general to the poor in general in the long run, and that it has merely won gains for particular groups at the expense of consumers and laid-off workers or excluded comrades.[5] Some 'poor' have gained in the process, but the majority making up the lower-income groups have advanced more slowly than inventive genius, technological progress, managerial ingenuities and wise entrepreneurial prediction and risk-taking (together with the thrift of others) could otherwise have achieved. The 'rich' have been harmed, but not for the long run benefit of the lower-income groups. Yet we are told, in effect, 'It is no use pointing all that out. It is irrelevant in any "politically conceivable" platform. Nothing can be done about it.'

We are all to blame in some measure for accepting the myth that inflation is 'politically inevitable' – simply because no statesman of the present era has yet told an electorate any truth that might be difficult to explain. In an inflationary world, it is of course exceptionally difficult for a country to refrain from following any international trend. But Britain and the United States, and particularly the latter, have been the chief initiators of world inflation since World War II, despite many other nations' worse record. We have become resigned to continuous inflation because we have been brain-washed into believing that it cannot be avoided without either recession or vote-losing measures which would anger organized labour. But we economists are to blame. In our desire for sophistication and our hope to be able to offer 'operational' advice, we have been led to present our analysis in a limited setting. We have purportedly limited ourselves to 'economic' issues – the influence of market factors within the framework left to them – when the crucial consideration has been the framework itself and the desirable changes in it.

The notion that inflation is the only path to prosperity is a myth. It is possible for a nation to enjoy all the advantages of a money unit of defined value (and even a unit of constant purchasing power) together with 'full employment' and 'prosperity'. Such a money unit is even compatible with more productive (nearer to optimal) kinds of employment and so an even more satisfactory 'prosperity'. The obstacle is simply the individual interests of the related handful of private persons who form parliaments, governments or shadow cabinets, who (in whatever party) must be primarily concerned with getting themselves elected in the most effective way. Organized labour can be blamed for making inflation expedient; but the politician cannot renounce blame when he prefers expediency to principle and shrinks from confrontation with the unions over their methods of labour pricing.

It is generally accepted that the British Corn Laws were repealed in 1846 because the voters wanted cheap bread; and it is significant that the symbol of the cheap loaf remained an important selling device for the Liberal Party in Britain down to 1914. If inflation were once abandoned and the wages-reducing and income-reducing activities of the unions effectively curbed, the consumers' interest might again become a paramount election-winning factor. And we might experience a government retaining office mainly because it could show that the cost-of-living index had not risen during its period of office.

Confronted with the present situation, it is the economists' duty to begin to treat the electoral system as an integral part of the world of markets, prices and incomes, with the vote-gathering activities of politicians realistically recognized as an influence similar to the activities of entrepreneurs exploiting advertising and 'public relations' in the production and marketing of goods and services. 'The dual form' in which I have suggested recommendations of economic significance should be made, implies no dichotomy between the 'economic' and the 'political' or between the 'economically possible' and the 'politically possible'. The individual is to be regarded as seeking his economic objectives through two channels: firstly, through the market place, exercising his rights under the democratic form of consumers' sovereignty, and, secondly, through the electoral process, exercising his rights under democratic political sovereignty. In the market, his voting rights are limited in proportion to the value of his contribution to the common pool of output (i.e. determined by the value of his personal services and the services rendered by the assets he owns). In the electoral process, his voting rights are usually equal to those of every other citizen irrespective of how much he contributes to the common pool. In the market, his power is exercised through his ability to buy or refrain from buying what different entrepreneurs are offering. At elections, his power is exercised through his ability to vote for those who will, he thinks, govern best.[6] But we have noticed that, as the system is working at present, this all too often means voting for those who are expected either to take least from his income for the benefit of others or else to add most to it at the expense of others.

My concluding reflection to all 'opinion-formers' is that no policy which is for the advantage of the people is incapable of being effectively explained to them. It will of course take time and persistence to convince a majority. In the meantime compromise will be needed whenever urgent steps are required. But compromise, while it is the politician's privilege and necessity, is the scholar's deadly sin – unless it is presented clearly and unmistakably as compromise and is always accompanied (*a*) by a non-compromising proposal and (*b*) an explicit explanation of the vote-procurement reasons for the compromising proposal. That is the justification for the thesis of this book.

Footnotes to Part VIII

[1] Hutchison, *Markets and the Franchise, op. cit.*, p. 14.

[2] The unchallengeable justice of the effective extension of the franchise to Negroes in the United States must not blind us to the truth that the same political motives inspired the reforms. That is why no concurrent steps were taken to restrain politicians and other power-seekers from seeking profit out of the scope which political equality would create for fostering racial suspicions, resentments and enmities.

[3] This role covers primarily the prevention of 'restrictive practices' – or the role of what in the United States is called 'anti-trust'. Included under this heading also are such things as independent quality-certification of products, control of weights and measures, and so forth. Emphasis on this role meets the common objection, 'Yes, but markets do not always work.'

[4] 'Competition' is the substitution for consumers' benefit of the least-cost method of producing and marketing any commodity (or of achieving any other objective involving scarce means), irrespective of the institutional arrangements necessary for the realization of that result.

[5] W H Hutt, *Theory of Collective Bargaining*, 1930, reprinted 1954. I am engaged on another book in which I propose to deal with arguments to the contrary. Broad confirmation will be found in the late Henry Simons' *Some Reflections on Syndicalism*, in his *Economic Policy for a Free Society*, and in Chapters 9 and 10 of F Machlup's impressive *Political Economy of Monopoly*.

[6] In the sense of providing the best framework of legislation for society and providing most efficiently those services deemed to be appropriately supplied through collective initiative.

A Note on Readings for the Student of Political Economy

I HAVE mentioned in footnotes the contributions which I believe will be most fruitful for the student who wishes to delve more deeply into the problems raised here. I have not referred, however, to James Mill's trenchant *Essay on Government* which, before the big extension of the franchise in Britain, drew attention to the dangers lurking in representative government (which James Mill advocated).

The following brief comments on other works (mostly mentioned in the text) may prove useful.

Lord Morley's *On Compromise* (quoted on p. 14) deals beautifully with the philosophical and political issues.

Clarence Philbrook's profound article (first quoted on p. 2) was, I think, the earliest contribution of recent decades to treat satisfactorily the economists' role in opinion-making.

My own *Economists and the Public* (first quoted on pp. 16–17), and particularly Chapter X entitled 'The Economists' Fight for a Hearing', reflects my early thinking on the subject.

Two important works by T W Hutchison also bear directly on the questions I have discussed: *Economics and Economic Policy in Britain, 1946–1966* (first quoted on p. 3), and *Markets and the Franchise* (first quoted on p. 2).

Schumpeter's great work, *Capitalism, Socialism and Democracy* (first quoted on p. 7), seems, unfortunately, to be seldom read in these days. I advise any student of the relations of economics and policy to invest time in studying it.

On the concept of 'democracy', R Bassett's *The Essentials of Parliamentary Democracy* (referred to in a footnote, p. 26) may prove a useful corrective to Schumpeter's rather contemptuous view of representative governmental institutions in practice.

In respect of what I have called 'political economy', I recommend the student to consider the *Calculus of Consent* by James Buchanan and Gordon Tullock (first referred to on p. 3, footnote); G Tullock, *Towards a Mathematic of Politics* (quoted on p. 14) and *Entrepreneurial Politics*. Other important contributors in this field are Kenneth Arrow, *Social Choice and Individual Values*, and Anthony Downs, *An Economic Theory of Democracy*.

W H H