

ON THE STATE OF BAD ECONOMICS

ARTHUR SHENFIELD



PREFACE

This little *jeu d'esprit* was written twenty years ago. I hope that I may not be judged presumptuous if I say that for the most part its message is not dated. It is true that some of the objects of my derision have faded from public interest. For example, nobody bothers his head nowadays about anything once said or written by Balogh, Rostow, or Means. But Thorstein Veblen, Henry George, and perhaps John R. Commons, still receive some attention from students of the history of economic thought; and of course Galbraith, such is the charm of charlatantry, continues to be thought by the general public to be a notable, perhaps distinguished, economist.

What is to my mind a most encouraging development since 1968 is that the field of bad economists has become pretty thin in terms of influence. Of course there are still plenty of bad economists around, but the influence of most of them is not far from derisory (consider, e.g., the 364 who warned Mrs. Thatcher in 1981 that she was racing to disaster). I have to admit also that a few of the Nobel Laureates in economics may qualify for the badness title. Thus, having had the wisdom to award the honour to Hayek, Friedman, Stigler, and Buchanan, the Nobel Prize Committee appears to have been struck by a desire to balance a few authentically bad economists against them. A fine example of impartiality between truth and error! However I doubt if it will be long before the names of Myrdal, Leontieff, Klein, and Stone sink without trace in the worlds of scholarship and informed economic discussion.

Arthur Shenfield - 1988

You never need to amend Burke much to bring him up to date. If now we say, 'The age ... of sophisters, *off-beat* economists and calculators has succeeded,' we shall have it about right. Of course, we have always had economists of the half-world among us, but now they have verily entered into their kingdom.

There is a theory about this. The state of the world is correlated with the degree of badness of the bad economists of the day and with the extent of their influence.

Consider some of the bad economists of the past. In the 'twenties and 'thirties there were loud complaints that J. A. Hobson had been kept in the outer darkness of extension lecturing by the academic mandarins of his day because of his unorthodox views. It was true. He was indeed kept out of intra-mural appointments. But so he should have been, for his underconsumptionism was poor stuff: so too was his analysis of imperialism. In 1968 Hobson would hold a leading chair, be a life peer, advise governments from Afghanistan to Zambia, and despite his shyness be in great demand on television. Yet, in fact, he was not so bad, as bad economists go. He was indeed a man of excellent parts. His analytical powers were limited, that is all.

Or take Veblen. Here was a bad economist if ever there was one. You could trust him almost always to get things topsy-turvy, and his lasting contribution to economic thought was almost nil. Yet he had a remarkably good mind - not a smartypants mind like that of Galbraith who is often mistakenly likened to him. A bad economist of Veblen's stamp forces one to think, and it is good to have him around as long as no one follows his prescription.

Take John R. Commons, the paladin of Institutional Economics. Of much of his writing it is impossible to make sense. Yet here and there one comes across nuggets of truth

Economic Notes No. 12

ISSN 0267 7164 ISBN 1 870614 11 9

An occasional publication of the Libertarian Alliance, 25 Chapter Chambers, Esterbrooke Street, London SW1P 4NN
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This article was first published in *The Spectator*, March 22, 1968.

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and flashes of inspiration which lift him into a high class. There is less truth in Commons's propositions than in, say, Galbraith's half or quarter truths; but a half truth of which the true part is commonplace and banal is worse than useless. The bits of truth in Commons are so stimulating that our fathers were almost lucky to have a bad economist like him amongst them. They were, of course, wise enough not to pay attention to his positive conclusions.

Step back to our grandfathers' generation and look at Henry George. Again a bad economist of authentic stamp. Yet a civilised thinker who, self-taught, had acquired a firm grasp of much that was essentially right. If he had not gone up the blind alley of the uniqueness of land value and the single tax upon it, he might have found a place of high distinction somewhere in the borderland of economics and politics. Fortunately for them, our grandfathers refused to swallow his land value theory. We, with our fatuous attempts to scoop land value increments into the state's hands, are less fortunate.

Come forward again to a generation ago. G. D. H. Cole, the 'untutored tutor' as Baldwin called him in the 1929 election, is a leading example of the bad economist of the 'twenties and 'thirties. His distinguishing mark was not some special fad like Veblen's or Henry George's, but a marvellously fecund and facile mediocrity. He was, however, a man of attractive character. But his influence was at the very most in the outer corridors of power. Thus, although in his later years, standards having begun to fall to present levels, Oxford stooped to appoint him to a chair, he filled the prescription for the right kind of bad economist - not too bad, and not puffed up with power and influence.

Compare these with some of the men of influence of our day. Say, our own Tommy Balogh, Walt Rostow (if one may include economic historians in this gallery), Gardiner Means, and the Grand Panjandrum of bad economics, John Kenneth Galbraith himself.

Don of a once-great college, intimate of the Prime Minister, market leader in the advice-to-developing-countries business, Balogh has had more influence than most. The reader will expect such influence to be rooted in intellectual distinction - of a kind. Of what kind he may perhaps judge if he will peruse pages 996-1001 of the *Economic Journal* of December 1964. Here, head down and fists flailing, Balogh lays about the Chicago School, hated bearer of the classical tradition, but then, poor man, is delicately and disdainfully dismembered by the distinguished Professor Kindleberger.

Walt Rostow is now in the top corridor of power in the White House. The spread of his academic fame was promoted by his *The Stages of Economic Growth*, which inspired the *Economist* to such rapture that a whole supplement was devoted to its presentation. Now *The Stages of Economic Growth* is by no means all nonsense. On the contrary, in a slapdash, sophomore manner it presents many elements of historical truth; but though it has truth, its truth is always obvious. Thus Rostow is worse than Veblen or Commons, though he has more truth than they. For tiny nuggets of arresting truth embedded in a mountain of error are worth more than a whole seam of truth that is not worth digging for.

Gardiner Means is a wonderful example of the influence of a one-idea man, when the idea accords with popular superstition but appears to be the product of scholarly thought. For over thirty years he has proclaimed that in large-firm

industries, and in particular in the steel industry, prices are 'administered' (i.e. determined by the producers); and in recent years he has found in this the source of price inflation. To whom would this not sound right? Only to those who have examined it. Under scrutiny it turns out to be false. Again and again Gardiner Means's 'administered prices' have been shown in the scholarly literature to be a shadow cast by misunderstood statistics and jejune theory. But it makes no difference. He keeps on saying what he has always said; and United States Presidents keep on bullying the American steel industry for 'administering' prices and causing inflation.

The reader will not be surprised to learn that Galbraith was once associated with Means in the 'administered prices' witch hunt. Galbraith towers above all other bad economists. He is a remarkable phenomenon in his own right. Other bad economists may have produced best-sellers and hit the jackpot, but none has made an art of it as he has. His *bête noire*, Madison Avenue, would do well to hire him, for his marketing skills match the best it can produce. A Vance Packard of superior grade, he has garnered the rich rewards of writing for the literate but uninstructed. His remarkably self-revealing article in *Fortune*, December 1962, discloses a decision to be something other than a mere academic economist, and how well he has succeeded! How well also, at first sight, he writes! Every sentence neatly chiselled, every parallel elegantly drawn, every allusion arrestingly phrased. It is only after many pages that one realises that it is writing to a formula, and ennui begins to enter.

At ease with his own public, he yields to some irritation when confronted with those who probe his position closely. Thus, when in the *Economic Journal* of March 1958 Dr Alex Hunter patiently and politely showed that his concept of countervailing power proved on examination to be empty, his reply, flippant and mocking, could hardly adorn the pages of a learned journal (*Economic Journal*, March 1959).

Galbraith's formula is beautifully devised for the market he serves. It is displayed in all three of his leading books, *American Capitalism: the Concept of Countervailing Power*, *The Affluent Society*, and *The New Industrial State*. It is compounded of three elements.

One, hang your argument on some half-fact which is conventionally acceptable as full-fact to a wide range of opinion. Thus, the existence of large power groups in *American Capitalism*; the power of the producer to shape consumer demand in *The Affluent Society*; the immunity of large firms from total failure in *The New Industrial State*. The reader thereby sees that you are an economist who knows the world and keeps his eyes open.

Two, quickly assert from your half-fact a broad generalisation which bids fair to be half-true, and boldly dignify it with the title of theory (e.g. the concept of countervailing power already mentioned, and 'the dependence effect' and 'the theory of social balance' in *The Affluent Society*). This shows that you can theorise with the best of them, and that you realise that your reader is a man of speculative mind.

The formula is brilliant. So brilliant that it induced *The Times*, for example, to describe the 1966 Reith lectures as an intellectual *tour de force!* Oh! my Hobson, my Veblen and Henry George long ago! How you are needed now!