

DEUS EX MACHINA

Computer Economics – The Latest Gimmick

By PAUL KNIGHT

TWO articles by staff economists in a recent issue of the *Sunday Times* throw a somewhat turgid light on the course which economic and political thinking is likely to follow in Britain in the course of the next decade.

Mr. William Rees-Mogg and Mr. Peter Wilsher together examine the latest "tool" devised by the economic boffins for solving the nation's problems, a development of the computer system applied to working in the mode of the latest economic fashions — Growth. The project is the work of a group of applied economists at Cambridge, led by Professor Richard Stone and Mr. Alan Brown, and bears the intriguing name "Rocket."

It produces its results, says Mr. Wilsher, "in the form of a Social Accounting Matrix (familarly known as SAM) which consists of a square array of figures, arranged in 257 separate accounts, covering 66,049 items. These show the stock and output position in 31 basic industries, 40 classifications of consumer goods and services, the whole range of capital investment, both replacement and extension, involving industrial, Government and institutional transactions, indirect taxes and subsidies and a necessarily simplified treatment of foreign trade. The computing programme consists of six stages, each of which can be varied independently. First, a sum of money representing the desired increase in real consumption by 1970 is inserted and analysed, according to price and consumption theory, to find out what goods and services will be required. Then an estimate is arrived at of the output levels in all the various industries required to meet this demand and sustain its growth . . ."

It would be fascinating to quote a good deal more of Mr. Wilsher's enthusiastic prose, if space permitted, but, in order to do justice to Mr. Rees-Mogg's equally interested contribution, the following two significant passages must suffice: "Of course, the construction of such a model involves making a whole series of assumptions about economic relations which are still the subject of argument and controversy." And "Stone, however, is anxious to deprecate any idea that his model is a magic machine for arranging the economic millennium. 'What I expect to get out of the preliminary findings is some rather unhappy truths about what will be required to change things,' he says. But it will be very interesting to see precisely what people are losing and gaining by sticking rigidly to their preconceived economic ideas. We should get a useful measure of how much they are cutting off their noses to spite their faces."

Which brings me to Mr. Rees-Mogg, who, similarly, I should like nothing better than to quote in full for his refreshing candour on the subject of modern economics. His opening statement is in the best traditions of sensational journalism and illuminating to a degree. "The trouble with economics," he says, "is that it is not yet a science."

Now, if he had only qualified the word "economics" with the adjective "modern," one could only very heartily agree with him. As he puts it, however, he is rather like a layman who, after listening to a couple of doctors in heated disagreement over a diagnosis, condemns medicine as "unscientific." Actually, Mr. Rees-Mogg is much worse than the layman in question, for he presumably studied economics before he began to write on the subject and thus betrays his ignorance of the fact that there is, as in medicine, a basic body of scientific economic knowledge. The fact that he, and thousands of his colleagues, choose to ignore it, or proceed as if it did not exist is to their own discredit, not that of those who discovered and propounded it. That he does ignore it, either deliberately, or because he is unaware of it, is clear from this passage: "Any science must involve measurement and verification, and verification must involve the observation of the accuracy or inaccuracy of prediction. But in economics, as with medicine until quite recently, prediction is wholly fallible, and the possibilities of measurement limited. Economists disagree with even more vigour than doctors, and their predictions seem to have little better than a random chance of proving successful. In these circumstances improvements have been made in certain parts of economic policy making. Keynesian ideas, in however crude a form, brought to an end the practice by which governments in a frenzy of thrift accentuated the recessions they were seeking to correct. Monetary measures have become more refined, if not more effective, and at least nowadays banks are not allowed or encouraged to go bankrupt."

However this may be, Mr. Rees-Mogg is now satisfied that the boffins have made a break-through. "In the last two years the development of the latest electronic computers has introduced the possibility that economics can be made into a true science . . . It is quite conceivable that in ten years' time the whole subject of economics will have passed from the stage of verbal theories, of mathematical explanations unrelated to current events and of temperamental preference, to a scientific system which

allows political decisions to be interpreted into economic policy in a purely technical way."

One begins to wonder at what stage in the development of economic theory Mr. Rees-Mogg began to study the subject. One is driven to the conclusion that he wrote-off the classical economists without even bothering to read them, that, if he actually heard of Henry George, he certainly took somebody's word that he was out-of-date, or a crank, and tossed him aside unopened, and that he probably began with Marshall and moved quickly into the dazzling aura of the Keynesian Revolution from which he is now slowly and painfully groping towards some solid earth.

The tragedy for Britain, as for all other countries cursed with this preoccupation with empirical economic "research," is that, not only is it leading from one morass to another, but that it is accompanied by an increasing acceptance of socialistic theories involving centralism, regulation and economic planning. Note the significant phrase in the last quotation:—"which allows political decisions to be interpreted into economic policy." Mr. Rees-Mogg points the way clearly enough a few lines later: "This will inevitably place increasing emphasis on the need for effective national planning." He blandly reassures those who fear a "withering of private enterprise and a renewed pressure for public ownership." Instead, he sees "computer economics" as "the salvation of private capitalism". The advantages of capitalism include "flexibility of organisation, concentration upon distribution and a consumer-oriented economy." The handicap of capitalism is "its uncertainty of expectation which gives it a cyclical character. In a free system no one knows what will happen next. It is quite possible that voluntary economic planning should in the end largely eliminate the fluctuations of uncertainty."

It is at least encouraging to have Mr. Rees-Mogg's assurance that an advantage of capitalism is "a consumer-oriented economy." Maybe what we are witnessing at present is only a passing mirage. Perhaps that is what is meant by the reference to its "cyclical character." If computer economics can turn the cycle into a spiral, which way will the spiral go — up or down? The pattern emerges a little more clearly from this passage: "Equally, this is a potential way of strengthening rather than weakening politics. Politicians are not elected to represent the electorate's views on economic techniques, but on economic priorities. At present the true political function of establishing priorities is hopelessly confused by attempts, more or less unsuccessful, to deal with the technical management of the economy." Mr. Rees-Mogg must be commended at least for his candour. "Economists," he says, "who have no valid scientific theory advise politicians who have limited economic experience, and often give conflicting advice. No wonder the results are so unsatisfactory." No wonder, indeed! And if only one could share Mr. Rees-Mogg's belief that computer econo-

mics will produce the missing "valid scientific theory."

With his flair for economic journalism, Mr. Rees-Mogg has called his article "Shooting for the Economic Moon." His enthusiasm for the technical achievements of the Space Age has led him into the fantasy in which all things are possible by mathematical "programming" and pulling the right levers and pressing the right buttons. The whole trouble is, of course, that Mr. Rees-Mogg and his colleagues all confuse the functions of applied economics with those of political economy. No one will deny that the computers should do a magnificent job in the field of business economics, the management of factories, the output of coalmines and oil refineries. But what has this to do with political economy? Or economic science? What should this have to do with government?

It is precisely because of this confusion, arising for one thing from the basic error of ignoring the proposition that the rent of land is the just and the only legitimate source of national revenue, that we have witnessed the gradual strangulation of every national economy by the rise of taxation, the growth of monopoly, the misuse of the currency, the destructive intrusion of government agencies into commerce and the conversion of human beings into cyphers and statistics. Computers will no more solve economic problems, whether national or international, any more than they will solve problems of moral philosophy or produce works of art for the simple basic reason that the problems are not mathematical ones. They involve, not statistics, but the principles of human liberty and human rights.

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