7. The Teaching of Economics

It is reasonable to expect that any acceptable introductory textbook on economics would, in the fashion of such works in other disciplines, set out the basic principles of the science, the laws so far discovered which operate to produce the phenomena described, and define with reasonable clarity the boundaries of the science vis-a-vis those related more or less closely to it (e.g., political science).

Such textbooks have been available to the student, among the hundreds written and published during the past hundred years, although few of them fully meet these requirements.

Henry George, in his own *The Science of Political Economy*, — the only textbook known to the author of this present work which does completely fulfil the above requirements[1] — in discussing the confusion reigning among the political economists of his day, quotes Turgot[2] on the art "of those who set themselves to darken things that are clear to the open mind":

> "This art consists in never beginning at the beginning, but in rushing into the subject in all its complications, or with some fact that is only an exception, or some circumstance, isolated, far-fetched or merely collateral, which does not belong to the essence of the question and goes for nothing in its solution . . . Like a geometer who treating of triangles should begin with white triangles as most simple, in order to treat of blue triangles, then of red triangles, and so on." George concludes chapter VIII of his book thus: "If political economy is a science — and if not it is hardly worth the while of earnest men to bother themselves with it — it must follow the rules of science, and seek in natural law the causes of the phenomena which it investigates. With human law, except as furnishing illustrations and supplying subjects for its investigation, it has, as I have already said, nothing to do. It is concerned with the permanent, not the transient; with the laws of nature, not with the laws of men."

In examining present-day examples of the manuals used to teach economics — the name which has become accepted as a substitute for the original discipline since a large part of the original theories and conclusions were abandoned by the 'moderns' — one finds that *Economics*, by Paul A. Samuelson[3] is possibly the most widely used, and it can justly be assumed to be respresentative of the teaching of this subject throughout the English-speaking world, and indeed elsewhere, for it has been widely translated and its influence is apparent in the writings and speeches of prominent members of a wide range of countries. It has therefore been selected as such for critical analysis of what passes for the teaching of the science today.

And it may be said at the outset that this book fails on a number of counts to conform with the formula suggested above; that it does, in fact, warrant the application of Turgot's description of the art of obfuscation.

Samuelson, in his own preface to the work says that, in preparing to write the book he "had before him the example of some great introductory treatises on other subjects — the *Principles of Psychology* by Wm. James, *Differential and Integral Calculus*, by Richard Courant (and, in the present age, *Lectures on Physics* by Nobel Laureate Richard Feynman). Written by profound scholars, these classics have given generations of students, of the most diverse backgrounds, an enviable introduction. 'Why' I thought 'should not economics, which lends itself so well to a comprehensive formulation, seek to have a similar treatment that is at the same time rigorous and readable?' In any case, their motto has been my motto: *Nothing unnecessarily hard, but nothing essential omitted as being beyond the grasp of the serious student; and above all, nothing that must later be unlearned as wrong.*"

One can only deplore the fact that he failed so profoundly to achieve his noble aim. For, while it must be freely acknowledged that the book is a thoroughly workmanlike survey of what has been going on around the world in the first half of the 20th century in the sphere of politico-economic activity, its acceptance and actual propagation of theories, still the subject of sharp controversy, its confusion of strictly political and strictly economic processes, its complacency in face of the universal epidemic of inflation and its grave errors and omissions lay it open to the strongest criticism.

It can be said, in fact, that nothing in modern writing on the subject of economics offers a more convincing justification of the argument of this present book, i.e., that nothing less than a revolution in our thinking on economics, politics and government will avert either a universal breakdown in existing economic systems and a reversion to international barbarism, or a progressive drift towards the totalitarian society and the enslavement of mankind.

These strictures are, admittedly, severe and require justification — which it is the purpose of this chapter to present. Criticism, then, is offered under six main heads: (1) that it adopts and teaches the discredited theories of J..M. Keynes and is therefore to that extent not objective or impartial, as it purports to be, or indeed as any acceptable textbook ought to be; (2) that it accepts without challenge the anachronism of ever-rising prices in the face of the ever-improving technology; (3) that it fails to indicate any appreciation of the significance of rent (in the strictly economic sense) in the 'economic equation' and its relation to the malfunctioning of 'western' society; (4) that it accepts and approves the theory of government intervention and the 'mixed economy', and displays confusion on the separate spheres of economics and politics; (5) that it accepts without question the principle of taxation; (6) that it reverses the role of man and the economy, subjecting the former to serving the latter, instead of vice versa.

(1) KEYNESIAN THEORIES

Although in a general statement on Keynesian economics, at the beginning of chapter II[4], Samuelson appears to dissociate himself from certain "policy programmes that Keynes espoused during the Great Depression" (and later in part repudiated), at the same time, in a footnote on the same page, he says of the *General Theory* that "it is now established as one of the classic works of our science" (despite the devasting criticism of that work by both Hazlitt (1959) and Hutt (1963) ignored in editions of *Economics* subsequent to the publication of those works and — what is more serious — in the Australian edition published as late as 1970). Chapter 12: *Income Determination: The Basic Theory*, opens with this quotation from Keynes: "Given the propensity to consume and the rate of new investment, there will be only one level of employment consistent with equilibrium"; from there on the course is laid squarely on Keynesian lines, using much of the language, terms and concepts of the *General Theory*. Indeed, the whole book from beginning to end is unashamedly Keynesian in its acceptance of 'macroeconomics' and the use of the Keynesian analysis, of the concept of the 'GNP' and the assumption of the need for government intervention and control.

As an example of this acceptance of Keynesian 'wisdom', the conclusion set out in heavy type on page 640 (chapter 30, the section headed 'The Keynesian Assault') is unequivocal: "The rate of interest does not function as part of an automatic mechanism which ensures that decisions to save and invest accommodate each other. It is therefore false to represent the rate of interest *in a laissez faire economy* (italics ours) as being solely determined by the real forces of productivity and thrift." This is Keynes making the facts (of government intervention i.e., money control) serve the Keynesian theory of interest! Accepted and laid down as an axiom of the Samuelson economics with the words: "The conclusion is inescapable".

(2) ACCEPTANCE OF CONTINUING PRICE RISE

The whole discussion of price throughout the book indicates no recognition of any anomaly in the fact that, despite all the obvious price-reductive benefits of technology, the steady rise in prices of all commodities, almost without exception, has been a universal phenomenon for as far back as one cares to check the relevant statistics.

The causes of this anachronism are well enough known. One of them, taxation, is discussed in a typically elliptical fashion in chapter 20: *Determination of Price by Supply and Demand**[5], the net conclusion being that a tax must raise price; but since the chapter is concerned with the purely academic consideration of the market, aided (or clouded according to personal opinion) by copious graphs and curves, any discussion of the effects of a tax is purely academic also. On page 226, the Samuelson stance is clear and undefiled: "Economic history is largely a history of inflation. An Australian who comes of age in 1970 has seen prices more than double in his own lifetime . . . the prospect is that he can look forward to prices increasing for the rest of his life." And, adopting collectively the role of Pilate, the authors continue: "Just how rapid is this increase . . . will largely depend on the policies of the federal government." This hand-washing attitude of the economist is fair enough if consistently maintained, but this is far from the case; the book is full of examples to the contrary, specifically in the presentation of Keynesian propositions of political intervention (e.g., the section 'The Process of Price Inflation', of chapter 13, p 264).

In the Summary of chapter 15 (p. 320), the helpless attitude of the economist as observer is well presented in every line, summed up in the concluding paragraph of the first section (A: Prices) thus: "if the process were *foreseen* and steady, there need not be much difference between the rate of growth of output and the distribution of income accompanying three possible long-term patterns suggested by economists: (1) steady prices, with money and real wages rising with productivity; (2) gently rising prices, with money wages rising even faster than real wages and productivity; (3) slowly falling prices, with money wages constant and real wages rising as every consumer's dollar buys more and more goods — a pattern perhaps not feasible in mixed economies, where workers press for rising money wages." One can almost hear the deep sigh of the authors as they return to the contemplation of their collective navel (which would be in order if it led them to the discovery of an economic law that would upset all their macro-economic mythology).

The hopeless quest running thoughout this treatise on Neo-Keynesian economics is exemplified in the chapters dealing with banking, in particular chapter 17: *The Reserve Bank and Monetary Policy*. "The Reserve Bank is charged by the Parliament to regulate the supply of money and credit in such a way as to promote the ends of full employment and *price stability*" (italics ours). "This" say the authors "is the essence of the function of central banking in the mixed economies." How well this "important national goal" is realised is, of course, a matter of current history. But nowhere in this book will be found any comment that dares to question the validity of such practices or even their practicability. The pious posture of 'the economist as scientist' set out in the final 'conclusion' on page 871, may have the intended soporific effect on the student who has successfully negotiated the obstacle race this book offers him; but sooner or later the said student must begin to wonder how valid this pose of objectivity is in face of the unequivocal acceptance throughout the work of such economic theories as those of Keynes and his 'Keynesian' successors.

(3) FAILURE TO NOTE THE SIGNIFICANCE OF RENT

One of the worst offences against the basic principles of political economy committed by the Neo-Keynesians is the distortion to which they have subjected the Law of Rent, so that they are capable of perpetrating the syllogism that any commodity possessing elements of 'inelasticity' or monopoly value is said to bear an 'economic rent'. Samuelson propagates this fantastic error with the classic example of the voice of Joan Sutherland and the painting, the 'Mona Lisa'.

This distortion arises out of the essential failure to understand the implications of the very foundation on which the science of which these economists profess to be the practitioners is based, namely that axiom that the factors of production are land, labour and capital and the corollary that rent attaches to land — land being, in economic terms, all those resources anterior to and apart from man. And how this definition can be extended to include the product of a perfected human faculty or of human genius is something that Professor Samuelson ought to be made to explain.

So far along the road of absurdity does this basic error take the professor and his Australian co-authors, that they can talk of the capitalisation of land[6] (when what they mean is of 'land value') and then convert rent into interest! And then to utter the crowning absurdity: "*All* of the non-wage part of the national income can be reported as interest on the value of property; and if slavery were not illegal, even wages might be reported as interest on the capital value of men." (They might, too, but only in the fantastic world of pseudo-economics in which the authors of *Economics* live and move and have their professional being.)

This fundamental misunderstanding of the true nature of rent is manifest in all the references to and discussion of it. For instance, on page 593, the section 'Rent and Costs: a Matter of Viewpoint' begins with this statement: "It is sometimes said that rent does not enter into the cost of production." And the whole subsequent discussion (it depends on the point of view!) reveals the conclusion that rent is something *paid,* whereas, of course, it is a surplus (as Samuelson admits in a later passage — page 594 — without seeing its significance)[7] which is *received* and retained by the *user* of land and not passed on, as it should be, to the government as its natural revenue, but to the landowner (or retained by himself in that capacity) and enjoyed as personal income.

In the next section of this chapter, Henry George is presented as "one of those" who "questioned the right of lucky landowners to receive 'unearned increments'," and who "founded a political movement known as 'the Single Tax Movement'." But this, says Samuelson, "is not the place to attempt any assessment of the merits or demerits of George's political creed." (Despite the fact that the book all too frequently discusses political arguments, especially the Neo-Keynesian ones respecting the role of government in 'fiscal' and monetary controls.) What Samuelson does do, after yet another 'supply and demand curve', is to discuss the effects of a hypothetical tax of 50 per cent of what is described as "the yield (which we have somehow managed to identify) of the naturally fixed supply of agricultural and urban land sites.'' The conclusion is expressed as follows: ''The whole of the tax has been shifted on to the owners of the factor in inelastic supply. The landowners may resent this, but under competition there is nothing they can do about it . . .'' Then follows this piece of 'scientific analysis': ''Whether or not it is fair to take away part of the return of those who own land is quite another question. Many people may feel that such owners are not less deserving than are investors who have put their money into other things; perhaps many will feel that no one should have the right to benefit from nature's 'windfall' gifts of oil, minerals or soil fertility (or, he might have added, the locality of urban sites). But these are political questions that are not to be discussed at this stage . . .''

From this point on, rent continues to be considered as a cost of 'using a factor in inelastic supply', thereby perpetuating the basic confusion, exemplified by this passage on page 601. ''From the standpoint of the community as a whole the rent of an inelastically supplied factor will be reckoned in the national income at its full dollar value. But below the veil of money, it remains true that this factor would be willing to work for less if it had to, and in that sense its return in the nature of a 'surplus'. This provides the basis of Henry George's 'Single-tax' programme, proposing to tax the unearned increment of land values.'' Would the student be justified in concluding that this represents an invitation to pierce 'the veil of money' in search of economic reality?

(4) APPROVAL OF GOVERNMENT INTERVENTION AND CONFUSION OF ECONOMIC WITH POLITICAL SPHERES

Chapter 8 of *Economics* deals with *The Economic Role of Government,* which, in itself, is as good an example as any of Neo-Keynesian error. The role of government is political — to protect and foster the smooth running of the economy, not to interfere with its operation. ''What should governments do?'' asks the author, and answers the question thus: ''The obvious way to begin a discussion of the economic role of government would be to list the major economic functions of government. This sounds a simple task. But, in fact, there is no unanimity among economists as to what sort of things, and on what scale, governments should be influencing economic affairs.'' (Remember the 33 economists split on the issue of the Australian Federal Government's referendum on prices and wages)[8] ''The question of what governments *ought* to do'' he continues ''is a matter of ethics and political philosophy, on which there cannot be 'expert' conclusions. Economists may hope that as their science progresses they will increasingly agree on what the *consequences* of government action are; but there is no reason to suppose that they will agree about the *desirability* of those consequences.'' It is pertinent to suggest that, judging by the apparent 'progress of their science', the only agreement likely in the foreseeable future is that such agreement is impossible, given the substitution of pragmatism for basic economic principle which is the essence of Neo-Keynesian 'economic management', the commitment to which is frankly stated in the final paragraph of this section, on page 156: "We are concerned here with the function of governments in a 'mixed economy'," — not to teach those principles of political economy which are referred to in chapter 3. That chapter starts off with an admirable quotation from Adam Smith on 'the invisible hand' and ends with the admission: "Our economy is mixed in two senses: governments modify private initiative; monopolistic elements impinge on the working of competition" — having discussed academically on the way such propositions as "How a free enterprise system solves the basic economic problems" (p.41), "that a competitive system of markets and prices is not a system of chaos and anarchy . . . it works" (p.42).

Chapter 8, after asking: "Are there any guiding principles?" (p.165), answers the question by discussing "the minimum role of government", "social goods", "negative external effects (of private action)" and "economies of scale". The 'minimum role' is correctly set out, after delineating an 'idealized world', as that of upholding justice, protecting the "peaceful fulfilment of contracts". But then of course the authors are not concerned with economic philosophy: "Clearly, the economist — as an economist — cannot nominate any uniquely optimum scope and size for the public sector" (p.165) — having tacitly accepted the notion of a 'public sector' and of 'economic management'.

On page 171 there is a section headed: 'Principles or Pragmatism?' which looks hopeful until we read that "The formal presentation of the choice between collective and private goods in diagrams such as Figure 8-1 (p.169) should not be interpreted as implying that this choice can be described in the rigorous way that economists analyse (say) the businessman's choice of his optimum rate of output . . . Once we leave the minimal functions proposed by Adam Smith, there are few further instances where we can find unanimity on the desirability of direct government provision of goods and services." Pragmatism wins.

The rest of the section, and of the whole of the Summary and the Questions for Discussion with which chapter 8 concludes has no place in a discussion of the 'economic role of government' for it consists entirely of the presentation of examples of purely political activity. In fact, all this material simply serves to demonstrate the anachronism that government *has* an economic role to play.

An interesting commentary on the whole picture of Neo-Keynesian politico-economic confusion is presented in this statement on p.351, in a discussion of government control of banking: "Until the 1940's . . . governments did not regard it as prudent or honest to increase their spending when economic conditions deteriorated and their tax revenues declined." The inference is that now they do. What has changed since the 1940's — the basic principles of political economy or the prudence and honesty of the 'economic managers'?

(5) TAXATION

Once you have accepted the sophistry that government has an economic role, the concept of the rightness of taxation is a natural corollary; thus we come to a section of chapter 9 headed 'Economic Nature of Taxation', which proceeds to discuss such *non*-economic concepts as government's need for "the use of society's scarce (sic) supplies of labour, land and capital goods" to "build a battleship or run a lighthouse", or the making of "welfare transfers" — a "veil to cloak redistribution".

Inevitably there arises the 'problem' of how to fit your square (ethical) peg of taxation into the round hole of the economy, and much of the rest of the chapter is devoted to the difficulties confronting economists in deciding who should be taxed, by what method and in what relative proportions. "How have modern mixed societies resolved these difficult philosophical questions?" asks Samuelson. His answer is: "Democracies have generally adopted pragmatic solutions which please neither the advocates of benefit principles nor the advocates of thorough-going re-distributional taxes." The difficulties get worse as the chapter proceeds through the maze of *kinds* of taxation and their economic effects, such as company taxation "a highly controversial one" which "evidence shows may lead to price increases." Finally, after wading through the mire of the Progressive Income Tax, the exhausted economist confronts the manyheaded Hydra of 'incidence'. "Economists say that we should look to the *final incidence* of the tax" which is "difficult to assess." It is admitted that "economists have not reached final agreement on many important issues". How could they be expected to do so on an issue of such politico-economic confusion as taxation?

(6) REVERSAL OF ROLES OF MAN AND THE ECONOMY

The central and most egregious error of Neo-Keynesian economics, espoused by Samuelson and his co-authors, is its inversion of the respective roles of man, the economiser, and 'the economy' which is his rationale of economising — an inversion implicit in the whole concept of macro-economics.

There is ample evidence of this throughout this textbook. On page 600, for instance, the attitude that the economy is all and man merely a unit of production is made clear with the words: "*Labour is one of the few productive factors* that cannot be legally bought outright" (Italics ours). The gross absurdity of such a remark seems to have eluded the authors, not perhaps unnaturally once they have committed themselves to the concept that man is made for the economy, not the economy by and for man, exemplified by this passage on page 404: "The economist emphasises that the benefits of all government spending must be weighed against the sacrifice of the benefits which could have been obtained from the alternative use of the resources absorbed by the Government's decisions. And in a fully employed economy a government which wishes to avoid inflation must match increases in its own spending by reductions in private spending enforced either by increased taxation or by a tighter monetary policy." Thus the needs of the economy dictate the nature of and determine the extent of the individual's enjoyment or disposal of his own earnings.

On p.821 is a section headed: 'Improving Human Resources'; here we read that "The significance of labour as a factor of production makes the quality of the workforce an important subject for the attention of development planners." Is this not to stand economics on its head? This is to treat human beings like ants. Who is the producer if not 'labour'? And what is production for if not for *his* benefit? Surely such economics as this should be found only in the fantastic world explored by Alice, or that of Huxley's *Brave New World*!

Sir John Hicks[9] is quoted thus, on page 603: "The theory of the determination of wages in a free market is simply a special case of the general theory of value. Wages are the price of labour. . ." (instead of being the *reward* of labour). On p.837, in the section headed: 'Education and Training', we read: "The quality of a society's human resources depends largely upon the provision made for education and training. According to some overseas inquiries, 'investment in human capital' through education has a relatively high social return, suggesting that output might be raised if some investment in physical capital were diverted to outlay on education."

After discussing Professor Karmel's[10] statistical exercise to show "the rapid growth in the ratio of Australian educational expenditure to the GNP", our authors go on to consider the prospect of giving education a "still higher priority" as a "component of any policy for faster growth." The question is still the *kind* of education to be considered: "Education in applied technology and business management may contribute more to the growth of the real (sic) GNP than the study of the pure sciences and the humanities. This is in no way to deprecate non-utilitarian education, which for affluent societies may be an excellent form of 'consumptive' expenditure. But the fact is that not all forms of education are to an equal degree 'investment in human capital'. . ."

And who are the gods who are to exercise the power of decision as to the educability of the 'work-force' and the proportion of 'investment in human capital' for the growth of the 'real GNP' as against what shall be allowed for the amusement of those incorrigibles who insist on being *educated* in the only sense known to man before the intrusion of this Gibertian version of economics? The politicians and bureaucrats and their guides in the wilderness, the professional economists?

Is it any wonder that we are contemplating an instinctive revulsion among the young against the idea of such inhuman manipulation, the prospect of a 'drop-out generation', the significance of Marcuse's *One Dimensional Man*[11] and of such phenomena as the Congress on the Dialectics of Liberation?[12]

This chapter might well close with these words of Bruce Allsopp, author of *Civilization: The Next Stage*:[13] "There is no system that will work and we have to go back to the individual man. The great illusion is that by corporate systems we can solve the personal problems of living. . . . We are faced with total failure . . . this is a crisis of confidence in ourselves."

Samuelson's *Economics* should be considered as an instrument in the dehumanising process of which macro-economics is the rationale and the sanctification of the GNP its empty goal. It is depressing in the extreme to reflect that this textbook has achieved first place in recommended reading for economics students at so many universities throughout the world.

NOTES ON CHAPTER 7

1. In so far as the work is complete; unfortunately George did not live to finish the book, a task which was taken over by his son who, skilful as he was, could not be expected to do more than he did in assembling his father's notes for the uncompleted chapters.
2. Turgot, A. R. J. (1727-1781), French statesman and economist, Comptroller General to Louis XVI, member of the famous group known as the Physiocrats.
3. *ECONOMICS* by Paul A. Samuelson; McGraw-Hill, New York, 1948 et seq. Australian edition: Samuelson, Hancock and Wallace; McGraw-Hill Books (Aust.) Pty. Ltd., Sydney 1970.
4. Ibid: p.223 of Australian edition.
5. Ibid: pp.426/7, Australian edition.
6. Ibid: footnote to p.636: "Note that after land has been capitalized its rent may appear as *interest* on its market value. . .".
7. "Pure land rent is in the nature of a surplus which can be taxed without affecting production incentives".
8. Chapter 6 hereof, footnote 1.
9. HICKS, Sir John: *The Theory of Wages*.
10. Karmel, Professor P. H., Vice Chancellor of Flinders University, Sth. Australia: *Some Arithmetic of Education* — Melbourne Studies in Education, 1966.
11. Marcuse, Herbert: *One Dimensional Man, Eros and Civilization;* Sphere Books, 1968, 1969.
12. *The Dialectics of Liberation:* (David Cooper, ed.) Penguin Books 1968.
13. Allsopp, Bruce: *Civilisation: The Next Stage;* Oriel Press, 1969.