The Flight From Reality

By RONALD BANKS

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WHAT is the stuff of modern economic theory? Is the current practice of economic analysis so steeped in abstract mathematical terms that anyone trying to find out what is going on in the economic world finds himself on a path of ever-decreasing circles? Is economic activity a fluid thing, and can it be represented usefully by models, each of which portrays a minute, stationary and over-simplified part of the whole?

Questions like the above are prompted by the alarming increase in the number of books, articles and statements on economic planning backed by an impressive pattern of pseudo-scientific gibberish and mathematical formulae.

Of equal concern is the work of economists who are deeply committed to an analysis of the superficialities of economic life in mathematical terms. Here the complicated analysis and yet comparatively simple conclusions in terms of mathematical theorems are such a delight to the planners. Indeed, they must be to anyone who delights in manipulation of symbols, but is unable to handle the fluidity of everyday life.

Joan Robinson's *Essays in the Theory of Economic Growth* (Macmillan, 18s.) is an example of such work. And her statement that "the level of normal prices has to be such that the rate of profit is such that the distribution of income is such that the ratio of saving to the stock of capital is equal to the rate of accumulation" is just such a conclusion as proves of value to the planners. One can just see the planner savouring each step in the determination of the figures required, and finally triumphantly presenting to an eager but unsuspecting politician the simple, effective remedy to balance the figures. Unfortunately, "the balancing of figures" is about the only success such a remedy is likely to have. The realities of the situation will either escape notice or be deliberately avoided. Whatever the actual situation, the "proof" in mathematical terms will be the criterion of success in the short run. In the long run, of course, there will be much disillusionment and much harm to the economy, especially when little regard is given to the basic fundamentals of political economy.

A predilection for this type of analysis is not peculiar to the field of economics, but is common to the present approach and thinking in all spheres of life. The underlying reason is the lack of understanding, giving rise in the economic field to a singular lack of fundamental principles or of a point of common reference. This shows itself in the mania for analysing and trying to cure symptoms, instead of looking for the root cause of any trouble.

A contributing factor, too, is that modern economists cannot allow a situation to be fluid because fluidity is difficult to control. This means that economic activity, which is nothing if not fluid, is reduced to something that can be handled, i.e., something stationary. It is here that models and symbols are most useful, since they represent satisfactorily only those things which are at a standstill. It is not difficult to see then that with no fundamentals an economist can quickly become involved in a labyrinth of complicated statistics, eschewing reality as much as possible, and using all his skill to create abstract formulae and balance the sides of equations.

One further result of the type of economic analysis which lacks fundamentals is that a student is as likely as not to find experts putting forward formulae which conflict with each other. Economic policy is treated as a matter of opinion and not of fact. This is very convenient, for it allows vested interests to choose whichever "expert" opinion is most likely to benefit them. This approach to economics tends to make one dismiss the whole subject as a waste of time, which, of course, it is. However, there is still much that is wrong in reality in our society, and our "expert" opinions have their effect. Vested interests use them to protect their investments and to perpetuate the many wrongs that exist, using the name of an "expert" as authority. The "experts" have much to answer for!

We cannot, of course, complain when first class brains analyse parts of our economic system, using the most precise tools of mathematical analysis available, so long as this method is used only when necessary, and when we are canny about drawing conclusions from statistics only. The trouble arises when the method is used at every opportunity and analysis runs away with itself. Economists do not realise, in their enthusiasm, that analysis has its limitations.

Mrs. Robinson, in her *Theory,* does give warnings about the danger of drawing conclusions from various forms of analysis, but she is unable to conceal her obvious enthusiasm at her own conclusions and at the directions in which they point.

The publishers claim that "although Mrs. Robinson's method of analysis is to a large extent based on mathematics, her ideas are all set out in straightforward prose, and, while the treatment is abstract, it is by no means theory for its own sake." The claims seem hardly justifiable — even the communication of ideas I found extremely poor. After an introductory essay on Normal Prices, the author concludes that "analysis of current problems cannot wait until models have been properly worked out, the appropriate mixture selected, and the interaction between them properly diagnosed. More rough-and-ready methods have to be used." Even allowing that models would eventually be useful in some way, there is no guide as to how to select appropriate mixtures or to diagnose the interaction between them. It would seem a matter of personal opinion of the expert concerned, which puts everything back in the melting pot.

In an essay which purports to be a generalisation of Keynes's *General Theory,* the author states: "There is no difficulty about the analysis so long as no conclusions are drawn from it." In an appendix to this essay she states that "these models are all too simplified and too highly integrated for it to be possible to confront them with evidence from reality. At this stage they must be judged on the *a priori* plausibility of their assumptions." Later, in concluding an essay entitled "A Neo-Classical Theorem," Mrs. Robinson concedes that "it is not legitimate to draw practical conclusions from an argument such as the above without further consideration." But it is too late; the mind careers off at a tangent away from reality and into a dream world of mathematical puzzles. The author states in the preface: "In an earlier book I dropped out here and there hints as to whither, in my opinion, the analysis might be found to lead. This time I have refrained even from hints. My main concern is to get economic analysis off the mud of static equilibrium theory. Once afloat, enticing voyages beckon in many directions." And indeed, it is difficult not to get carried away with the mathematical possibilities which beckon the reader.

When one does get down to reality one remembers that the author herself suggests that judgement of models be made on the *a priori* plausibility of their assumptions. When one scrutinises the simplifying assumptions so disarmingly put forward, the prospects of the impending analysis are not very encouraging. For instance, in discussing one model in the first essay, the author conveniently asserts: "Non-produced means of production, such as 'land' of traditional theory, are a link between this model and the first one, in which supply and demand govern relative prices. For the moment we assume them away in order to consider this model in a pure form." It must be a most useful model when labour and capital are the only factors of production and land is assumed away.

The methods of analysis indulged in by modern economists can be useful in their place, but not when they are used indiscriminately in an attempt to find solutions to nearly all our economic problems. The pity is that the obsession with analysis of the mathematical variety prevents the economist from looking in more profitable directions for solutions. For those who are convinced that land reform is a pre-requisite to improvement in our economic and social life, it is significant that modern economists assume land away in order to make their models work.

Perhaps the whole thing can be neatly summed up by Professor Harry Gunnison Brown, who wrote in the late 1940s: "Could it possibly be that the younger generation of economists have given their time so completely to the study of bizarre theoretical systems, while giving inadequate attention to some of the most fundamental principles and most significant problems of economics, that they must be regarded as in considerable degree a "lost generation"?"

From my experience, Professor Brown's question should be answered by a very firm 'Yes.' The pity of it is that it is a great waste of human resources.

INTERNATIONAL TRADE NONSENSE

FROM February 22, a licence is no longer necessary for importing raw onions (whether fresh or dried) into the Irish Republic.

THE types of paper bags on which an import duty of $12\frac{1}{2}$ per cent ad valorem is charged are specified in Legal Notice No. 307 published in the Uganda Government Gazette. These are "bags made of paper or of glassine or of greaseproof paper (but not of cellophane) of block bottom or satchell design but not including (among others) sachets designed for the packing of locally produced curry powder . . . not exceeding the following dimensions: unfolded length $3\frac{3}{4}$ ins. width 1 9/16 ins."

UNDER tariff heading 22.01.16 one can import "ordinary water and snow" into Switzerland *duty free.*

THE Tunisian *Journal Officiel* of January 18 announced the temporary admission, duty free, of apricot kernels.