KEYNESIAN CONFUSION RULES ROOST AGAIN!

LEADERS of the seven leading trading nations met in Tokyo in July to bury the economics of Ronald Reagan and Margaret Thatcher. Shaken by the persistence of global unemployment, the politicians abandoned the policy of disentangling government from the market.

And they exhumed Keynesian policies, which emphasise the importance of money and state intervention to "prime the pump" through public investment. OUT goes privatisation. IN comes incomes policies. The implications for entrepreneurial opportunities must be understood by people who need to know where (and when) to invest their money, in the cyclical upturn.

The depth of the revisionism was dramatised by Alistair Burt, a British minister of social security, who says that people's lives are wrecked by the demands imposed upon them by capitalism. He contradicted one of Mrs. Thatcher's aphorisms - that "there is no such thing as society" - when he declared: "There is such a thing as society and it stands or falls on the strength of the individuals who make it up."

The emphasis is now on "sound" money. Curbing inflation is said to be the primary goal of policy, to create the "stability" - a favourite word of the new Governor of the Bank of England, Mr. Eddie George - that would lead to the creation of new jobs.

We are now back to the 1970s: of governments trying to decide where to invest taxpayers' money, in the hope of boosting the economy. The need to reflect on the causes of unemployment were emphasised by the Confederation of British Industries, which reports that unemployment will not drop below 2.25 million people. That means an enormous burden will remain on the UK taxpayer.

SHOULD we have faith in the perspicacity of the policy-makers? Are governments today any better than they were in the 1970s, when they were not able to pick between winners and losers for public subsidies? Confusion will now reign. That is a foregone conclusion, the reason for which can be traced back to Keynes, the architect of interventionism.

Keynes, in his *General Theory of Employment Interest and Money*, believed that he overturned classical economics by reinterpreting people's attitudes to money. Deep-seated motives that were formerly embedded in the ownership of land, he said, were now transferred to money. He taught that the explanation for why the world was still poor, after 2,000 years of steady individual saving, was explained

"neither by the improvident propensities of mankind, nor even the destruction of war, but by the high liquidity-premiums formerly attaching to the ownership of land and now attaching to money."

His biographer, Robert Skidelsky, characterised this as "a strange passage". Keynes himself admitted that he would alter it. Why? He confessed: "I am not quite clear what it is I am trying to say."*

If Keynes did not know what he was trying to say, it is not surprising that two generations of economists should have developed an economic strategy that was bound to fail (as it did: at one point, in the 1970s, 30 million people found themselves without jobs, despite the propensity of governments to "prime pumps").

LAND continues to be the determining factor in the instability that periodically sends the industrial economy into a slump. That this lesson has not yet been learnt was reflected in the report from finance ministers to the G7 leaders in Tokyo. They said that financial deregulation may "have contributed to excessive indebtedness and asset-price movements". Money, in other words, was the central focus of attention.

In fact, deregulation did not cause the boom in asset prices. Japan experienced such a boom - without deregulation. So did South Korea (see p.4), which is only now considering deregulation. And anyone who needs another example, should examine Thailand's record. Or China's current woes (see EI/36).

Nor was it the movement in the price of shares, or works of art, that destabilised all the economies of the West (apart from Germany). The price of land was the source of the problem - despite Keynes' dismissal of land as unimportant, due to what he called "a silent change in the facts". In the 1980s, credit expanded on the back of speculation in land. This, in turn, lured banks the world over to lend recklessly to owners, in the belief that land was the soundest of all forms of collateral.

The banks, of course, paid the price. One way or another, many of them have had to be rescued by the taxpayer (through "lifeboat" operations launched by central banks). In general, banks are not allowed to go bust; not so lucky are the wealth-creators, who were allowed to fall foul of the events triggered by land speculation.

Advisers, then, are pointing in the direction of wrong-headed policies. That means taxes will remain high (or will be raised); interests rates will remain higher than necessary. And for investors, the trick will be to identify those economic opportunities that will now be blessed by government largesse.

* Robert Skidelsky, *John Maynard Keynes,* Vol. 2: *The Economist as Saviour*, London: Macmillan, 1992, p.567.