

Economics : Philosophy or Technique ?

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IT may seem to be going somewhat outside the question of Canadian foreign trade to undertake consideration of whether the field of economics should be considered as one of philosophy, or as one of technique, but I believe that this should be the introduction to the consideration of any of the pressing economic problems of the day. Are we to approach the great problem of restoring that generous flow of trade between nations, on which civilized society must depend, as though it were simply a matter of devising some new and ingenious technique to overcome specific difficulties, or are we to go at the task in the spirit of trying to apply some general philosophy?

It does not seem probable that the latter approach, the one which I believe to be absolutely essential, is going to be adopted in this case, unless we first stop in our somewhat hectic search for *ad hoc* remedies for every economic problem which arises, and rest long enough to consider whether this is really the scientific method, or whether we can apply it, until we have first decided whether economics is to be considered a philosophy or a technique.

I

WHAT is economics? It is, of course, at the moment, the one subject which interests every citizen of Canada, and

on which every citizen is an authority. Whenever a group of Canadians gather together, at a luncheon club, at a union meeting, or in the village store at evening mail time, the conversation soon turns to the economic problems of the day, and there is in every group at least one person who can explain how to take care of the convertibility of currencies, or the so-called housing problem, or social security, or cyclical budgeting, or any other economic technique. Usually, everyone present knows exactly how to deal with any one of these problems.

Professional students of economics sometimes become amused or irritated at this attitude. With years of hard work behind them, or with newly conferred degrees which represent success in passing stiff examinations, professional economists are inclined to be impatient at the idea that every citizen of the country is an expert in this field.

Yet, in justice, are the professional economists entirely free from blame for this condition?

There is another field of study known as atomic physics. It is a very complicated one. It has to do with the structure of matter, and even with the nature of matter—the question of whether matter and force are not different manifestations of something which had better be

called existence, for the lack of any other convenient phrase.

Professor Einstein is a leader in this field—or so his disciples say, with some skeptics occasionally appearing. His is the best known name, but there are many other leaders in this field, not as well known to the public. The mass of the public take these people as possessed of inspired wisdom. When the newspapers recently learned that Professor Einstein had produced a new equation, and actually obtained copies of the symbols in which this equation was expressed, and published them, the mass public reaction was one of the respect which used to be accorded to the pronouncements of the Delphic Oracle, or the revelations of the High Priest of some ancient religion. The public came about as close to worshipping the collection of little letters and symbols as the public of Western nations in 1950 ever come to worship.

Notable was the fact that there was little public discussion, and no criticism. Groups in luncheon clubs, union meetings, and assemblages around stoves in country post offices, mentioned that this Einstein must be a very brilliant man, and that he had evidently discovered something of great importance. The more literate even grasped the fact that Einstein evidently had some idea of the relationship of matter and force. The number of people who, anywhere in North America, undertook to criticize or contradict Einstein was very small. Those who did—leaving aside any critics who might be found in the same sacred class of physicists—were admittedly just local cranks. As they completed their statements of their views as to the errors of Einstein, and left the assemblages, those who remained tapped their foreheads, with significant winks.

Yet, the whole field of atomic physics is, in one sense, very much simpler than that of economics. Atomic physics is a science dealing with something which, for the lack of a better phrase, can be called inanimate matter. There is good philosophical reason for believing that the interactions on each other of the ultimate—if they be ultimate—particles of matter or packets of power is a process generally

similar to that of dissolving a teaspoonful of sugar in a cup of coffee, or hitching a wall socket on to electric wiring.

This is no attempt to be funny. It is a mere statement of fact. That the present writer and all his readers who are not physically incapacitated can dissolve a teaspoonful of sugar in a cup of coffee, and that many of them can—if their family circumstances force them to such activities—hitch an electric socket on to wiring, but that few of the readers of this article can make an atomic bomb, does not alter the fact as stated. This condition merely indicates that the processes of playing with atoms are very much more complex than the simpler activities which have been mentioned. The distinction is one of degree—not of kind.

II

WHEN we come to consider economics, we are in a different field. This, as will be pointed out a little more fully, is a question of analysing the actions of human beings, and human beings, in at least some cases, have wills, desires, sentiments, so that the interaction of human beings on each other is in a different sphere from, and I must venture to assert, a far loftier one than the interaction of particles of matter or packets of force. The problems involved are essentially far more complex.

Yet, we have the fact that everyone understands economics, to listen to him, while few venture to assert that they understand atomic physics. We have the fact that everyone knows the answers to economic problems, and can contradict the most learned economist, while only a few specialists are willing even to risk a comment on what Einstein says.

Now, there are two reasons for this difference of the approach of the unlearned to these two subjects. One reason is simply that the atomic physicists have an excellent record of forecasting, and making their forecasts come true. The first atomic physicist who discovered that, by striking two substances together, in the present of a third and highly inflamm-

able substance, he could make fire, after his first few clumsy failures became very expert at the experiment. He could soon demonstrate that a certain technique would produce a definite result. It never happened, after the first few thousand years of experiments with fire, that the fire-maker failed to produce fire, provided he followed the accepted technique. He thus gained the confidence of his fellow men.

Certain other developments occurred later, in the field of atomic physics, culminating a few years ago in the forecast that, if a certain collection of materials, arranged in a certain way, were dropped from an airplane on the desert of New Mexico, there would occur a very large and sudden release of force—something very much like an explosion, at least in its effects.

The forecast was borne out by events. Certain materials were arranged in a certain form and were dropped from an airplane in the New Mexico desert. The explosion—to use a convenient term, which is totally incorrect, of course—occurred as forecast. It was exactly the sort of explosion which the atomic physicists had promised. They could even forecast its incidental results, such as painful damage to organisms exposed to the release of force—in the nature of a special type of burning of the skin, and even more unpleasant injuries.

On the other hand, the economists have been not quite so successful in forecasting—to put it mildly. Without going back to Aristotle, starting with the late Dr. Adam Smith, economists have been explaining to the human race, from time to time, with increasing frequency, that such and such public policies, for example, will produce such and such results. The results have not always corresponded with the forecasts—so that the unlearned feel that they have a perfect right to assert that Einstein knows what he is talking about, but that it is highly improbable that the economists do.

The other reason for public skepticism concerning economists, which also happens to include the reason for their failures to forecast correctly, is to be

found in the sins of the economists. They have committed a sort of collective suicide. They have flooded the world with detailed plans which have not worked out in practice, and they have done this because of some fatal urge to convert their field of study into a technique, before it has become a philosophy.

III

IT is a fact that, since the days of Dr. Adam Smith, there has been magnificent progress made by the economists in the direction of creating a philosophy. It is also a fact that most of that progress was made quite a long time ago, as we measure modern history; that it is still possible to find more efforts to construct a logical philosophy of economic action in the volumes on economics which appeared up to, say, fifty years ago, than in the far greater, the incredibly greater, output of economic discussion in the last fifty years.

It is not unjust to assert that the three major books of economic discussion which have appeared since 1776 are *The Wealth of Nations*, *Capital* and *The General Theory*. Now, note the difference between these three. The first two are attempts to create an economic philosophy. The last was, of course, nothing of the kind. It was an attempt to chart plans of economic action in given circumstances.

The reception of the three works by the public will indicate the difference between them, and will point up my assertion that *The General Theory* was not economic philosophy in the sense that *The Wealth of Nations* and *Capital* were.

Allowing for the much more rapid dissemination of ideas as time goes on, it is still a startling fact that it was at least seventy years after *The Wealth of Nations* appeared before the philosophy expounded in it exercised any general effect on the public policies of a great nation. It is not being too casual to say that the repeal of the Corn Laws in Britain in 1846 was the first important evidence that any large number of human beings had mastered what Dr. Adam Smith had to say. It

is probably not too casual to suggest that the early meetings of the Fabian Society, many years after *Capital* was published, were the first evidence that Karl Marx had obtained a hearing to the point where his ideas might affect public policy.

On the other hand, the late Lord Keynes, publishing a book in which he openly reversed his previous attitude to major economic problems, was rewarded, within a couple of years, by widespread acceptance of what he had to say.

Naturally, a general philosophy of economics will affect public opinion but slowly. Dr. Adam Smith did not produce many detailed plans for action. He taught what he believed to be general truths. It naturally required a couple of generations at least for his philosophy to affect general economic thinking to such an extent that a specific public policy would result. Marx, of course, was not quite as patient as Dr. Adam Smith. He was urging slaves to strike off their chains, and to rise in revolution, long before many people had taken the time to find out why he thought that this was a good idea. As a result, he gained followers more rapidly than did Dr. Adam Smith, and he did succeed in stimulating some abortive Communist movements, so-called, which were, in essence, about as Communist as the present Russian system of society—which is, of course, not Communist at all. It was definitely not until otherwise intelligent men began to gather in little groups, in which the Marxian theories were seriously studied and taken as a philosophy, that Marxism began to affect public policy.

The Marxists who have brought the master's theories into practical application were not the leaders of the early Communist uprisings, nor yet the gang who organized a successful revolution in Russia at the end of the First World War. They were such people as the Webbs, the buffoon G. B. Shaw, the late H. G. Wells, and such modern figures as Professors Laski and Cole. It is they who are the architects of present day Marxism—precisely because they, through some intellectual process, which future gen-

erations will probably understand but present day observers can scarcely grasp, came to accept Marxism as a philosophy, and not as a pattern of immediate action.

These are the people who have fastened on the world true Marxism—the experiments with the welfare state, with planned economy, and with that peculiarly illogical concept of democratic Socialism, which is, of course, a logical contradiction in terms.

These manifestations of Marxism—not the so-called Communism of Marshal Stalin, or of the worthy Mao Tse-tung—are the real inheritance from Marx. The Russians are about as Marxist now in any real sense as they were Christian under the corrupt ecclesiastical system of the Tsarist Orthodox Church, and all that the Chinese Communists know about Communism is that it is an excellent system of discipline, made acceptable to the people by promising everyone that he will be rich.

It is Socialism as it is being practiced in Britain, France, Canada and the United States, which is the real example of Marxism in practice. This stems back to Marxism as a philosophy. It has nothing to do with Marx's excited calls to slaves to strike off their chains and murder everyone in sight, which really have very little to do with Marxism as a philosophy.

On the other hand, the Keynesian plans of public policy are not accepted by their most ardent followers as a philosophy in any sense. They are nothing but blueprints for action—immediate, *ad hoc* action. That can be easily demonstrated by the simple fact that few of those who advocate the Keynesian plans ever attempt to defend them as being in accord with any general system of philosophy. They are put into effect because it is alleged by those who recommend or adopt them that they will at once produce specific benefits. The Keynesians actually carry on a merry battle among themselves as to what the master did mean, in the field of philosophy. They are in much more complete accord as to what they believe he recommended in the nature of action.

This is not an attempt to blame the

present low estate of economics in the eyes of the public on Lord Keynes alone. Far from it. He was but one of many. The point which is made is that he was the most successful of all economists in converting economics from a philosophy into a technique. He was the father of *ad hoc* economic action.

Ludwig von Mises has tried to make this clear in his recent colossal work, *Human Action*. He struggles throughout this enormous and difficult volume to establish economics as a philosophy. He goes so far as to suggest that we must first accept the task of creating a science known as "praxeology", a science of human action, of which economics will be a part. Time will tell whether von Mises will produce any marked immediate effect on economic thinking. It can be taken as fairly certain that he will permanently, if slowly, have effect.

IV

NOW, *ad hoc* economic action, not based on any philosophy, but adopted as a system of expedients, is exactly what much economic discussion of recent years has been recommending. The examples are innumerable in our existing society. We have built railways, not because we worked out the philosophy of the economics of transportation, but because we should thus quickly increase our ability to move goods. We have built airplane fields, not as part of a plan for the intelligent adaptation of this new system of transportation to its opportunities, but purely because it was a nice thing to be able to drive out to the airport and get in an airplane to go to some far country in a hurry. We have adopted tariff systems, not after careful consideration of the philosophy of the economics of international commerce, but purely because, in this way, we could get factories built, which otherwise would not have been built, or at least not so soon.

The process of *ad hoc* experimentation, with no philosophy behind it, is constantly being speeded up. We have adopted whole plans of so-called social security,

which are merely systems of distributing money to anyone who might conceivably need some money, without any serious consideration of the economic effects. We have thrown overboard the means test in pursuit of methods of relieving distress. Even our Marxists refuse to consider the means test, although it is a necessary and sacred part of Marxian philosophy, simply because it makes it difficult to figure out how communal action can be undertaken to relieve human distress. It is so much easier to give everyone some money than to try to give it only to those who need it.

We did toy with something in the way of a philosophy of cyclical budgeting for a while. Simply because it was found to be a very difficult plan, we have kept all the bad parts of it, and thrown away all the good ones. The result is that we are now committed to a policy of permanent additions to inflationary pressure, which will probably continue, unless we begin to think again, to the point at which, as von Mises says, inflation will become catastrophic inflation.

Now, the error of this approach becomes very clear, so clear that, while the mass of the people do not understand that it is an error, they do see that its consequences are unpleasant.

An increasing number of people begin to realize that the so-called welfare state means a continual process of redistribution of wealth, which is going to inhibit the production of wealth. An increasing number of ordinary citizens, quite innocent of economic philosophy, resent the idea of trying to subsidize everyone, because of its obvious breakdown in practice. There are even a growing number of people who think that it is a bad idea to insist on distributing nearly \$300 million a year in Baby Bonus, whether it is needed or not.

Quite kindly and ignorant people can see that it is quite impossible to promise that any state, short of a totalitarian one, can hope to establish and put into effect a system by which public authorities will guarantee the people a certain standard of housing accommodation, just where they happen to want it. It is even pos-

sible to find ordinary men who will agree that it is foolish to say that everyone who happens to lose his job should be provided with subsistence for an indefinite period, in place of an effort being made to find him another job. The distinction is important, for, on the assumption of the automatic right to subsistence, the tendency of the average man is, when he loses a job, to sit down and wait for that same job to be recreated for him. Men and women quite innocent of economic thinking are able to see that this means that unemployment will steadily increase, and that there should be some system by which the mobility of labour can be restored to the point where the first thought of the man who loses a job is to find another one—not necessarily in the same place, or of the same type as the one which he lost.

The Economist, the bible of the planners, has itself become severely critical of planning as it is applied in this *ad hoc* fashion. It said recently that "Rents have, in fact, become an almost prime example of the chaos that can result from a number of well-intentioned but unrelated interventions of state policy". The argument is that rents cannot be dissociated from housing subsidies, from food subsidies for that matter, from town and country planning, from state control, or state support of building wages.

V

MOST startling has been the fact that professional economists, thoroughly trained in the disciplines of their profession, have been responsible for the abandonment of any effort to maintain general convertibility of national currencies, and that many of them still insist that a contrary technique must be followed.

This contradicts all theories of economics. The one point on which all schools of economic philosophy have shown general agreement is the necessity of some system of international currency. Even List, however willing to cater to ideas of national economic autarky, did not suggest that it should be complete. He

planned to control the amount of goods which any nation might export or import, by the use of tariffs, but he did not suggest that international trade should be abolished.

The most ardent exponents of the National Association of Manufacturers in the United States never suggested that there should be a system by which that country might not engage in international commerce. The most that they asked was that, by tariffs, producers in the United States might be protected from the competition of goods produced in other countries, with lower standards of living.

Now, commerce between nations on any large scale is impossible without convertibility of currencies. Even if all the tariffs in the world were removed, this would still remain true. There are no tariffs between the ten Provinces of Canada, or the forty-eight States of the Union, but it must be apparent to even the most uninstructed that internal trade in the two countries would be impossible for all practical purposes, if each Province or State had its own monetary system, without some method of permitting these various currencies to exchange with each other in a free market.

It was not by accident that the great period of building international commerce corresponded with the general use of gold as a currency, together with quite rigid adherence by important nations to the principle of keeping their currencies of consistent value in gold. It is as improbable that what we know as modern civilization could have been created without the gold standard, or something equivalent, as it is that the people of Montreal and Toronto could trade with each other freely on a barter system. Without convertibility of currencies, international commerce is reduced to barter, and, at this moment, the Canadian people are being informed that they can only hope to sell to Britain the volume of goods which they buy from Britain. Remember that this, if applied to trade between Canada and Britain, must be applied to trade between Canada and every other country, and it will soon be recognized that

this is merely a suggestion that modern nations should return to the barter of primitive tribes.

Professional economists even went farther. Faced with the breakdown of commerce without convertible currencies, they undertook to restore convertibility of currencies, and set up the International Monetary Fund, which was to provide a mechanism for permitting currencies to become convertible without a return to the gold standard, which became somewhat disreputable in the minds of careless thinkers because Britain tried to return to the use of gold after the First World War at an inappropriately low price for gold. International Monetary Fund failed, for the very simple reason that it was bound to fail. It started its operations by accepting as appropriate values for currencies those established by national governments on their own, and not as the result of trade. That is, established to restore the convertibility of currencies, it based all its operations on a plan which made convertibility impossible.

VI

LOOKING over the record of professional economists in making plans for the application of technique in economic affairs, as this record goes back for the past generation, it does look as though a fair statement can be made that it is a poor record. It has been one of offering technique, even when this technique was absolutely contradictory to generally accepted economic philosophy.

In short, the *ad hoc* approach, the idea of forgetting economic philosophy and thinking only of economic technique, is producing very serious results on the body politic and economic—so serious that the public at large are rapidly beginning to see how wrong the whole thing is. Looking over current examples of economic technique, the failure of the *ad hoc* economists to make atomic bombs which do explode at the right moment and in the correct way, the public are becoming increasingly skeptical about everything which is called economics.

The economists are to blame. They threw philosophy out of the window, and substituted technique. They permitted themselves to be used by politicians, as so many clerks and draftsmen, to produce politically popular plans. Now the plans break down, and it is not the politicians but the economists who get the blame.

Of course, there are those economists who, facing the breakdown of their *ad hoc* plans, simply say that the trouble is that general planning is lacking, but general planning leads, of course, quickly and inevitably, to the totalitarian state. Even the man on the street grasps that fact very readily after it has been explained to him. The totalitarian state is not, of course, an economic organism. It is a military one, or perhaps a biological one like the ant hill. An economic organism is one in which individuals act for the purpose of obtaining the sort of life which they would like. There can be no economic action by individual soldiers, or individual ants, so that the military or ant hill organism, while it can exist, cannot possibly be an economic one.

Thus, the economist cannot take refuge in tidying up the mistakes of *ad hoc* economic policies by combining them into general planning. If he succeeds, he vanishes, for there is no room for economists in the totalitarian state. He is unlikely to succeed in persuading any large number of people to accept general planning willingly, so that the economist who advocates correcting the mistakes of *ad hoc* experiments by general planning is getting less of a hearing every day, as it becomes clear that any suggestion of this kind could only lead to such a happy state as exists in Russia, where no one has to bother about economics at all. Someone decides to build a beautiful subway in Moscow, and the subway gets built. Meanwhile, there is not enough traffic on the Moscow streets to make a subway even useful. Slaves do not spend much time driving around, or even walking around. They go from slave barracks to slave factory, and back to slave barracks at night. There is no traffic problem in Moscow. A really efficient slave organization will always see that the

slave moves as little distance as possible from bed to work bench.

VII

THUS, the question which faces the economists is simply whether they propose to vanish from the face of the earth as a class. They are not very important now in forming public opinion. The results of their *ad hoc* experiments do not correspond with forecasts. They have committed treason to their own calling. They have thrown philosophy out of the window in order to toy with technique. It will not be until there is a revival, a rebirth of economic philosophy—which is only possible if hasty offering of economic technique be abandoned by economists—that economists will again cease to be the target for scoffing.

The economist has exactly one function. It is to evolve an economic philosophy, and to make it available in simple terms to the sort of people who become Members of Parliament. It is a difficult task, admittedly, but it is the only task which the economist can perform. That means that the economist must abandon technique for philosophy.

This statement will provoke disagreement. It will be enquired whether economists have no other function except that of school teachers; whether they must abandon any hope of being able to offer technical assistance to governments and to economic organizations, such as business institutions and labour unions. Not at all. All that is suggested is that they must evolve their economic philosophy, and then state it. They must adhere to it. They must refuse to compromise. They must be consistent.

With absolute consistency on their part, the economists become, once again, highly competent and effective advisors of governments and economic institutions, in daily affairs. When they are asked if it is a good thing to have foreign exchange control, they simply have to announce that it is a very bad thing; that it will cause international commerce to be replaced by the barter system of primitive

society. If they are asked if it is a good thing to have a shotgun Baby Bonus, all that they have to do is to point out that this would be self-defeating, because it would stimulate inflation, and that the proper method of relieving the sufferings of poor families with more children than they can keep properly is for private benevolence to bestir itself, to remember that no society is going to provide a pleasant livelihood for only a percentage of its people for long, to urge on the more skillful and more fortunate that their skill and fortune will not enable them to maintain a preferred position in a society which contains large numbers of families which cannot give their children decent food and a reasonable amount of education.

When economists are asked whether it is a good thing for public authorities to subsidize housing, they should say that it is a very bad thing, since no public authority can conceivably make and execute a plan, in anything short of a totalitarian state, which will ration housing, so that the obvious method of obtaining adequate housing for a population is to permit the provision of housing to be an activity for those seeking profit, with, in this case also, complete willingness and effort on the part of the more fortunate to undertake large scale assistance to the less fortunate.

When the economists are asked whether it is a good thing to pay export bonuses of any sort, whether in the form of payments to farmers, or of subsidized transportation, so as to cause the products of their nation to be sold abroad in increased volume, they should announce that this is wrong, since it has been known since intelligent men first began to consider economic questions that export bonuses go only to the consumer abroad, but have to be collected from the citizens of the nation which pays them. This creates a wasteful method of enabling a nation to export its products. A simpler one, more effective, is for the nation which desires to export its products to see that its production costs are not permitted to rise beyond the level at which the products of the nation can be sold in foreign markets. The economists should point

out that it is not particularly sensible to pay a man wages which make his product so costly that it cannot be sold competitively in other markets, and then, by inflationary methods or by taxation, to reduce his real wages, so that his product can be sold to other nations at prices which they can pay.

The economists should point out, when they are asked about redistribution of wealth by taxation, that this is just nonsense; that the important thing is to maximize the total production of wealth, and that no system of society so far tried has found it possible to produce much wealth unless differential wages are paid to the producers; that Russia and Britain pay the managers of state enterprises incomes as high, in proportion to those of less productive workers, as is the case in the United States.

True, governments, business institutions and labour unions may refuse to follow advice of this negative sort. They may insist that the economist should tell them something better; that he should show them how human beings can lift themselves by their bootstraps, but that is exactly my point. It is because economists have been so freely doing this for a couple of generations now that they have lost their repute.

Economics is a philosophy; not a collection of technical devices. It may become such a system of technical devices in the far distant future—but it is going to be a lot more difficult for economists

to become technicians than it was for atomic physicists. Human beings are peculiarly complex as compared with the ultimate—if they be ultimate—particles of matter or packets of power.

Economics is, of course, admittedly the study of the production and distribution of scarce goods. The very concept of wealth is dependent on scarcity. Free goods—the only known one being the atmosphere—are valueless, in an economic sense and it is a logical contradiction to speak of wealth as being without limits. It would not be wealth if it were.

Thus, the economist, if he be faithful to his calling, is bound to be a rather unpopular person. He has to remind people that man still earns his daily bread out of sweat. The mass of the public do not like this idea. They would much prefer to earn their daily bread—with a lot of jam upon it—without sweat. Naturally, public leaders turn to economists and ask for assistance in bringing this about. The answer to the economist should be that the first requirement is that the public should understand that wealth is another word for scarcity; that dealing with the problem of scarcity is a painful and laborious process, and there are no short cuts by monetary technique or anything of that sort.

Economists may not, if they are faithful to their duty, indulge in offering technique to vast numbers of human beings who have not yet mastered even the broad general principles of economic philosophy.