The Society for the Prevention of Economics

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Learned ladies, learned gentlemen, people.

I speak nervously as a radstats lurker. The nerves have two sources; first and foremost, the contributions I read on your excellent electronic list qualify far better than mine for this gathering.

My second reason is best explained medically. With help from friends, I am to set up as a society for the relief of economics. We aim to provide people who suffer from chronic economics with a few small rays of hope.

My fear is a simple one. as sole member, I do not wish to become secretary. I am here to explain that the palliatives are self-administered. If, as many do, you yearn for an expert on economics, a faith-healer for the economically distressed, then sadly, it is not I. But if you desire enlightenment, I invite you to support our difficult work.

The chief symptom of advanced economics is total ignorance. Clear early signs include a sudden loss of vision, beginning with blind spots to the following generally-known facts:

(1) the poor get poorer
(2) the rich get richer
(3) the market makes everything worse
(4) when things get really bad, they kill you

You may be surprised to learn there is a cure for economics.

Originally discovered by a Doctor Marx of Trier, it was once termed the 'work-it-out-for-yourself' cure or in erudite circles the 'Blood iob virus' approach and was promoted with cheerful ditties such as the universally popular 'Same the whole world over' song.

The early cure consisted in ensuring the facts were known to all. Healers claimed full relief if sufferers learned (1) and (2) before (3) brought on (4). Such pioneering remedies were often successful but resistant strains have swept the world to the point where few on the planet are free of the pathogen.

With your permission, I'd like to place before you a few case-histories.

I

The first is taken from the fascinating minimum wage debate in the USA. You are doubtless familiar with the issue. Economics victims are seized with an obsessional belief that raising wages cuts employment. This is closely connected to the paranoid delusion that money reproduces pathogenetically, a recurring but characteristic symptom to which I shall return.

On 20th August 1996, President Clinton decreed a two-stage increase in the minimum wage, the first since 1989. Angus Deaton, William Church Osborn Professor of Public Affairs and Professor of Economics and International Affairs at Princeton University, reported in October to the Royal Economic Society (of which he is a former president):

> In Congress, the measure attracted bipartisan support, as had previous minimum wage hikes. In the Senate, the bill was so popular that Republican Majority Leader, Trent Lott, held the measure back as a reward for his colleagues if they completed other measures before the summer recess.

The Clinton administration used detailed empirical evidence compiled by David Card and by Paul Krueger, chief advisor to Senator Edward Kennedy, whose Myth and Measurement (1995), a detailed study of actual changes in the minimum wage, suggests these had little or no effect on the employment of low wage workers. Deaton describes their results as

> convincing and straightforward, so much so that their import is clear to policy makers and to the media.

I would direct your attention to the reaction of the US economics profession.

> [T]he enthusiasm of the voters, 80 per cent of whom favoured an increase is not echoed by the majority of American economists,' writes Deaton. 'Although many support an increase in the minimum, 90 per cent believe that raising the minimum wage will lead to higher unemployment. We have been disquieted by the level of

> public and private vituperation that has greeted [this] evidence. The reception accorded to the Princeton economists by their colleagues in other institutions is what might be expected by the friends and defenders of child-molesters, and the public outcry has been no less extreme.

Paul Craig Roberts, a leading supply-sider, used his regular Business Week column to demand the American Economic Association withdraw its most prestigious award - the John Bates Clark medal - from Card,

> an economist who does not believe in the law of demand, the cornerstone of economic science.

This episode highlights the most characteristic features of severe economics attacks, namely

(1) victims become completely blind to the facts
(2) the infection rapidly spreads
(3) violence ensues, sometimes within hours.

II

Incidents of this nature first led us to suspect a possibility unique in the history of epidemiology: could the disease be spread by the doctors?

Our second case history bears this out.

In the 1950s observers of economics began to notice a strange disparity between fact and fiction. Trade theory had developed from a theory due to Ricardo called 'comparative advantage', one of the earliest outbreaks of economics, which said that if two countries specialised in making the things they did best, and traded with each other, both would benefit. Building on the work of Swedish economists Eli Heckscher and Bertil Offlin, American experts Stolper and Samuelson showed that this led to the famous factor-price equalisation theorem which the US writer Lindert (p74) gives as follows:

> free trade will equalise not only commodity prices but also factor prices so that all labourers will earn the same wage rate and all units of land will earn the same rental return in both countries regardless of the factor supplies or the demand patterns in the two countries

This theorem was one of the earliest successful isolations of the pure economics in its most virulent form. It was successfully contained until the early 1980s when it escaped into the world wreaking havoc on an epidemic scale.

The infected become convinced that a global market economy cannot but raise profits, wages, and rents in the poor countries to the level of the rich countries in a matter of years, months, or - in the case of impending elections - minutes.

Lindert explains the tragedy of this delusion. I quote:

> Even the most casual glance at the real world shows that the predictions of the factor-price equalisation theorem are not borne out. One of the most dramatic facts of economic development is that the same factor of production, for example, the same labour skill, does not earn the same pay in all countries.

On this basis, advising a developing or Eastern bloc country to open itself to the world market without suitable precautions would clearly be the worst possible advice that a rational expert could give.

However, we have already drawn attention to the belief that money grows on money. The first indication this characteristic disfunction had taken root in the body politic of the economists themselves is that they carried on as if nothing had happened.

Peter Todaro (p85) reports:

> In the 1980s, the political ascendancy of conservative governments in the United States, Britain and West Germany brought with it a neo-classical counterrevolution in economic theory and policy. Neo-classicists obtained controlling votes on the boards of the world's two most powerful international agencies - the World Bank and the International Monetary Fund. The neoconservatives argue that by permitting free markets to flourish, privatising state-owned enterprises, promoting free trade and eliminating the plethora of government regulations and price distortions in factor, product and financial markets, both economic efficiency and economic growth will be stimulated.

It is at this point that we feel duty bound to point out that though championed by the most respected (and quoted) economists of the day, this view has no basis in fact either past or present.

Differences in earnings between countries are now higher than at any time in history. At the height of the Victorian epoch average income in the richest country of the world was twenty-seven times that of the poorest. By the 1990s the ratio was a hundred and forty. And the gap sharply widened with trade liberalisation in the 1980s. In 1981 US GDP per capita was 50 times the average for South Asia and 18 times the average for sub-Saharan Africa. By 1994 according to the World Bank's own figures, it was 80 times the South Asian average and 40 times that of Sub-Saharan Africa. In only nine years since 1987 the ratio of US to Russian GDP has risen from 10 to 20.

III

Curiously even Craig Roberts' 'law of demand' predicted the effect of IMF export policies. Developing countries flooded world markets with the goods they were supposed to be best at producing - cash-crops and minerals - whose price duly collapsed. African states like Somalia, through prodigious efforts, increased their production of the corn which rotted in harbours for want of a buyer even as the people starved, and suffered a catastrophic fall in money income as the price of their exports collapsed. Anne Pettifor, in her brochure 'Debt, the most potent form of slavery' explains:

> The loss of purchasing power of exports in Africa, due to price changes after 1980 amounted to around $14-15 billion in 1992, that is roughly double the net transfer of resources (loans, aid, minus debt servicing) to Africa in that year. The cumulative loss on Africa's trade between 1980 and 1992 was in the order of $70-75 billion.

This highlights a further feature of chronic economics, namely selective dementia. In this novel form of aphasia, the victim asserts a universal law with indefatigable persistence and against all evidence, with the sole exception of the exact circumstances where the law actually applies.

This particular phenomenon, research has shown, was well-known to Doctor Marx whose observation on this was subsequently rediscovered by his follower George Orwell. 'In competition,' he writes 'everything appears in reverse'. A more perfect medical description of the condition of modern economics could not be found. But I hope it is by now clear to you that the vector is none other than the healers. We are thus faced with a threat unique in the history of humankind, namely, the agency created to control the plague has become its chief means of propagation.

Indeed, there is strong evidence of a permanent symbiotic relation. Paul Ormerod, a former director of the Henley Institute of Forecasting, writes in his justly renowned work 'The Death of Economics':

> Economists from the International Monetary Fund and the World Bank preach salvation through the market to the Third World. Austerity and discipline are the hallmarks of the favoured policies of the IMF throughout the world. Yet its own salary bill has risen by 38 per cent in the last two years, and is budgeted to rise by a further 22 per cent in 1994

Ormerod, whose immune system has clearly rescued him, charts the course of the plague with chilling objectivity. 'Economic forecasts are the subject of open derision,' he writes.

> Throughout the Western world, their accuracy is appalling. Within the past twelve months alone, as this book is being written, forecasters have failed to predict the Japanese recession, the strength of the American recovery, the depth of the collapse in the German economy, and the turmoil in the European ERM.

The conclusion is clear; a new symbiotic relation between profession and parasite has been established; the condition is incurable.

IV

Learned ladies, learned gentlemen, people,

You are no doubt wondering how this connects with the subject of statistics. The information I have to impart to you is grave.

It was Doctor Marx who first prescribed the simple though unpopular remedy for economics: prolonged exposure to truth. 'In all disputes between theoreticians and statisticians,' he wrote to his lab assistant Engels, 'I have found that the statisticians are right 99% of the time.'

Since these times the pathogen, however, has shown beyond doubt its remarkable powers of adaptation. Through its hold on the profession, there is no little room for doubt it has gained access to the facts themselves.

Our fourth and last case history highlights both the extent of the danger and at the same time the efficacy of those early, yet charmingly naive remedies of the pioneer days. It relates to a committee established by Clinton and known (E.E. Doc Smith aficionados will doubtless recognise the origin) the 'Boskin Commission'.

The commission was established to enquire into the workings of the Price Index in the USA. You will doubtless recognise the importance of this statistic. From it, for example, are calculated all economic facts dealing with real output and real consumption, the commonly-accepted measures of what we make and what we live from. In short, almost everything we accept as an economic fact is contingent on this measure.

The difficulty facing the Boskin commission is that the Price Index is intended to allow us to distinguish those changes in our wages and pensions that derive from a purely nominal increase in prices (that is, those which are not held to result from the pathogenetic reproduction of money) from those considered to represent what economics designates 'real' (to cut a long story short, the changes which do result - for those afflicted with economics - from the pathogenetic reproduction of money)

The difficulty is well-known; to distinguish what is real from what is not. The sombre case I put before you, learned people, is that the pathogen has learned to act as the determinant of reality. In short, it has added hallucinogenic capabilities to its formidable repertoire.

The Boskin commission decided, in the long-standing tradition of economics, that the true measure of real income was living standards. The problem then becomes, what constitutes living, and what is the standard of it.

The Boskin Commission's deliberations were complex. But essentially, it determined as follows: the previous measure of living standards failed to notice that people were living differently now from ten years ago. They bought lower quality goods, from cheaper outlets, and used them longer. It also noted that poor people made up a larger proportion of the population, so that the basket of consumption of the existing index assumed an unreasonably rich population.

This argument, first proposed by the young but outspoken Marie Antoinette, had the following remarkable consequence: the US government could save up to $250 bn per year by cutting index-linked pensions and benefits. A remarkable feat with an important consequence: whatever cuts in consumption have been incorporated in the general living patterns of the population, become the definition of what constitutes a fact.

A little thought reveals that economics has here discovered a means of reproducing itself through the brains of dead economists. The underlying basis of the affliction is in this case the notion introduced in the late Nineteenth century that the most appropriate measure of human activity is the enjoyment or satisfaction it procures.

Since labour, as doctor Marx first identified, is the only actual means of increasing satisfaction, and since in our age the productivity of labour increases without limit, with the passage of time an ever greater number amount of enjoyment is produced by labour. This will of course, ceteris paribus, appear in the form of a cheapening of these means of enjoyment, so that the same enjoyment may be had for less money.

Normal price-indexation keeps the income level of the producers constant, while their production increases. This strongly re-enforces the delusion of self-reproducing money, since it magnifies the enjoyment of the owners of money for no extra labour at all.

But hitherto the definition of constant enjoyment has been held to mean unchanging consumption. The Boskin commission is a pathological form of the affliction; it brings the definition of satisfaction into line with whatever the public has been obliged to endure.

V

The affliction is now invading many previously immune spheres such as, for example, the provision of state pensions. As any child knows, the way our society cares for its old, its young and its sick is quite straightforward; those who labour produce the means that sustain those who cannot. In the case of state pensions therefore, the system is that the active pay taxes which are redistributed by law to the inactive.

This is clearly immune to the delusion of the self-reproduction of money since it is a simple transfer from one class of people to another. In recent months, however, the EMU virus has driven a number of countries to transfer their pension accounts from one budget heading, namely, government spending, to a different budget heading, namely self-financing pension provision. It suddenly became clear that pensions were reproducing themselves unaided by money. This provoked an extremely severe attack of economics convincing the managers of the pension funds, to cease paying pensions and instead lay up money, while anxiously awaiting its anticipated pregnancy.

In certain cases the delusion takes on schizoid forms demonstrating that the invasion of the pathogen into the realm of the factual is by no means assured. The statisticians of the national accounts, for example, produce two sets of accounts, one showing the banks as providing a service that creates £54 bn in wealth, and the other showing them as sustaining a steady loss of some £30bn.

It is the opinion of myself and friends that the old remedies may be the best. The only known cure for economics is truth. The difficulty is that the agent is so far advanced that it has seized control of the actual definition of truth. Our proposal is therefore a straightforward one; the facts need to be purged of the pathogen. We have been engaged in applying the procedures of doctor Marx to the inoculation of the actual facts themselves, by reconstructing them to demonstrate how the labour of society itself is organised, distributed and consumed. We prescribe no other remedy than truth for, as I explained at the beginning, the remedy is self-administered.

Learned ladies, gentlemen, people, I give you the Society for the Prevention of Economics

Author: Alan Freeman, Email: a.freeman@greenwich.ac.uk. *This is a transcript of a talk given at Radical Statistics conference February 22, 1997. The empirical work mentioned in the penultimate paragraph can be requested from the author, and may form part of a later contribution to Radical Statistics. The editors inserted the section breaks.*