

Review Essay/Note de lecture

Economic Crisis and the Crisis of Economics

Michael Bradfield
Department of Economics
Dalhousie University

The Great Economic Debate: Failed Economics and a Future for Canada . Cy Gonick. Toronto: James Lorimer & Co., 1987; xii + 425 pages.

This is an interesting and stimulating book. The style is clear and concise (sometimes to a fault). Gonick describes and critiques the main theoretical bases for current policy debates and presents a Marxist interpretation of the crisis facing the economy and economics.

The first section focuses on how the dominant theory prevails among theorists and in the real world. The three commonly cited explanations are seen to be "incomplete" (p. 11). The explanation of a common value system ignores the possibility that workers recognize that their concerns are being subordinated but the need to survive forces them into a "pragmatic acceptance", especially if other alternatives are not recognized. "All ideas, once they become dominant, appear to be the only rational and valid ones" (p. 12). The claim that the democratic process synthesizes a compromise in a pluralistic society misses the "engineering" of consensus by the artificial linking of private enterprise and political democracy (p. 12). The democratic process also pretends that the state deals with equals because everyone has only one vote. Ironically, those who legitimize the market by linking it with democracy also blame democracy for government interference in the marketplace because, as Courchene complains, "The distribution of ballots in the political market is more equal than the distribution of 'dollar votes' in the marketplace (p. 107)."

The Marxist explanation, that the dominant class controls the circulation of ideas, fails to deal with capitalist ideology's ability to resemble daily life. Business interests ultimately dominate, since they are seen to provide the material needs of everyone. Investment is neces-

sary for growth, and if investment is seen to come only from profits, then profits take priority, in the interest of all even though they accrue to the few.

Moreover, the status quo has four lines of defence. Its positive features are widely promoted. Its negative features are ignored or turned to virtues; for example, disparities are necessary for incentives. A third alternative is to blame the victim—the system is fine but some individuals cannot measure up. Finally, excesses and abuses can be gradually removed by reformism, leaving the fundamental rules untouched. Gonick argues that the basic failure of orthodoxy is that it “takes for granted the existing system of ownership and the rights that go with property. By focusing on the individuals making choices, orthodoxy loses sight of the fact that the range of choices available are systematically determined by the class location of the chooser” (p. 66).

In his analysis of Keynes, Gonick cites Keynes’ insight that there was no automatic equality between the savings of the rich and real investment by corporations. Keynes advocated state intervention in the economy to supervise investment, to undertake public works, to keep interest rates low, and to control incomes, since full employment would be inflationary. Keynes shifted attention from labour to capital, but his “grand illusion” was that the state can save the capitalist system. Since it is a part of the system, the state is subject to its rules and to the power of capital to defend itself. Full employment threatens capital by strengthening labour’s hand; therefore full employment has not been “the sole goal, or even the most important among several goals, or possibly even one of the goals . . .” (p. 93). Gonick charges that liberals and socialists “only tempered the market economy while leaving the existing class structures intact” (p. 101).

Gonick’s analysis of the New Right deals with monetarists and supply-side economists. The monetarists emphasize individual maximization under conditions of free choice. Progressive taxation and the welfare state break down the price system’s ability to signal for shifts in resources. Unions create imperfections in the labour market, which generate a “natural rate of unemployment”. By attempting to expand demand to cut unemployment, governments cause inflation, which leads to union demands for higher wages. By withdrawing from the economy and promoting competition, the government can restore the supremacy of the marketplace. Gonick states that the monetarists are wrong for a variety of reasons, including the inability of central banks to control the velocity of money, the impact of high interest rates on prices and on the size of the government debt, and the transfer of wealth from industrial and commercial capital to finance capital through high interest.

“Supply-side” economists claim that high welfare payments lead to high taxes, which cause both inflation and inefficiency. The solution is to cut taxes on the rich to increase their incentive to work harder and invest more. Gonick presents data (p. 124) to show that this has been done in Canada and cites studies that indicate that high taxes have not stifled savings.

The post-Keynesians focus on macro policies but recognize that the power of the corporations and large unions makes them impervious to declining demand, except during a depression. “Whatever triggers the original inflation, militant trade unions protect the real disposable income of their members and . . . large corporations protect their profit margins by passing higher wages on to their consumers” (p. 156). As to monetary policy, they argue that high interest rates are increasing the government debt, not the reverse.

The post-Keynesians reject expansionary fiscal and monetary policies, particularly in Canada’s “stunted economy”:

. . . given Canada’s heavy dependence on imports, a large portion of the increased demand would be spent on imported goods. . . . The result is negative trade balances, balance of payments problems and a falling currency. Should the currency be propped up by borrowing abroad, interest rates would rise, thereby choking off recovery. Should the currency be allowed to fall, the price of imported goods would rise, increasing inflation and setting off a wage-price spiral (p. 152).

The post-Keynesian solution has two major thrusts: an industrial strategy, and an incomes policy. The Science Council of Canada recommends a “buy-Canadian” procurement policy, government support for megaprojects to meet national goals, and backing “core” companies in specific industries to develop our technological capacity (pp. 198-199).

Gonick argues that incomes policies have not worked because they are usually designed to protect capital’s share of output by holding down wages, not prices. Even where intended to be neutral, governments are ultimately forced by capital to control only labour so that profits can be protected. Industrial strategies fail to deal with the underlying control of economics and politics by capital. Success would challenge capital’s power and therefore be blocked by vested interests. There must be more fundamental change for, in the words of the Canadian Conference of Catholic Bishops, “as long as technology and capital are not harnessed by society to serve basic human needs, they are likely to be an enemy rather than an ally in the development of peoples” (p. 207).

The Marxists assume that corporate success requires investment, investment requires profit, and therefore “capitalists relentlessly chase

after profits . . . [in] the process called capital accumulation" (p. 231). [Thus profits are not only the motivator of investment, but its source as well.] Profits are obtained by "maximizing the difference between the value of the products their employees produce and the value of the employee's power (wages)" (p. 241). These wages are determined, not by the value of workers' services but by their cost of living: "In a capitalist economy where labour power is a commodity like other commodities, its price, like the price of other commodities, stays pretty close to the cost of producing it" (p. 248). Thus, exploitation of labour is inherent in and necessary for capitalism and leads to the classical assumption that only capitalists save and invest.

With these assumptions, Gonick examines the deepening crisis of the economy. Scientific management concentrated production, and that allowed increased unionization. Unions enhance labour's power but also provide a vehicle for controlling workers. Further concessions to unionization and social policies were necessary to maintain their loyalty during the Second World War and the subsequent boom. But labour strength inevitably cuts profits and investment and leads to a crash. When businesses react to labour demands by substituting capital for labour, they ultimately displace both their source of surplus value and the consumers for their products. Thus, the rush to save themselves will ultimately harm them all.

The current crisis has been made worse by a number of phenomena such as rising resource prices and wages in the 1970s, concurrent business cycles in the western economies, increased government expenditures, and the expansion of the U.S. money supply to finance the war in Vietnam. "On the surface, this explanation of inflation resembles the monetarist explanation. . . . But the underlying cause is not the extension of state expenditures and the expansion of the money supply. Instead it is the falling rate of profit, which necessitates an increase in the money supply and state credit to enable production to be sold at higher prices" (p. 338).

If the analysis is similar to the monetarist, Gonick's "radical" solutions are close to those of the social democrats: workers co-ops, tripartite responsibility, limits on inequalities, plant closure legislation, conservation and renewal, greater national and local self-sufficiency (pp. 383-385). These policies are advocated by the New Democrats, which is ironic because they are dubbed "post-Keynesians in a hurry", interested in "mild-mannered reformism" (p. 381).

Gonick promises a sequel in which the alternatives will be fleshed out. He must stake out his theoretical territory more clearly in explaining concepts such as the labour theory of value. Also he needs to overcome the blurring of ideological lines that occurs in the current work.

One of the reasons that ideological differences are not always clear is simply a function of style. In presenting a theory, Gonick does not always make it clear whether a particular part of the analysis is that of the theorist or his own. Even where it is theirs, if he fails to eventually rebut it there is the impression that he agrees with it. For instance, he cites claims that the exchange rate should not fall, as this would add to the inflationary pressures. But would this not lead to a one-time jump in prices that would be far better than the continuing unemployment caused by both high interest rates and the high exchange rate that results? Similarly, should our international competitiveness be enhanced by technology (p. 364) and holding down wages or by exchange rate drops, which spread the burden of adjustment on the entire population? Also, Gonick seems to accept the high interest rate arguments and does not develop their exchange rate effects and subsequent job losses nearly enough.

Another reason for ideological blurring is that traditional Marxist theory is very much a part of classical economics. Ricardo fingered the "parasitical landlord class as the enemy of economic growth" (p. 232). Adam Smith warned that "civil government, so far as it is instituted for the security of property, is in reality instituted for the defence of the rich against the poor . . ." (p. 32). But the real confusion arises from Gonick's assumptions about savings, investment, and wages. The need for savings to generate investments is based on the classical assumption of a full employment equilibrium. Gonick recognizes (p. 150) that under conditions of unemployment there is no crowding out by government, but does not make the logical extension to investment. If there are unemployed resources, there is a potential for increased production of capital goods without an increase in savings. Unemployment represents squandered resources, a form of squandered savings. Related to this is the assumption that wages are set at the cost of living for workers as a normal condition. In the long run, wages may be depressed to the subsistence level, and workers may therefore have little capacity to save. But in the short run, wages may be well above the subsistence level, unless we wish to believe that muscle cars and vcrs are necessities.

In addition, Gonick's theory of markets is unclear. He makes the point that monopoly cannot be the source of continuous inflation, but merely causes a jump in prices as monopolists move to their profit maximizing price (p. 127). This assumes a static equilibrium in which monopolists always profit maximize, adjusting prices to occasional changes in demand or costs. However, he frequently presents the argument that corporations use their power to protect profit levels or markups (pp. 133, 147, 156, 338). His rebuttal to the claim that monopoly causes inflation is to cryptically cite Marx's claim that busi-

nesses could not increase prices at will because of the “discipline of gold” (p. 338). Nor does he deal with the social constraints on firms preventing, or at least delaying, profit maximization. Certainly the 1970s saw firms reducing public hostility to higher profits by claiming that energy costs or the need for investment justified regular increases in prices and profits.

The discussion of market power is always phrased in terms of monopoly power, usually referring to the selling side, not the buying side (monopsony). When monopsony is implied, it refers to firms using their market power to lower the cost of equipment and materials (pp. 246, 268). Gonick may feel that it is not necessary to assume monopsony to argue that labour is exploited under capitalism. Perhaps he feels he has made the point that monopsony exists in the entire labour market, where the few holding capital are a monopsony for all labour.

Another major thrust of Marxian analysis is capital, and again Gonick tends to muddy the waters. The distinction between financial and real capital (that is, between money or property rights vs. productive physical capital) is blurred. Gonick recognizes that an economy with high savings (or unemployed resources) does not have to worry about a “crowding out” effect of government spending on investment. Nonetheless, he frequently suggests (pp. 150, 153, 181, 207, 275, 331) that consumption or government spending must fall to free resources for investment. Since Canada has had unemployment below 4 percent in only 4 of the last 35 years, this claim does not stand the test of time. Gonick also decries the savings “squandered to finance corporate takeovers and mergers” (p. 386). These activities are transfers, not the use of real resources, unless Gonick feels that major productive gains could be made by employing corporate lawyers and stockbrokers in the mines and mills of the nation. This confusion of the real and financial not only detours the analysis, it provides a certain comfort to the right wing by supporting business claims. For instance, the current move towards a consumption tax and away from taxes on the high income earners depends on the argument that the wealthy need more savings to generate the investment that will create jobs.

Gonick also gives aid and comfort to the right wing by repeating some of their mythologies and using their language. He suggests that taxes bear on the high and middle incomes (pp. 41, 299), when our regressive tax system places the highest tax burden on the poorest of the poor. He suggests that the growth in transfers has been “redistributional” (p. 331), when many programs, such as unemployment insurance and family allowance, accrue primarily to the non-poor. Education and health care are called amenities (p. 382), which sounds like the Reagan administration defining ketchup as a vegetable for the school

lunch program. Even more shocking is the suggestion that the deregulation of the banks “puts them in the same boat as the corner grocery store” (p. 376). Surely he means in the mind set of the government! Finally, use of terminology such as the “exploding” government debt (p. 150)—when in constant dollars the debt increased by only 10 percent, 1947 to 1984 (p. 148)—and wage “explosions” (p. 171) is a strange application of intemperate language.

Despite all these qualifiers, *The Great Economic Debate* is a useful and readable book. These various issues are raised in the hope that the promised sequel will deal with them.

Those looking for easy answers will find *The Great Economic Debate* depressing. Not only do economists not agree on the analysis, but if you accept Gonick’s basic proposition—that government always functions in the interest of capital—it is difficult to see how the democratic process can move towards an economic system that meets most of the needs of all of the people all of the time. This is the Catch 22 of the Marxist analysis: since class relations are the root of the problem, and the propertied class controls both economics and politics, how does the democratic system get at the root of the problem? Nonetheless, Gonick should help the reader to decide whether the economists and politicians are even asking the right questions.