The New Economics. Is It Already Outdated?

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It seems only a few years ago that people were inquiring about the meaning of "new" as applied to economics - how did the "New Economics" differ from conventional theories? When told that new economics was based on the analysis of J.M. Keynes and his recommendations that an economy could be planned to avoid depressions and runaway booms and that it could be stabilized through government monetary and fiscal actions, well-informed people could reply: "We tried all that during the 1930's with the pump priming, the public works, and the deficit spending of the Roosevelt era. What's so new then?" But these measures were temporary, irregular, erratic, and intended for one specific purpose - to bring the country out of the Great Depression. That Keynesian economics become permanent to either stimulate or hold down consumer expenditure and business investment and so lead the country to sustained growth - this was not accepted, indeed was bitterly attacked, and still is, as bringing an end to free enterprise and the operation of the market system. That the government deliberately go deeply in debt through heavy spending and lowering of taxes in order to put more purchasing power in the hands of the public and business, seemed to reverse the conventional wisdom of thrift and laissezfaire! Such policies were taught for more than a generation in colleges before the public accepted and public officials acknowledged them. Kennedy was the first president to endorse the new economics in a public address when he declared, "We're all Keynesians now."

With the Employment Act of 1946, which set up the Council of Economic Advisers to the President, the government specifically took responsibility for seeking three main goals: economic growth, full employment, and price stability. The primary role of the government is to devise the proper mix of spending, taxation, and monetary policy. The policy principles were developed irregularly in a series of national administrations and expressed in annual reports of the Council of Economic Advisers. For years the program seemed to be working; in post-Keynesian days Keynesian economics appeared to provide an efficient framework for running a modern industrial economy. The middle-income majority obtained material benefits from economic expansion effectively managed by the concentrated power of big business and big government. "Big government needs big business because the giant corporation has become the key to effective functioning of the economy and because big business is the source of weaponry on which national defense rests." The soaring 60's saw the GNP spurting to nearly $1 trillion through a combination of tax reductions for individuals and businesses, low interest rates to promote credit for consumer spending and business investment, favorable depreciation and depletion allowances for capital goods, heavy federal spending on the military and aerospace programs, and increased federal spending on highways, education, and welfare.

Then several factors entered the economy which seem at present to be incapable of solution under simplistic post-Keynesian economics. The first was rapid inflation. Prices began to rise above the allowable rate of 2 to 3 percent per annum. The goals of full employment and price stability had always been recognized as hostile bedfellows. When 97 percent of the labor force is at work (considered "full" employment), its spending power will usually cause demand inflation. But rising prices eroded the purchasing power of money, and the big unions called for increased wages for their members and implemented their demands by long, costly strikes. The increases in benefits won by the unions were passed on in the form of again higher prices - the wage-price spiral. Domestic inflation raised the price of American exports, so that the United States became a handicapped compeitior in world markets.

The response of the government in combating inflation was to cut back expenditures on the Indochina war, the space programs, and social programs at home, resulting in a considerable decrease in employment. The unemployment rate for the past two years has been hovering around 6 percent, double the 3 percent full-employment ratio. Under the theories of the new economics, inflationary prices should have come down; yet last August and again in November a Republican administration imposed wageprice controls under Phase I and Phase II of a program which was an acknowledgement of the failure of Keynesian policies in stabilization.

The devaluation of the dollar, so alarming sounding to the American public, is another indication of circumstances not anticipated. For several generations our merchandising account, exports minus imports, gave us a plus figure in the GNP. But in 1971 the outflow of gold to pay for our imports exceeded its receipt for exports. This negative figure added to the deficit in the balance of payments caused by heavy U.S. investments abroad, financial commitments to underdeveloped nations, and overseas military expenditures, resulted in draining off U.S. dollars. It is impossible to separate economic policies from international politics. Our domestic policies influence our balance of international payments, while the balance of payments limits the freedom our country has in pursuing domestic goals. We are the dominant nation in world trade, and we have chosen to contain the spread of communism, both through military measures and through aid to underdeveloped nations. Our aims and actions are complex and wide-spread. At present - and it is too soon to tell - the results seem to have been more costly than successful.

Economic policies cannot be separated from social aims. Among the first to criticize the goal of economic growth was J.K. Galbraith. Growth for what? What is the use of a steadily rising GNP if "a large portion of the gain is used for destructive or wasteful purposes?" "An economy dominated by private decisions about production and consumption tends to starve its public sector." "Private spending on luxuries expand while such foundations of the future as education and basic science are slighted." Furthermore, modern marketing techniques are used by business firms "to mold consumer spending to their needs as producers, instead of adjusting production to match consumer wants. The system as a whole operates for the benefits of producers rather than consumers," and "its goal is the aggrandizement of business wealth instead of the individual's welfare."

We Americans are an ambivalent mixture, confusing, irrational, and perhaps hopeful, of the practical and the ideal. Certainly we are materialistic minded: we want more and better goods and services. We have achieved the highest scale of living in history for the most people. The Bureau of Labor Statistics, in compiling a price index that measures the cost of living for "moderate incomes," includes such items as TV sets, beauty care, and recreational travel, as well as the basic necessities of food, clothing and shelter. "What, no caviar?" remarks a N.Y. newspaper. Yet on the other hand, we also lead the world in our generosity toward the less fortunate, in charitable giving and in giving our time and effort in volunteer services. Part of the American dream is a moral commitment, a social conscience that reaches beyond the individual.

"The persistence of poverty and the emergence of an urban-racial crisis in the late 60's showed that a large portion of the American people were not participating in the affluence gained by many." "The orthodox post-Keynesian economist has good reason to doubt that the private-enterprise market-oriented economy can resolve its problems effectively." Growth is seen by many as "unbalanced, misdirected, and destructive of environment." It is essentially "malign rather than benign, antagonistic to humane values rather than supportive of them."

Perhaps the new economics "has strayed into an artificial world of oversimplification and modish mathematics" and is "increasingly out of touch with its ultimate subject - the men and women who people economics." "Certainly the economists' once exalted reputation for worldly wisdom has been tarnished of late." Economists have been preoccupied with growth, but "the worrisome lesson of the past decade is that (this preoccupation) is no answer to what ails the U.S." "We have failed to anticipate the deterioration of the environment from rising production, population growth and technology." "We have not foreseen the impact of economic change on America's cities" - overcrowding in bad housing, traffic congestion, crime in the streets, the asphalt jungle. "One must question the adequacy of economic tools for improving human welfare." We have a new generation of youth "disenchanted with the materialism of America, of workers dissatisfied with the monotony of their jobs, of blacks and Latins condemned to low wages." "Disenchantment, hostility, and alienation have become facts of life for the economist, as well as the psychiatrist, to consider.

Hicks sees economics as free of social values, "entirely neutral with respect to pain and pleasure, frustrations and opportunities of individuals composing the social universe." The most influential Paul Samuelsom recast economic theory into a set of mathematical principles; "The mathematizing of economics was no doubt an heroic achievement, but by the values of society profoundly retrograde." Thirty years of intense activity by Establishment economics has produced little of substantive significance in promoting the true well-being of Americans.

At present we are in a state of confusion about our roles in society, our purposes, our future. "If the body of economic thought is out-of-date, what handed-down ideology is not? Being out of date, economics is, after all, very much in tune with the times."

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