

THE 364 ECONOMISTS

The statement condemning current government economic policy signed by 364 university economists was widely hailed as an unprecedented move. It represented a wide range of economic opinion, from economists who have written for the right wing Institute of Economic Affairs through to many known to be on the Left. The only public opposition to the statement has come from the few well known hardline monetarists. This statement represents widespread disillusionment with monetarism and may well signal the end to the dominance of the monetarists in macro-economic debates.

There were no doubt numerous reasons why people signed the statement but the following stand out. The first was that the statement was circulated in the week after the budget, and signature was a direct response to the crass stupidity of deflating demand in the midst of recession. Although monetarists have been on the intellectual offensive, most British economists were probably never fully convinced of the monetarist case and remained Keynesian at heart. The events of the past two years, particularly the problems of controlling the money supply and the sharp rise in unemployment, have shaken the confidence of the monetarists. As Alan Budd, a leading monetarist from the London

Business School, acknowledged recently (*Guardian* March 9), events of the past two years have largely vindicated the predictions of non-monetarists such as Kaldor and Godley.

A second and related reason for signature was the final realisation of effects of public expenditure reductions for the universities. The budget indicated cuts for universities much deeper than previously imagined. This combined with clear indications of substantial falls in applications from overseas students, following the sharp rise in fees for overseas students, meant reductions of the order of 15% in real terms over 3 years. The third reason, I would guess, arose from a clear indication from the budget that hopes of a reduction in direct taxation and the removal of the poverty trap were being sacrificed for deflation.

Until the late sixties, macro-economics was dominated by the Keynesian approach, which in practice focused on fiscal policy (government expenditure and taxation) as the means of ensuring full employment. The beginnings of the rise of monetarism can be dated in the mid sixties with the publication by Friedman and associates of a series of empirical studies which suggested that monetary policy was a more potent influence than fiscal policy on economic activity. At that level, the debate was merely over the choice of the instruments of government policy. The monetarist bandwagon was given a substantial push by the worldwide rise in the pace of inflation, which forcibly exposed the weakness of Keynesian economics with its relative neglect of inflation. It also served to emphasise the role of increases in the money supply in sustaining, if not initiating, inflation.

On a theoretical level, monetarists revived the pre-Keynes notion that a private enterprise economy left to its own devices quickly moves back to full employment. The power of that notion is that it appears to remove the need for governments to 'fine tune' the economy, and that at full employment increases in public expenditure crowd out private expenditure (with emphasis placed on investment). The appeal to the political Right of those conclusions is clear. Keynesians were largely left pointing out that the private enterprise economy did not move to full employment as quickly as the monetarists believed. During most of the seventies monetarists have been on the intellectual (and political) offensive, with Keynesians left indicating the as yet incomplete parts of their theory.

The problem which Keynesians have faced is that in many respects they share a common

'vision' of the private enterprise economy. Both monetarists and Keynesians have overlooked the concentrated oligopolistic nature of a capitalist economy, the rise of multinationals and the conflict between labour and capital. The effect of Keynes has been to focus attention on aggregate demand, with ownership and control left on one side. As Stuart Holland has argued, the solution of Keynes to unemployment was that 'the state should socialise demand and expenditure rather than supply and ownership'. One consequence of the rise of monetarism is to swing attention back to the supply-side of the economy, though generally portraying the supply-side as operating efficiently and effectively.

One jibe made by monetarists over the statement of protest was that although there was mention of alternative policies these were not spelt out, and that there would be considerable disagreement amongst the signatories over the alternatives. That is basically correct, although it should not disguise



agreement over the need for reflation and that monetarism is clearly a minority pleasure. The disagreement over alternative policies reflects the divisions amongst economists over a wide range of theoretical issues and parallels political divisions. Centrists advocate again the Keynesian solutions of the sixties: demand management, imposed incomes policy, devaluation of sterling. The better known practitioners of these policies in the past who were signatories were soon attacked by government spokespersons as responsible for the present difficulties (although how it can be seriously argued that past policies were less successful than present policies?).

But it is noticeable that Centrists offer little in the way of new ideas at either the theoretical or policy level. The success of the monetarists owed much to the weakness of the Keynesian approach. That approach tended to overlook the inflationary consequences of full employment, the financial consequences of increases of public expenditure, and the ability and willingness

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of firms to produce sufficient output to meet demand. For new policies relevant to the conditions and needs of the eighties one has to look leftwards to the alternative economic strategy.