
HENRY NEUBURGER
Babies and bathwater



John Grahl wants a new kind of economic policy. The most important thing about it is that it is new. He does not describe the kind of left economic policy he wants to replace. Nor do we find out what the new policy is going to be - except that a lot of people are going to be in temporary job creation schemes while it comes into effect.

John's criticisms of traditional Keynesian economic policy are well founded and familiar. No serious policies of the Left have ever advocated simple Keynesianism. Left policies have nearly always emphasised the need for structural change and the need to tackle the problems of inflation and the balance of payments, to which John refers - as well as the need to advance democracy in the workplace, and for equality. Left policy makers have never been under any illusion as to the inadequacy of Keynesianism to address the underlying political obstacles to a fair and efficient society.

What has to be avoided is confusing the inadequacy of simple Keynesian policies with the argument that it is impossible for governments to stimulate production and create jobs. This argument is advanced by what John calls the neo-liberals - what I am used to calling Tories or monetarists or Thatcherites. John appears to be in danger of accepting the argument.

None of the changes that John describes have invalidated the simple truth that if governments employ people to produce

something - whether it is health care or defence or digging coal - the result will be more jobs and output in those industries and more jobs and output in the industries which supply those industries and the workers who work in them.

If governments use this method of creating jobs it will certainly cause additional economic and political pressures. But there is no evidence that they will reverse the initial benefit. One illustration of this is the reverse process in Britain, where government cuts have been extremely effective in destroying jobs, and, as John points out, no spontaneous recovery has come to replace them.

A more striking illustration is the recent American experience. John is right to say that it is being held up as a vindication of neo-liberal economic policy. It is not correct as John does to combat this argument by denying that the US economy is successful. Reagan has certainly intensified poverty and dangerously increased defence spending, but in terms of economic growth and job creation the US is now more successful than it has been for three decades. What we must point out is that this recovery is the consequence of successful job creation by the state, and not the result of supply side economics.

In Reagan's first two years, his government adopted policies indistinguishable from Mrs Thatcher's with similarly disastrous consequences for output, jobs and poverty. But at the end of 1982, US policies were completely reversed. Partly because of defence spending, but far more as a result of increases in health spending and tax cuts, the US embarked on a

traditional Keynesian reflation.

The neo-liberals in the US and Europe predicted disaster. In the event, Keynesians were vindicated and neo-liberals confounded. The budget deficit has stimulated the US economy. Of course the US is able to do this because of its dominant position in world capital markets. But it has become a net debtor because much of the capital in the rest of the world has little other productive use. The Americans are getting genuine productive assets for their borrowings. Mrs Thatcher is very proud of Britain's build-up of overseas assets. British pension funds will own some of those US assets but we shall have little productive capacity of our own.

John's description of the 'obsolete Keynesian' model is unrecognisable. The economic growth of the 50s and 60s was based as much on the growth of public and private services, of increased opportunities for women to work, and of international trade as on manufacturing productivity growth. Certainly the productivity of manufacturing industry appeared to grow rapidly during this period, but that is partly because it is easier to measure. Manufacturing productivity in the last year or two - at least in Britain and the US - is growing as rapidly as it did at any time in the Keynesian past.

Of course John is right that we must continually reappraise our economic policy. But we must replace the old only when we actually believe it to have been wrong and have something better to replace it with. In time I hope we shall but so far I don't think John has provided sufficient grounds for doing so.