Economics from the Bottom Up

by Geoffrey Dobbs

A commentary, written after an informal seminar with economists of the "Austrian" or Libertarian school, at Menlo Park, California on July 26, 1977.

I would stress that none of the economic discussion I have heard, or read, concerned itself with the *real* situation, as distinct from the *monetary* situation, which is assumed to correspond to it, but, in my view, manifestly does not. The confusion may arise in the two senses in which the word 'real' can be used. Many people would say that money is the primary 'reality' in their lives, in so far as it 'actually' controls them more than does anything else. But this I should describe as a secondary, or human imposed 'reality', of the same sort as that which requires me to have a ticket if I wish to travel on an airline, and a passport if I wish to enter countries other than my own. Libertarians will, I hope, agree that this paperwork is a great convenience in facilitating the legitimate actions of people in using the resources available, but that it ought to be strictly limited to that function. In the U.S.S.R. neither the tourist nor the citizen may travel without a permit stating where he may go, which has no relation to the travel resources available, but is a 'reality of life' there, notwithstanding, but what I have called a 'secondary reality' because it is imposed by men.

I have looked in vain in the literature of 'accepted' academic economics for the basic concept of *real credit*, which has been defined (by an engineer) as: "a reasonably correct estimate of the capacity of any economic group (firm, society, nation) to deliver goods or services *of the description desired*, as, when and where wanted." If we agree that the *sole* primary purpose of production is consumption, the function of the monetary or any other paperwork system becomes entirely secondary to this. It is to facilitate the distribution of products to the consumers in response to their real wishes, up to the limits of the real credit. The trouble is that most economic terminology, and hence the thinking that goes with it, *assumes* that this is what the monetary system *is* doing, so that the possibility of perceiving the difference between what people want, and what they can be induced to pay for, has been eliminated – except among people who look at economics from the outside.

It is one of the points which I do not seem to have got over that, if 'free market economists' continue to insist that the monetary medium is simply a neutral record of economic events, recording the demand of the public on their productive capacity, then socialism of some sort, involving redistribution of money demand from 'rich' to 'poor' becomes unavoidable. We still live in the shadow of the 1930s Depression, when traditional, 'classical' market forces were allowed to have their way to a far greater extent than at present; and those who can remember it will also be aware that that situation of monetary frustration amid gluts, not only of actual products, but of unused production capacity, was so intolerable that any alternative was felt to be preferable, and the way was opened for Keynesian economics and welfare socialism. "If *that* was a 'self-adjusting economy', then let us have a 'planned' one," was the reaction of most people.

Now that inflationary socialism has got us into just as bad a mess as deflationary capitalism, people who do not remember it may be willing to look back nostalgically to the latter, and to indulge in ingenious technical excuses for its shortcomings. But unless certain fundamental facts about the changed situation are faced, with their implications, a return to the *status quo ante bellum* would be disastrous. These include: the change from commodity money to accountancy money, issued as debt, which superimposes a new, centralizing and directional flow with a built-in inflationary tendency, upon the savings-and-investment cycle; the one-way technological tendency towards the lengthening of the structure of production; the enormous and ever-growing cultural inheritance of scientific and technological knowledge and its ever-wider diffusion, resulting in the progressive (though unequal) elimination of manual and routine mental labour as a factor in production; the corresponding growth in the real credit of all industrialized societies, as demonstrated, for instance, by war production, and the extreme wastefulness of our current civilization, and its tendency to produce vast surpluses whenever the accountancy arrangements permit; and finally, as a consequence of the foregoing, the necessity for a radical change in attitude towards the concept of full or maximum 'employment' as an economic or political objective, and the re-thinking, also, of a good many basic economic axioms, such as, for instance, that new capital investment necessarily implies saving, and that monetary demand necessarily reflects real demand.

So long as economics continues to be thought of as the study of the uses of *scarce* resources, economists will be uninterested in any sort of abundance, except as a potential source of scarcity which will bring it into the field of economics. I should be much happier if they thought of themselves as students of the economical use of *all* resources, including human time and energy, i.e. their efficient use in the supply of genuine (i.e. not induced or stimulated for irrelevant monetary reasons) human wants.. Most economists would claim that this is indeed their purpose — the socialists by planning the economy so that what they deem to be those wants are most efficiently met, the capitalists by defending the free market in which people can decide their own wants and make their own choices.

I have talked to both sides in this endless dialectical confrontation, and find that they have more in common than they differ, especially in the instant rejection of anything incompatible with their basic assumptions, but neither will admit the element of truth in the other's case. Thus, anyone except a socialist can see that only people themselves, if anyone, can find out what they really want. On the other hand, anyone but a free market economist can see that, until the *primary* wants for the necessities of life are in some fashion satisfied, the individual cannot enter the market at all, except as a species of slave. It is certainly not a 'free' market so far as he is concerned, and all the concepts of 'marginality' in choice, utility and so on, upon which so much economics is based, are so much nonsense where we are dealing with moneyless men and women. Until 'capitalists' will face the fact that it was 'capitalism' which created a proletariat of moneyless, employment-dependent men, which in turn gave us 'socialism', they will have no effective answer to the socialists — as events have been proving all too well. For as Adam Smith pointed out (*Theory of Moral Sentiments,* 152), "Self-preservation, and the propagation of the species … are not entrusted to the slow and uncertain determination of our reason … but directed by original and immediate instincts."

Until the proletariat is being abolished, which is now perfectly feasible owing to the multiplication of wealth by technology, there can be no effective free market and no effective resistance to socialism. However much nonsense and sentimentality has been associated with phrases like 'social justice', and however cynically they have been used in the proposed promotion of socialist power, at the bottom of them are the fundamental and invincible *instincts* associated with self-preservation. Against these an intellectual case for a free market which excludes a growing proportion of people whose labour may not be required, stands no chance whatever. Socialism aims at the complete proletarianisation of the population, i.e. the reduction of everyone to a condition of employment-dependence. The alternative is to move in the opposite direction towards a genuine free market in which all can participate, which means the elimination of wage-dependence, to the extent – neither more nor less – that human invention enables solar energy (direct or indirect) to replace human labour.

Here we come up against the old, futile, confrontation between the puritan worker-ethic and its opposite pole, the 'layabout' attitude that 'society owes me a living'. It doesn't! But it does owe me my share in the common cultural inheritance which has magnified the product of both the worker and the entrepreneur, both of whom assume more credit than they are entitled to when they deny this. For in refusing to recognize that the consumer also has inherited a share in the product, they penalize themselves also, and furthermore assume responsibility for the maintenance of everyone not participating in the market, by deduction from their own earnings, whether as voluntary 'charity' or compulsory taxation, or both.

If I understood them rightly, economists of the 'Austrian' school believe that, if Government interference were removed, the free market would provide employment for all, supplying the genuine desires of the people by the latest and most efficient methods, on and on, for an indefinite period. This seems to imply that human material desires and acquisitiveness are unlimited, in a world in which everything else, as they insist, is limited. This I would strongly deny, but would also point out that it is a reflection of their defence of the money-medium as a part of the reality of the market, whereas in fact, being a form of numerical symbolism, it has no natural limits. Once, therefore, that the possession or control of money passes the natural limits set by normal desire for marketable goods and services, further possession becomes irrelevant, but control becomes important, for it carries with it control over the lives and choices of other people, which is the enemy of the free market. The end-term of this development is the Communist Worker-State, in which all are wage-dependent workers who can be employed forever on bureaucratic pseudo-work, which is without limits. But unless 'free marketeers' will take account of the fact that the concentration of monetary power under capitalism in banking and big business has gone well along the same path, and is visibly merging with governmental power of the same sort, they are beating the air with their theories.

The dilemma, therefore, seems to be this: so long as human knowledge and invention are cumulative, and is allowed to increase the productivity of labour, insistence on wage-dependence for all (or all who lack the capital to set up their own enterprises) *must* involve an ever-growing proportion of people in unnecessary, unwanted and even undesirable labour imposed by the need to obtain money. This can take the form either of manning the bureaucracy of the State and of large corporations, or of pursuing the dreary goal of an endlessly titillated Hedonism on the part of the consumer; or both, as is now happening. Any approach to efficiency in production must mean getting rid of most of this 'negative unemployment' in favour of the positive kind. But that means an ever-growing burden, either of 'charity' or taxation, or both, to support the unemployed, which will deprive the 'employed' of much of the return from their labour: which must result in continuous wage-inflation, and/or destroy the real credit by sabotaging the will to work (as is now happening in Britain). In any case, most countries in the Western World, including the U.S.A., are already well on the path towards the welfare state, and if they turned their backs on this, I do not think that private 'charity" could possibly support, not only the present unemployed, but the great numbers of 'welfare' bureaucrats who would be thrown upon it, in conditions of business depression which would make the 1930s look like a picnic. In fact, I am pretty sure that this is the opportunity which the communists are looking for, in order to launch their revolution and take over.

I put these considerations forward, hoping that they would be discussed, considered, and perhaps result in some constructive proposals from professional economists, and even contribute something to the development of free market economics by bringing in the different, but relevant, point of view of a consumer and an ecologist, and drawing attention to certain broad facts which have not, in my view, been fully taken into account. It was, I thought, premature and irrelevant to put forward any proposals I might favour until we had discussed and come to some agreement about the situation they would be designed to meet, and in any case I was interested in *their* proposals, not mine.

My audience, however, after instantly rejecting all assertions of fact which might lead them to reconsider their theoretical position, insisted on trying to extract from me the details of suggested methods of dealing with what, they were convinced, was a nonexistent situation. I was, I'm afraid, rather grudging about this, since it seemed a waste of the limited time available, but on second thoughts, and especially after getting a helpful reaction from two of them, I should like to take it a little further:

1. In the world of real production, with which I am familiar, owing to a long connection with agriculture and forestry, the cost of a product is the consumption involved in the process of producing it.

2. When the final product arrives, the costs have already been paid, i.e. the materials, energy, labour etc. expended, and there is no debt extending into the future. The system is automatically balanced and self-adjusting.

3. If a money economy is to correspond with this reality and be self-adjusting, the full purchasing power to buy the product must be distributed by the work *accomplished* in producing it, *not* by work *in progress*, unless the economy is so simple that the difference is negligible.

4. With the great lengthening of the structure of production the time-lag between the distribution of the product and of the means of paying for it imposes a continuous need for 'work in progress' to pay for the product of 'work accomplished', leaving accumulating costs to be met in the future. Moreover, the progress of technology in continually complicating and lengthening the structure of production makes this a one-way and accelerating process, the reverse tendency being quite minor.

5. This process could never have achieved its enormous acceleration but for the invention of fractional reserve banking, which has now substituted an accountancy money, issued as debt through the production system, for the obsolete commodity money. This enables completed consumables to be distributed at the cost of continuous expansion of production of non-consumables, with corresponding progressive inflation; with the threat of disastrous depression, with gluts of unpurchaseable produce, as experienced in the 1930s, if the inflation should be actually stopped. As a consequence we are now experiencing 'stagflation', with manipulation of various ratios in different countries between unemployment with suppression of purchasing power, and inflationary employment to provide it.

6. This system has created an enormous increase in wealth during the phase of free expansion over a largely unexploited planet, but at the price of creating a landless proletariat, with its political consequences. It is now visibly breaking down, and needs a radical modification.

7. The nature of the correction urgently required if we are to escape the destruction of a free market under socialism under the impact of persistent monetary crisis is to make such adjustments to the directional flow of credit as to ensure that consumers are, collectively, receiving the means of purchase at the same rate as the processes of production are generating costs, which have to be met in prices. At present the rate of flow of incomes from businesses to the consuming public is always much less than the rate of generation of prices, e.g. according to Prof. Phelps Brown, in 1972, for every £1000 of output, British industrial and commercial companies distributed £330 in personal incomes, of which 84% went to wages, 15% to profits.

8. This means that, when the public buys the output at the full price which should completely cover the cost of production, nevertheless, out of every £1,000 paid by the consumer, £670 remains, mainly as wage-costs from work in progress, to be met in future prices.

Another way of putting this is that, when a consumer buys a product he pays far more than the *real* cost of production (including profit), i.e. the money cost of the actual consumption which resulted in the product. He is paying not only the interest, but also for the repayment of the principal of the bank loans created to finance any stage in the production. He is also paying for the postponement of this repayment by the investment of savings, i.e. the re-borrowing of bank debt which has reached the consumer and is recycled, creating another series of costs without cancelling the original ones. (Incidentally, when Keynes made this secondary cycle his main one, he was just being disingenuous; one does not become a Lord or a Great Economist by drawing critical attention to the ultimate power of credit creation!).

On top of all this, the wretched consumer has to pay, in prices, for a vast deal of waste and unnecessary pseudo-work, imposed by the dire need for everyone to force his way into the production process somewhere to get a livelihood, whether or not his work is needed, and to retain his job somehow, whether or not by Union pressure, and to extract, somehow, a 'living wage' to cover increasing leisure, paid holidays, etc., all of which is charged into price. This also includes the increasing employment of women, forced by price inflation to 'go out to work' instead of providing, in the home, a cost-free addition to the family's real income.

And finally, as if this were not enough, over and above it all is the fantastic burden of government interference – bookkeeping, restriction, bureaucracy and taxation — which so monopolizes attention that it tends to smother and obscure the more basic causes which largely give rise to it. Let me draw attention to two aspects of this: one is the time-factor, since money is not a 'quantity' but a rate, or better, in the really useful sense of purchasing power, a ratio of two rates. How much money-time is lost in the useless movement of accountancy money from business firms and people through the tax bureaucracy and government departments back to people again without performing any real economic function? I cannot even guess, but it must represent a major loss to the economy. The other aspect is the relation of a universal debt money, which, mathematically, cannot be repaid with interest without either contracting the economy or generating more debt, to the need for compulsion. Banks will not create credits except for 'credit-worthy' customers, who, they estimate, will be able to extract the loan from the rest of the community and repay it with interest, but as the total debt outstanding grows, the most 'credit-worthy customer' must increasingly become the Government which commands the power of compulsion with priority over that of competing for voluntary purchase. This is another reason why 'free market economists' should really bend their minds to these very fundamental considerations, based not upon theory but upon prolonged observation and experience of the facts of economic life.

9. We cannot undo the past, or do without the accountancy-money on which our whole economy is based. Prof. Hayek's interest in 'free currencies' shows evidently that he thinks that something radical is needed; but in restricting his criticisms to governments, and stopping short of the power to create and direct the flow of credit, I submit that it is not radical enough, since this also can control governments through debt to exercise compulsion. Yet I wonder whether any sort of free financial institution could *begin* to apply the adjustments needed to remove the causes of inflation and state pauperism by a calculated counter-debt issue designed (a) to reduce price to real production cost plus profit and (b) progressively to replace wages and tax doles with dividends to the extent permitted by the real credit so that the consumer can perform his essential role in the market, whether or not he sells his labour? I am the last to pretend that I understand the full complexity of the economy; and I appeal to professional economists to give their minds to these matters.

C. Geoffrey Dobbs

Dr. C. Geoffrey Dobbs (- 1996) was a senior lecturer in Forest Botany, specializing in the ecology of soil fungi (mycostasis), at the University College of North Wales, Bangor, U.K. He was a devoted advocate for Social Credit and contributed many addresses and published articles to the advancement of that cause.