There will be a considerable measure of agreement that the performance of the industrial economies in the last ten years has been less than ideal. Inflation has been persistent. When and where it has been low, unemployment has generally (though not universally) been high. Worse still, unemployment and inflation are no longer considered alternatives; increasingly they are seen to co-exist. A few countries – the German Federal Republic, Switzerland, Austria – have escaped the worst of this combination, which suggests that good economic management is still possible. But some part of the German and Swiss good fortune must be attributed to the considerable convenience that comes from having an industrial reserve army that is beyond the borders. Those who do not get hired in Italy, Turkey or Yugoslavia do not get counted among the unemployed in the countries from which they have been returned as unneeded or to which they do not come. And no country whatever has escaped the disturbance and distress that has followed from the large and erratic movements in foreign exchange markets in these last years. In light of this performance one must conclude that economic advice is not good; or if good, is not being taken; or that capitalism is inherently unworkable and thus not capable of good performance, whatever the quality of its management.

The second and third of these possibilities can, on the broad evidence, be discarded. The system has worked in the recent past to the reasonable satisfaction of most of its participants. The twenty years from (say) 1948 to 1968 are by way of being remembered as a kind of golden age of economic achievement – a period of generally stable prices, improving living standards, low unemployment, stable exchanges. There is at least a presumption that what has happened before can be achieved again. In any case, nothing is more certain about the modern industrial system than the way it has yielded in the past to an infinity of patching. Were it otherwise, it would not have survived. We can hardly stop trying.

As to the influence of economists and economic advice, it was never greater than now. In the United States, President Carter has no fewer than five economists of the highest professional qualification in positions of cabinet rank. If no other country has gone so far, it remains that, in most, economists are listened to with attention. If there is a problem, it is with the advice, not from its being unheard.
The problem is with the advice, and it arises from the static nature of economic interpretation and advice and its tendency to get out of phase with the rapidly changing economic context and institutions for which it prescribes. This occurred during the Great Depression when, as most now recognize, the reputable economic advice – balance government budgets, follow a conservative monetary policy, avoid risk of inflation, accept and encourage wage reduction, have patience – was at best useless and at worst damaging. This bad advice was then given not because economists were foolish or stupid or even inherently conservative. It was given because the world to which it applied had eroded, even disappeared. This has happened again. Present economic prescription is for a world that has ceased or partially ceased to exist.

The obsolescence in economics arises, in the first instance, from the nearly universal desire of economists to see their subject as a science. And since the ultimate subject matter of the hard sciences, so-called, does not change, so there is a great desire to believe that the ultimate truths of economics are for all time. The vested interest in textbooks and the knowledge that one acquired so painfully as a student add to this rigidity, as also the close affiliation between economics and politics. Economists early in life now make a political commitment and are henceforth classified as liberals, conservatives, socialists, Marxists. Thereafter it is a mark of weakness, infirm adherence to principle, to change one's position.

But unfortunately the institutions and economic behavior with which economists deal are not like the physicists' particles or the geologists' rocks. The business enterprise, the union, the economic role of the state, growing affluence and the resulting consumer behavior all make for a state of continuous and rapid change. This change is in continuing dialectic with the static tendencies of the discipline by which it is interpreted. Thus the tendency to obsolescence. There is a chance that policy that responds pragmatically to circumstance – to seeming need – will, on occasion, be superior to that which reflects the more sophisticated but obsolescent professional guidance. Since World War II, Austria has been one of the more striking examples of economic success. No other country reacted with more practical good sense to the compassionate claims of its working force and farmers on the one hand and the need for a productive structure of public and private enterprise on the other. It is by no means clear that things would have gone so well had its great generation of liberal economists – Ludwig von Mises, Friedrich von Hayek, Gottfried von Haberler – been still in positions of eminence and authority in Vienna rather than in the United States.
It was uncorrected obsolescence that rendered the economists ineffective during the Great Depression. The scholars who then acquired a reputation for irrelevancy prescribed for a world that had ceased to exist. Central Europe had not long since been devastated by inflation. Persistent deflation was something to which economic thought had not accommodated. In the world of J. B. Say, before unions, before corporations, before affluence, production did create its own demand. There was no great likelihood of oversaving. In the world of Leon Walras, wages and prices did adjust to make possible and plausible the full employment equilibrium. John Maynard Keynes did not create a new economics. He brought an old system abreast of unions, corporations, price and wage rigidity, fractional reserve banking and discretionary consumer spending. It could be said, indeed, that he brought economics abreast of practical necessity and pragmatic response. For what Keynes recommended in 1936, practical or practicing politicians – Roosevelt in the United States, Lloyd George in Britain – were already doing or urging.

In the twenty years following World War II, as I’ve observed, employment in the industrial countries was high, prices and foreign exchanges nearly stable and wholly predictable. This was at least partly because economics was then in phase with economic institutions. From 1948 to 1968, the modernization effected by Keynes and the Keynesian Revolution continued to serve. Especially it served in the United States, and when employment is high in the United States, prices stable and American trade and payments are reasonably in balance, there is a fixed point in the world economy to which the other and perhaps more manageable industrial economies can adjust their policies. Instability in the United States leaves the other industrial countries without such an anchor. Economic stability in the United States does not ensure stability in the rest of the world. But it is a necessary condition for stable relationships elsewhere in the industrial world.

After 1968, the period of comparative success came to an end. This was not because economists and economic policy suddenly became stupid. It was because the world had moved on and economic policy remained relevant to the previous character of the economy. We entered upon another period of uncorrected obsolescence. The Keynesian policies, complicated further by an aberrant faith in the magic of monetary policy, were applied to a developing form of inflation where they did not serve. In the United States and Britain, where economists are most numerous and influential, this commitment to the obsolescent orthodoxy was, predictably, the strongest. Present failure can only be understood if one realizes how strong it remains.
The relevant historical change to which there must now be accommodation is in the nature of the industrial market. The market, with the maturing of industrial society and associated political institutions, loses, and loses radically, its authority as a regulatory force. Partly this is inherent in industrial development—in the institutions that modern large-scale production, technology and planning require. Oil or gas from Alaska, automobiles by the hundreds of thousands, require planning and a predictable and secure price. Partly the change is an expression of the democratic ethos, and, paradoxically, this is often much applauded by scholars of compassionate view who are also, and inconsistently, often defenders of the market.

Specifically, in the modern democratic context, people seek to gain greater control over their own lives. This extends to all of its aspects. They do not neglect the most obvious of all dimensions of personal freedom, which is some control over their own income. It would, indeed, be inconceivable were they to struggle for greater self-determination in all other aspects of life and leave this most vital of dimensions untouched.

The effort to control income takes one (or more) of three forms. By organization, assertion of some unique personal capacity or recourse to the state, people win the power to set or influence their wage, salary or other return, or the price which is one dimension of their income. By such means they escape from the impersonal authority of the market or, at a minimum, reduce the authority of the market. Were it not that the market is a totem, the underpinning of all neoclassical and Keynesian orthodoxy, economists would long ago have reacted to this nearly universal effort, for they do not underestimate the desire for income even as they fail to appreciate its role as a liberating force. Professional commitment to the market has, however, largely excluded from economic view this struggle to substitute greater self-determination of income for, as people of the modern industrial society see it, the impersonal tyranny of the market.

The instruments of escape—organizations, state action, personal qualification—are part of the everyday scenery of economic and political life. The most visible and, as I've long urged, the most important is the modern great corporation. It has extended the power over prices which the neoclassical orthodoxy still associates with the exceptional cases of monopoly and oligopoly to the production of some half of all private product in the advanced industrial economy.

The development of the modern large corporation, in turn, extends a substantial authority over pay to all of those in its senior executive ranks. This pay, in one of the
more transparent charades of our time, is then scrutinized by representatives of the shareholders, whom, in the typical case, the executives in question have selected and had elected in a strictly pro forma procedure.

The modern economy has also a large demand for specialized technical, scientific and professional talent. It sustains a large and growing artistic effort. These occupations convey some or much of the power over income that the classical economists once awarded to the musician, painter, sculptor or other producer of a unique service or commodity.

Where there are large corporations, there are, all but invariably, strong unions. So for the corporate working force the market also gives way to the authority of organization. This organization is often cited as being remote from the individual, impersonal. But for the participant it is far more benign, far more responsive, far less inimical, than the impersonal authority of the market and is so regarded. Were it otherwise, unions would wither.

Where corporate or trade-union organization does not provide escape from the market, the support of the state is sought for the effort. Farm support prices, the minimum wage, a complex and proliferating variety of industrial price and rate regulation all serve the same end.

As part of this broad thrust, such efforts as those of OPEC fall into place. They reflect a successful attempt at escape by raw-material producers - the hewers of wood of the Third World - on whom the market was once thought to bear with particular rigor. Not even the most orthodox neoclassicist would now argue that oil, which costs a few cents to produce and sells for a hundred times cost, is a normal manifestation of the competitive market. In the United States the large public planning apparatus now being created to adjust energy supply to demand is the predictable counterpart of the decline of the market. Our continuing reference to an energy czar rather than to energy planning reflects our feeling that czars are more in keeping with democracy than planners.

Finally, there is the most rapidly growing sector of the modern industrial economy, that of the public services and transfer payments. Here, too, even devout Keynesian neoclassicists speak of the nonmarket sector. Much of this sector, from housing to health care to welfare payments, owes its existence to an explicit recognition of the inadequate performance or the social unacceptability of the market economy. The replacement of the market is here extensively identified with a sensitive social conscience.

This post-Keynesian economic structure portends a much greater change than that which we call the Keynesian Revolution. The Keynesian Revolution accepted
the repeal of Say's Law, the likelihood of a shortage (or excess) of purchasing power in relation to economic capacity, the need in consequence to manage aggregate demand. But this management, some problems of wage determination apart, did not invade or involve the role of the market. That was assumed to perform its function as before; it did so only at a higher level of output and employment. The policy for achieving this higher level became the new macroeconomics. The traditional study of the market continued as microeconomics. The decline of the market, the change with which we now contend, is an infinitely more consequential development.

It has rendered nugatory the accepted techniques of macroeconomic management. Both monetary and fiscal policy, a vital point, depend for their effectiveness on the effectiveness of the market. When the market loses its authority, a restriction in aggregate demand does not arrest the upward thrust in prices and incomes that reflects the successful escape from market power. That is not directly affected. A restriction or reduction in aggregate demand does reduce output and employment. It also reduces prices in what remains of the market economy. Only when unemployment is substantial, idle industrial capacity appreciable, do these act as a brake on trade union and corporate power. Meanwhile unemployment and inflation co-exist. It is because Keynesian macroeconomic policy works first on output and employment and only thereafter on industrial incomes and prices that we have the combination of inflation and unemployment which is the most characteristic and unpleasant feature of the modern industrial scene.

The decline of the market renders obsolete the distinction between macroeconomic and microeconomics. Keynesian macroeconomic policy fails because of the changes that have occurred in microeconomic market structure. The separation in economic instruction and thought between macroeconomics and microeconomics has now become a serious, even unforgivable, disguise of reality.

Since neoclassical economics, in both its macroeconomic and microeconomic manifestations, depends on the market, its devout adherents are faced with a three-way choice. The first is to deny that anything of importance has happened to the market. In this way the validity of the existing market models is preserved in principle (and in the textbooks), though not, unhappily, in practice. However, those so committed must on occasion wonder how long their convenient world will survive the evidence. Reality has a way of intruding even on the most useful of illusions.

The second choice, peculiar in the maia to the United States and with increasingly romantic overtones even with us, is to accept that the market has declined but to believe that it can be retrieved. So, subject to some personal predilection and preference, economists urge the unwinding of government regulation, the abandon-
ment of farm support prices and the lowering or rejection of the minimum wage. And, of course, stronger enforcement of the antitrust laws is also demanded. Proposals for more rigorous antitrust law enforcement is for American economists and lawyers, perhaps, the most compulsive act of piety. The disintegration of the unions is not urged, although, in all logic, it should be part of the obeisance. Even banality must be tempered by discretion.

With this reaction to the decline of the market goes an implicit and unexpressed confession of negligible expectation. Liturgy and genuflection are involved, not practical result. Proponents recognize, in effect, that a great organic movement, impinging powerfully on the public and its lawmakers, cannot be reversed by the same public and politicians in response to the hortatory urgings of economists. Still, this escape does not lead, professionally speaking, to our most rewarding posture. There is a measure of disrepute by association even with the harmless King Canute as he orders the tides to go back.

Neither the nonrecognition of the obvious nor the advocacy of the futile is a serviceable expedient. There remains the third choice. That is to accept the decline of the market. Then economic policy addresses itself to considering how the resulting economic performance can be made adequate and socially acceptable. To this I do not believe there is an alternative, Economics is not a happy profession. It has become a choice of the lesser evil.

In practical policy the decline of the market is being accepted. As in the Great Depression, circumstances are forcing the pace. These circumstances have not spared the countries that avow their free enterprise identification. Germany, Switzerland and Austria have long accepted that wage and salary negotiation (much helped by being more nearly nation- or industry-wide than in the more difficult British or American practice) must be generally in keeping with existing prices and prospective productivity gains or, in any case, be related thereto. An incomes policy is thus built into the collective bargaining system. And the social market policy of Germany and Austria, together with the built-in constraints of export economies, keep employing corporations from taking advantage of this restraint. France under Plan Barre has had a more forthright system of restraint. The British, not without much past controversy and some remaining peril, have come to a much more elaborate prices and incomes policy into which taxes, welfare payments and farm prices are also integrated. It will be agreed, I believe, that circumstances, far more than the economists, forced the pace in Britain.

The United States remains a more backward case. We have more economists in high office even than the British, for whom Keynes was the last and immutable
word. But in the United States the need for a system of wage and income restraint has also now been conceded. Its application to public employees, farmers, pensioners, has recently been affirmed. There is still reluctance to apply it to large corporations and strong unions. That is because organized power to advance wages and prices is associated, not surprisingly, with political power. But Mr. Carter has urged the need for voluntary restraint. And in recent weeks he has taken the interesting step of replacing his economists with a practical politician – Mr. Robert Strauss – with no known commitment to obsolescent doctrine. However slowly, we too seem to be on the way.

The history of economics is the history of a painful accommodation to a changing reality. Perhaps it would be less painful were economists to realize how much this accommodation is a part of their history. But we should not despair. Though economists may falter, the pressure of circumstance does not. That is now forcing the accommodation to the power which, through organization and the state, people have achieved over income. We face a great and difficult transition. But there is hope in the fact that we are facing it.