

DIALOGUE ON POLITICAL ECONOMY  
BASED ON PUBLISHED VIEWPOINTS OF  
SIGNIFICANT HISTORICAL PERSONALITIES OF THE SCIENCE

MODERATOR: We have today brought together a very diverse group of men who, during their lives, have made noteworthy contributions to the study of political economy. Their writings and speeches contain thoughtprovoking (and sometimes controversial) perspectives on the political and economic problems experienced by the world's societies. And yet, after centuries of work on these issues and wide experimentation with policy, a consensus of thought has yet to emerge as to the most workable of systems.

Our guests include Robert L. Heilbroner, Adam Smith, Karl Marx, Henry George, John Kenneth Galbraith, Lester C. Thurow, John Maynard Keynes, Irving S. Friedman, Gunnar Myrdal, C. Lowell Harriss, Arthur Laffer; and, although his professional career included not a post as political economist but statesman -- former President of the United States, John Adams. Perhaps Professor Heilbroner would begin our discussion by commenting on this long, unsuccessful search for solutions to what he has termed "the Economic Problem".

ROBERT L. HEILBRONER: The trouble with economics is that it will not stand still. Issues change, ideas change, understanding changes. Even the past does not look exactly the same from one year to the next, and the present is apt to alter almost out of all recognition.<sup>1</sup>

MODERATOR: How, then, is one to approach the study of such a volatile subject and gain a reasonable expectation of understanding?

ROBERT L. HEILBRONER: I would emphasize a broad understanding of economic history -- not, of course, to learn names and dates, but to gain a sense of the evolution of the economic system, of the internal changes that have gradually altered the setting of economic life, and of the trajectory of economic evolution.<sup>2</sup>

MODERATOR: An appropriate point for beginning such a discussion, I suggest, is the period during which trade between nations emerged as a powerful measure of economic activity, the 17th and 18th centuries. We are fortunate to have with us the man recognized as the father of modern economics and author of The Wealth of Nations -- Adam Smith.

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2 ADAM SMITH: Well, my views by this time have been well-documented and undergone considerable analyses (as well as criticism). Yet, I still would spread the science of economics into two general divisions, which may be named natural economics and political economics.

The first observes and records the behavior of the human race in obtaining its necessary sustenance, as it could reasonably be expected when not interfered with nor diverted by any outside force. This, however, is a state which does not actually exist anywhere in the civilized world. The organization of a civilized society supposes some impairment of individual rights, and some restraint of natural individual impulses and desires. Until human nature becomes perfect, such restraints are necessary; the problem is to keep them within the narrowest possible limits.<sup>3</sup>

3 Moderator: Karl Marx? *How*

KARL MARX: With all due respect to Professor Smith, let us not deceive ourselves on this. As in the 18th century, the American war of independence sounded the tocsin for the European middle-class, so in the 19th century, the American civil war sounded it for the European working-class.

Obviously, one nation can and should learn from others. And even when a society has got upon the right track for the discovery of the natural laws of its movement it can neither clear by bold leaps, nor remove by legal enactments, the obstacles offered by the successive phases of its normal development. But it can shorten and lessen the birth-pangs.<sup>4</sup>

Moderator: Mr. Heilbroner?

1 ROBERT L. HEILBRONER: Let me address for a moment these issues of historical change and the growth in the role of government. In antiquity and feudal times one could not easily separate the economic motivations or even the economic actions of the great mass of men from the normal round of existence itself. The peasant following his immemorial ways was hardly conscious of acting according to "economic" motivations; indeed, he did not: he heeded the orders of his lord or the dictates of custom. Nor was the lord himself economically oriented. His interests were military or political or religious, and not basically oriented toward the idea of man or increase. The making of money was a tangential rather than a central concern of ancient or medieval existence.<sup>5</sup>

An essential part of the evolution of the market society was thus not only the monetization of life but the mobilization of life -- that is, the dissolution of ties of place and station which were the very cement of feudal existence. And this essential requirement of mobility lends to a further point. Mobility meant that any job or activity was now open to all comers. Competition appeared. Now any worker and any employer could be displaced from his task by a competitor who would do the job more cheaply.<sup>6</sup>

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MODERATOR: The real questions concerning political economy, then, seem to center on the impact of competition, of government intervention and of human tendencies to monopolize as they impact the ability of man to produce wealth. These forces -- and their relative power in a given society -- would also seem to play a major role in the eventual distribution of that wealth. Mr. <sup>Henry</sup> George, I know you have written substantially on this subject. Would you care to expound?

2 HENRY GEORGE: As you well know, more than a century has now passed since I completed my original economic treatise. By simple observation, I recognized that wealth had been greatly increased, and that the average of comfort, leisure, and refinement had been raised; however, it was true then and is true today even in the late twentieth century that these gains are not general. In them the lowest class do not share. I do not mean that the condition of the lowest class has nowhere nor in anything been improved; but that there is nowhere any improvement which can be credited to increased productive power. I mean that the tendency of what we call material progress is in nowise to improve the condition of the lowest class in the essentials of healthy, happy human life. Nay, nor, that it is still further to depress the condition of the lowest class. The new forces, elevating in their nature though they be, do not act upon the social fabric from underneath, as was for a long time hoped and believed, but strike it at a point intermediate between top and bottom. It is as though an immense wedge were being forced, not underneath society, but through society. Those who are above the point of separation are elevated, but those who are below are crushed down. 7

*Moderator: Mr. Marx?*

3 KARL MARX: I take it, then, <sup>Mr.</sup> George, that despite your later commentary on my writings you and I are in agreement as to the inevitability of class struggle between the capitalists and workers?

2 HENRY GEORGE: Sir, you and I are, in fact, not in agreement. Whereas you have placed the worker and the capitalist opposed in a class struggle, my analysis proves that the economic problem is largely solved by giving labor a free field and its full earnings; take for the benefit of the whole community that fund which the growth of the community creates, and want and the fear of want would be gone. The springs of production would be set free, and the enormous increase of wealth would give the poorest ample comfort. The progress of science, the march of invention, the diffusion of knowledge, would bring their benefits to all.<sup>8</sup>

3 KARL MARX: Benefited by hindsight, one cannot help but marvel at the improvements in the conditions now experienced by a substantial number of workers in the capitalist societies. However, I wrote Das Capital with a particular historical perspective. Long before the period of Modern Industry, cooperation and the concentration of the instruments of labor in the hands of a few, gave rise, to great, sudden, and forcible revolutions in the modes of production, and consequentially, in the conditions of existence, and the means of employment of the rural populations. I agree that this context at first took place more between the large and the small landed proprietors, than between capital and wage-labor; on the other hand, when the laborers are displaced by the instruments of labor, by sheep, horses, etc., in this case force is directly resorted to in the first instance as the prelude to the industrial revolution. The laborers are first driven from the land. Land grabbing on a great scale is the first step in creating a field for the establishment of agriculture on a great scale.<sup>9</sup>

MODERATOR: Are capitalists to be held responsible for this process? Or, would it not be more appropriate to conclude a relation between economic problems and the concentration of land ownership in the hands of those who also happen to be large capitalists? *Mr. Galbraith?*

/ JOHN KENNETH GALBRAITH: It is true that there are many poor people left in the industrial countries, and notably in the United States. But the poor, by any applicable tests, are outside the industrial system. They are those who have not been drawn into its service or who cannot qualify. And not only has the industrial system eliminated poverty for those who have been drawn into its embrace but it has also greatly reduced the burden of manual toil. Only those who have never experienced hard and tedious labor, one imagines, can be wholly indifferent to its elimination.<sup>10</sup>

*Lester*  
MODERATOR: Mr. <sup>A</sup>Thurrow, you seem ready to respond?

2 LESTER C. THUROW: Yes, I <sup>am</sup>would. Traditionally, the American goal for economic remedies has been phrased in terms of "equal opportunity". But what constitutes a fair game? Is it a fair game where each person has an equal chance to win? If chances of winning are to be equalized, do we handicap those born with advantages or compensate those born with disadvantages? The market may be a "fair process" to which most Americans are willing to submit, but it is necessary to stipulate some other principles to determine the equitable distribution of economic prizes within this game.<sup>11</sup>

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MODERATOR: I see that the architect of "demand management" theory is ready to enter the discussion. Mr. Keynes.

3 JOHN MAYNARD KEYNES: Well, now. Where to begin. Under the system of "laissez-faire" and an international gold standard such as was orthodox in the latter half of the nineteenth century, there was no means open to a government whereby to mitigate economic distress at home except through the competitive struggle for markets.<sup>12</sup>

I certainly agree that the outstanding faults of the economic society in which we live are its failure to provide full employment and its arbitrary and inequitable distribution of wealth and incomes. However, it must be said that since the end of the nineteenth century significant progress towards the removal of the very great disparities of wealth and income has been achieved through the instrument of direct taxation -- income tax and surtax and death duties -- especially in Great Britain. Many people would wish to see this process carried much further, but they are deterred by two considerations; partly by the scene of making skillful evasions too much worth while and also of diminishing unduly the motive towards risk-taking, but mainly, I think, by the belief that the growth towards individual saving and that for a large proportion of this growth we are dependent on the savings of the rich out of their superfluity. However, experience suggests that in existing conditions saving by institutions is more than adequate, and that measures for the redistribution of incomes in a way likely to raise the propensity to consume may prove positively favorable to the growth of capital.<sup>13</sup>

MODERATOR: Professor Keynes, unemployment in the 1980s continues as a major problem, both in the industrialized and less developed nations. Those who have supported your programs during the last forty years long believed there was a tradeoff between unemployment and inflation, that high unemployment would keep down inflation and programs to reduce unemployment had the cost of increasing inflation. They were not supposed to occur together. From the mid-1970s through today we have experienced both high inflation and high unemployment. How would you explain this occurrence?

*Mr. Irving Friedman?*

*Keynes*  
| IRVING S. FRIEDMAN: Mr. Moderator. Since I have written an entire book on the subject of inflation I would like to respond to that question.

*Irving*  
MODERATOR: Very well, Mr. Friedman. Your work is certainly based on more recent statistical analyses; perhaps the issue is one more appropriately addressed by you.

1 IRVING S. FRIEDMAN: If I may begin by commenting on government policy, for many years, at the core of anti-inflationary programs has been the conviction that the elimination of inflation is essentially a technical economic problem that requires the selection of a few key policy objectives and policy measures, such as keeping down the growth of monetary aggregates, achieving realistic interest rates, or restraining budget deficits. These stabilization programs did not -- and still do not -- recognize the novel characteristics of modern inflation. Therefore, they did not accept the need for more fundamental and far-reaching policies, affecting both the level and composition of demand and supply. A glimmer of reality has been forced by the world's energy problem.<sup>14</sup> The process must be begun of reformulating expectations of improved well-being to realizable levels. Priorities must be chosen. On the other hand, the principal aim of world-wide policies must be to increase global output. Supply capacity should be increased so that more of people's expectations can be fulfilled. This is easiest to see in the cases of food, energy, other key raw materials, clean air and water, and modern technology suited to employ large numbers of the labor force in modern productive facilities. The emphasis, therefore, must be on increasing supply as well as on demand management, with an understanding of how they interact.<sup>15</sup>

MODERATOR: Mr. George.

2 HENRY GEORGE: Much of what Mr. Friedman has said contains the wisdom only truth can exhibit; and, although the term "inflation" was not yet in use during the late 19th century, those of my school were certainly concerned with supply long before modernday "supply-siders". What about this phenomenon Mr. Friedman has identified as inflation? Essentially, the influence of speculation in land in increasing rent is a great fact which cannot be ignored in any complete theory of the description of wealth in progressive countries. It is the force, evolved by material progress, which tends constantly to increase rent in a greater ratio than progress increases production, and thus constantly tends, as material progress goes on and productive power increases, to reduce wages, not relatively, but absolutely. It is this expansive force which, operating with great power in new countries, brings to them, seemingly long before their time, the social diseases of older countries. In short, the general and steady advance in land values in a progressive community necessarily produces that additional tendency to advance which is seen in the case of commodities when any general and continuous cause operates to increase their price.<sup>16</sup>

MODERATOR: Mr. Smith.

2. ADAM SMITH: While I realize my own analysis was written at the very beginning of what has come to be called the "industrial revolution", I believe what Mr. George has said can be historically documented. As soon as the land of any country has all become private property, the landlords, like all other men, love to reap where they never sowed, and demand a rent even for its natural produce. The wood of the forest, the grass of the field, and all the natural fruits of the earth, which, when land was in common, cost the laborer only the trouble of gathering them, come, even to him, to have a price fixed upon them. The man who cultivates the land must give up to the landlord a portion of what his labor collects or produces. This portion, or, what comes to the same thing, the price of this portion, constitutes the rent of land which must be included in the price of most commodities.<sup>17</sup>

*Moderator: I would now like to introduce John Adams,*

3. JOHN ADAMS: Although Adam Smith and I pursued rather different interests and ended our careers serving competitive national interests, I, as well as many other American patriots, were greatly indebted to his philosophy on matters of political economy. I, too, believed that property in the soil is the natural foundation of power and authority. Three cases of soil ownership are supposable. First, if the prince own the land he will be absolute. All who cultivate the soil, holding it at his pleasure, must be subject to his will. Second, where the landed property is held by a few men the real power of the government will be in the hands of an aristocracy or nobility, whatever they are named. Third, if the lands are held and owned by the people, and prevented from drifting into one or a few hands, the true power will rest with the people, and that government will, essentially, be a Democracy, whatever it may be called. Under such a constitution the people will constitute the State.<sup>18</sup>

*Smith*  
MODERATOR: Mr. Adams, what you and Messrs. ~~Adams~~ and George have stated sounds quite plausible for states which existed one or two hundred years ago. The modern, technological world is extremely complex. Complex theories and models are needed today to deal with these problems. Would you not agree to this? *Mr. Heilbroner.*

1. ROBERT L. HEILBRONER: Since an opinion from the modern era is requested, I should like to give mine. The prerequisite for economic progress for the underdeveloped countries today is not essentially different from what it was in Great Britain at the time of the industrial revolution, or what it was in Russia in 1917. To grow, an underdeveloped economy must build capital.<sup>19</sup>

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MODERATOR: Thus far, I agree.

ROBERT L. HEILBRONER: Now, however, how is a starving country to build capital when 80 percent of its people are scrabbling on the land for a bare subsistence? The crowding of peasants on the land has resulted in a diminution of agricultural productivity far below that of the advanced countries. Hence the abundance of peasants working in the fields obscures the fact that a smaller number of peasants, with little more capital could raise a total output just as large. By raising the productivity of the tillers of the soil, a work force can be made available for the building of roads and dams, while this "transfer" to capital building need not result in a diminution of agricultural output.<sup>20</sup>

MODERATOR: But where are the underdeveloped nations, their domestic economies weak and lacking revenue for such capital building, to obtain the funds necessary for such action?

ROBERT L. HEILBRONER: Understand that what I have outlined is not a formula for immediate action. In many underdeveloped lands, the countryside already crawls with unemployment, and to create, overnight, a large and efficient farming operation would create an intolerable social situation. We should think of the process as a long-term blueprint which covers the course of development over many years. It shows us that the process of development takes the form of a huge internal migration from agricultural pursuits, where labor is wasted, to industrial and other pursuits, where it can yield a net contribution to the nation's progress.<sup>21</sup>

MODERATOR: Gunnar Myrdal.

2 GUNNAR MYRDAL: Findings in a study we did on Southeast Asia in the late 1960s revealed there are other factors that, by keeping down the labor productivity, together are responsible for low average incomes and low standards of life. Very low living levels decrease the amount of labor input and also the intensity and efficiency of the work actually performed on the land by the labor force. Low incomes are only the other side of low labor productivity; a vicious cycle makes poverty and low levels of living, or low labor productivity, self-generating. Behind this unfortunate causal mechanism there is a social system of institutions and power relations, that is severely inimical to productivity, at the same time as low productivity establishes itself as the norm. And within this social system, both shaped by it and upholding it, are the ingrained attitudes of people in all classes. Among the non-physical factors that keep down labor productivity are also the primitive techniques employed in agriculture, likewise both a function of the existing social system, which deprives the tillers of both capital and incentives to greater effort, and a prop to that system.<sup>22</sup>



MODERATOR: As you well know, the question of incentives is also a major issue in the United States and other industrialized countries today. Particularly crucial is the role of fiscal and monetary policies in creating an environment beneficial to economic growth. One side of the issue has been argued by one of our colleagues whose name has been made famous by identification with a special "curve" and the relation between tax rates and tax revenues. Professor Arthur Laffer of the University of California.

3 ARTHUR LAFFER: To start off, I strongly believe the demand side policies which had been applied in their entirety did not avert the economic collapse of the mid-1970s and in my view actually brought it about. The most damaged by the contraction were the disenfranchised members of society, including minorities, youths and the chronically disadvantaged.<sup>23</sup>

MODERATOR: What do you think is appropriate policy?

3 ARTHUR LAFFER: Basically, people don't work to pay taxes but instead work to receive something after tax. Likewise, businesses don't invest as a matter of social conscience but do so to make an after-tax return on their investments. It is axiomatic that when more of a good is produced its price falls. Tax rate reductions do lead to more production and if combined with a good monetary policy should reduce inflation.<sup>24</sup>

*Moderator: Mr. George.*

2 HENRY GEORGE: I would only add that the question of monetary policy during the late nineteenth century concerned itself primarily with the use of paper money as opposed to "hard" currency, such as gold, silver or other commodities. As to the question of taxation, the mode of taxation is, in fact, quite as important as the amount.<sup>25</sup>

MODERATOR: I've read some of the research performed by Lowell Harriss and the Tax Foundation on this subject of taxation. What about this, Professor Harriss?

1 C. LOWELL HARRISS: My own research for the Tax Foundation and at Columbia indicates that when total taxes are as high as they must be to finance modern levels of spending, tax rates will also be high enough to influence behavior. But the present practice of imposing rates of around 50 percent on the returns to capital of corporations is scarcely essential. A lower rate on a larger base offers an alternative.<sup>26</sup>

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MODERATOR: The great criticism of the modern graduated system of income taxation is that there are so many inequities built into deductions, exemptions and other tax shelter mechanisms. Underlying this is the very concept of wealth redistribution which, if desirable, how should it be achieved. Can you enlighten us on this issue, Professor Keynes?

3 JOHN MAYNARD KEYNES: For my own part, I believe that there is social and psychological justification for significant inequities of incomes and wealth, but not for such large disparities as exist today. There are valuable human activities which require the motive of money-making and the environment of private wealth-ownership for their full fruition. The task of transmuting human nature must not be confused with the task of managing it. Though in the ideal commonwealth men may have been taught or inspired or bred to take no interest in the stakes, it may still be wise and prudent statesmanship to allow the game to be played, subject to rules and limitations, so long as the average man, or even a significant section of the community, is in fact strongly addicted to the money-making passion.<sup>27</sup>

MODERATOR: Lester Thurow.

2 13 LESTER C. THUROW: To have no government programs for redistributing income is simply to certify de facto that the existing market distribution of incomes is equitable. One way or another, we are forced to reveal our collective preferences about the "just" distribution of economic resources. As a result, one basic responsibility of government in a market economy is to create an equitable distribution of income and wealth if it has not been produced by the market.<sup>28</sup> Although modern economics springs from the search for a definition of economic justice, it has largely abandoned that search. Thus, 19th century economists, such as John Stuart Mill and our other historical colleagues, spent much of their time searching for the principles that would lead to a condition of equity. But by the 1940s, economists reluctantly came to the conclusion that there were no economic statements that could be made about equity.<sup>29</sup>

MODERATOR: We have time for one last comment. Mr. George?

2 HENRY GEORGE: I realize these proceedings are to shortly close, but I would appreciate a final opportunity to summarize my overall feelings on the subject of this discussion. And that is that the association poverty with progress is the great enigma of our times. It is the central fact from which spring industrial, social, and political difficulties that perplex the world, and which statesmanship and philanthropy and education grapple in vain. From it come the clouds that overhang the future of the most progressive and self-reliant nations. So long as all the increased wealth which modern progress brings goes but to build up great fortunes, to increase the luxury and make sharper the contrast between the House of Have and the House of Want, progress is not real and cannot be permanent. To educate men who must be condemned to poverty, is but to make them restive; to pass on a state of most glaring social inequality and political institutions under which men are theoretically equal, is to stand a pyramid on its apex.<sup>30</sup>

MODERATOR: Thank you gentlemen, all of you.

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1- Robert Heilbroner  
J. K. Galbraith  
Irving S. Friedman  
Lowell Harrison

2- Adam Smith  
Henry George  
Lester Thurow  
Gunnar Myrdal

3- Karl Marx  
J. M. Keynes  
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