

# A BALANCED BUDGET AND A BALANCED WORLD

BY PETER HENINGWAY

**T**he brief recently presented to the Federal Government by the Royal Architectural Institute of Canada on behalf of Canadian architects, argues strongly in favour of ending deficit financing. But the mathematics and the charts and the conclusions are only part of the story. The essential thrust of the brief is that it challenges the assumption of the Canadian Government that its economists and experts now have the wisdom and the knowledge to solve the periodic economic slumps created by business cycles.

On the contrary, I think it can be shown that not only have governments failed to understand the nature of the business cycle, but what is worse, they have failed to appreciate the relevance of the cycle to how economies and societies function.

It is only necessary to check the graphs and diagrams beloved by business economists - some of which trace economic history back to 800 A.D. - to see that business disruptions are more often caused by government meddling than they are by natural disasters. By government meddling, I am thinking of wars, trade sanctions, and usurious taxation, as well as the ill-advised inflationary schemes that rulers have resorted to from the earliest civilizations until the present. I can see no essential difference in this regard, between the "half crazed" concepts of a John Law in eighteenth century France and the far more sophisticated theories of John Maynard Keynes. Both attempted to argue that the imperfections of the business cycle can be corrected; Law by printing paper money and Keynes by deficit financing.

Before Keynes and Law, we had the outright theft of personal and communal wealth by forced expropriation of

property to replenish empty government coffers, or the more devious inflationary schemes of a Constantine or a Henry VIII. The latter two worthies if you recall, used the goldsmiths of the Imperial Treasuries to simply scrape the gold and silver off the coinage whenever it returned into government hands. Then, later of course, we had the infamous 'Greenbacks' issued by the American Government during the Civil War and the worthless currency issued by the German Weimar Republic to pay off its war debts. Indeed, it is hard to find any period in history when some government or other was not trying to extract more money from its citizens than they were prepared to give more or less voluntarily in good or bad times.

During the feudal epoch and even earlier, governments had complete power over their subjects and thus, were able to enforce their tax laws and their disregard of business cycles by pain of death. If the peasants revolted over the price of bread or the scarcity of commodities, they were put to the sword. However, once wealth became more evenly distributed with the rise of the middle classes, governments resorted to more insidious ways of collecting monies. The emergent middle class was a considerable threat to autocratic government because it had arisen in the first case in opposition to feudal and aristocratic structures. The John Lockes, the Rousseaus and the Thomas Paines were the philosophical guerillas who championed and justified the ambitions of the merchants and the industrialists. The political strength of the middle classes grew in direct proportion to their acquisition of property. Property generated wealth and wealth in turn opened the gates of political power. So no matter how hard the old aristocrats tried to cling to their positions, they were eventually neutralized

by a more numerous and vigorous bourgeoisie.

Between the middle of the eighteenth century and the beginning of the First World War, the merchants were generally able to convince governments and politicians of the merits of free trade policies. The rise of mercantilism, in any event, paralleled the great expansionist phase of the European empires and this was a period of optimism, both scientifically and economically. The wars that broke out, as for example those of the Napoleonic era, were relatively tame contests when compared to the holocausts of the twentieth century. The economists and social theorists of the age were generally sympathetic to liberalism and free trade. The French Physiocrats, Adam Smith, and David Ricardo in Britain in fact believed that economies were guided by natural laws that in turn were ultimately discoverable and measurable - Smith refers to these laws as the 'invisible hand'.

The Physiocrats, Smith and Ricardo, were essentially acting as scientists much in the tradition of a Newton or Galileo. But then, the social turmoil created by the new industrialism fostered the emergence of a whole new group of economic philosophers who saw the world in radically different terms. Marx in Germany and J.S. Mill in England were not content to investigate economic activity objectively and, instead, believed that economic law and human behavior were interdependent. As if this was not enough, these men and their disciples - and this is especially true of Marxism - developed a feeling of religiosity about their theories. Marx it may be remembered, spent most of his life in castigating his opponents, including Mill, and accusing them of all kinds of philosophical treason. Measurement and reason favoured by the classical economists was replaced with rhetoric and emotion. Marx borrowed a curious Aristotelian logic from Hegel and adopted it to fit his own theories based upon his own subjective concepts of class structure. He likewise completely misinterpreted the need for economies to accumulate surplus capital for re-investment purposes and instead claimed that surplus capital came about through the exploitation of labour.

In retrospect, it is surprising that such a distortion of economic common sense could gain widespread acceptance until one remembers that the latter half of the Nineteenth Century and the greater part of the twentieth century was fertile ground for all manner of neo-scientific theories. Think of Mary Baker Eddy, Theosophy and even the racial theories of Nazism.

However, once this evangelical rag-bag

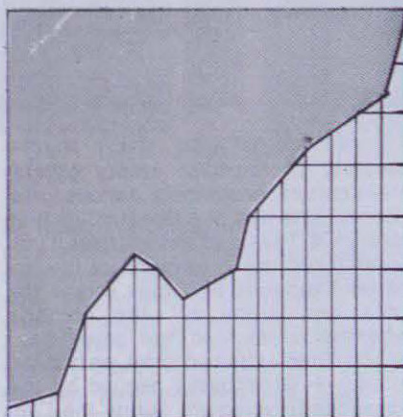




approach to economic theory had found popular acceptance, then it spawned similar movements from Fabianism in Britain to Roosevelt and his 'New Deal' in the United States of America. Finally it reached its philosophical culmination in the writings of John Maynard Keynes who claimed surely for the last time that governments can cure the periodicity so long associated with economic activity. In the midst of the Depression of the 1930's, he argued that future disasters of that kind could be avoided by a skillful government manipulation of the money supply. To justify his ideas, he invented a whole new lexicon of economic jargon that is still in use in most of the educational institutions in the Western World. Gross National Product, Gross National Income and other equally tenuous aggregates of value became part of macro-economic theory in which economies could be visualized as objective national entities. To think that this type of crude visualization was taking place at a time in history when nuclear physicists from Bohr to Heisenberg to Chadwick were exploring the structure of the atom with infinite precision beggars the mind.

But Keynes had a lot going for him because his ideas were ready made for ambitious politicians and a semi-literate public. In addition, central banks designed to manipulate economies had been established in just about all Western nations. Following the realignment of capital that occurred as a result of the Second World War and encouraged by proponents of the Welfare State, governments began to apply Keynesian remedies each time their economies started to falter. There was one further significant attraction in Keynesian business cycle magic and that was that it dovetailed well with the idea of redistributive societies. In other words, it allowed governments to tax their citizens to previously unheard of levels under the barrier of self righteousness. The catch was, and is, that the necessary dynamism of the business cycle was lost as economic units were given no possibility of recharging their financial batteries. Thus,

the flexibility of the market was abandoned and the signals that the market normally gives to all segments of society were distorted. Accordingly, if government decided to stimulate one segment of the economy, say, for example, housing, then it would redirect financial resources into that industry creating all manner of maladjustments. Students would be encouraged to become engineers, architects and draftsmen. The trade schools and the building unions would graduate and license more bricklayers, carpenters and electricians than might normally be required. Inevitably, there would be less interest in other fields, say computer



science or bio-genetics, with a corresponding loss of social vitality. After a while, when the government decided to switch priorities, the workers who had been mistakenly attracted into the housing field in the first place, would have to find alternative employment, causing perhaps even greater distortions.

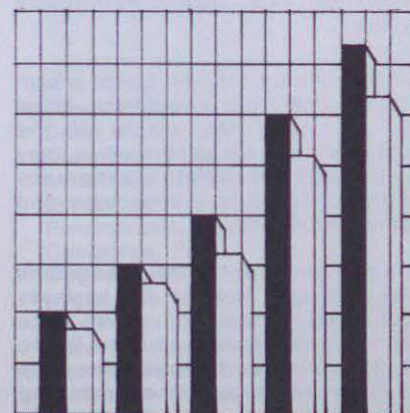
The method by which the majority of national governments decided on priorities or, as they stated, national goals became sanctified as central planning and the underlying weakness of the system was recognized by too few critics. Notwithstanding that rigidly, centrally planned economies, especially in the so called 'peoples democracies' have repeatedly failed to produce social environments which encourage cultural and material wealth, the underlying reasons for this failure have never been properly studied. On the contrary, whenever centrally planned economies break down, which they do continually, the apologists always seemed to deduce that the problem was that the economies were not planned enough. So it goes on, layer of restrictions upon layer of restrictions until finally society ceases to function in any human way and guns, soldiers and secret police forces have to be employed to keep order.

Now what if man has misinterpreted his

role in the natural world much as he misunderstood the significance of relativity in classical physics? Lately there seems to be a great deal of evidence that this may be the case. What if the business cycle is deeply related to man in the cosmos, just as the socio-biologists maintain animals and the insects are related to their environment? That there is, as it were, a super determinism in all of existence that cannot be escaped anymore than the laws of thermo-dynamics can be subverted.

To take just two illustrations in quantum physics, one Einstein's search for a Unified Field Theory and Bell's experiments with the polarization of photons, they seem to suggest that there is a fundamental underlying unity in nature. That for every action there is indeed an equal and opposite reaction. That matter can neither be created or destroyed and that as Einstein demonstrated, mass and energy are equivalent and on the quantum level, are indistinguishable.

The work of Verne Atrill in expanding classical economic theory to include the same physical constants that have been discovered in physics also appears to indicate that economic law exhibits an equivalent determinism that cannot be flouted. Atrill's dictums that debt will always be paid, if only by the



creditor, can be compared to the laws dealing with the conservation of energy. His explanation of accounting and discounting principles is surely just another description of the balance that must exist in the universe and that we are just beginning to perceive.

In astronomy, as well as in the attempts to determine whether the universe is closed or open, we are likewise beginning to sense a similar sort of super balancing mechanism or super determinism. The possibility of this balance is both fascinating and salutary, especially for interventionists who believe that they alone hold the key for re-ordering the world in which we live.



To return to economic theory, lately there have been suggested modifications to business cycle concepts. Friedman and Laffer, both of the United States, have suggested, in my view rightly, that government economic interventionism should be curtailed, but for the wrong reasons and by the wrong methods. Friedman has argued that inflation can be controlled by restricting the money supply while not appearing to understand that non-monetized debt is just as big a problem. Accordingly, governments have been encouraged to go on increasing their deficits while at the same time restricting the growth of the money supply. The result is a complete distortion of the monetary system and a predictable depreciation of the value of the currency. This system can be compared to a tautly-strung bow with the bow trying to reflect the actual growth in the money supply while the central bank symbolized by the bow string refuses to allow this to happen, bending the bow more tightly until its resilience and power is destroyed.

In effect, when accumulated debt is not reflected in the money supply, then according to the proportion of unmonetized debt, one dollar is owed to more than one person. Eventually, if this process continues, then the currency can shrink in value until it becomes entirely worthless. This is for instance, what must occur when central banks continue to buy their own Treasury Bills in ever increasing amounts.

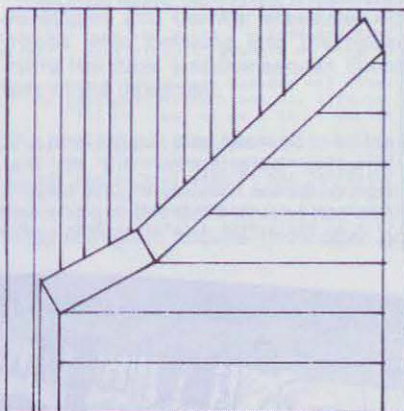
Laffer, for his part, seems to believe that taxes can be cut, even though the U.S. Federal Government is in a hopeless debt position. To persevere in this approach without apparently understanding the laws of solvency for an economist is inexcusable. The laws of bankruptcy clearly indicate that once an economic entity passes a certain debt stage, the entity cannot recover solvency without selling assets or devaluing its net worth - that is, ten cents on the dollar.

The key to what is happening is surely



that governments are continuing to depreciate their currency much in the manner of a Henry VIII. Of course, their methodology is not as obvious. Of course, their reasons appear to be for more humane motives. But in the end, the results are the same. The clearest indicator of this depreciation remains the stock markets, as in the long term, the monetary value of stocks must continue in most cases to be less than their book worth. This situation will persist if governments carry on inflating and depreciating.

But finally, is all this interventionism and government paternalism really for humane motives or is it for that age old elixir, the acquisition and the maintenance of political power. Much of the research being carried out by social scientists strongly suggest that it is the latter. Men and women surely function most responsibly when they are left alone to build their own lives and their community structures without the constant harassment of government officials. This is the manner in which all life forms reached their present level of complexity from the building of the first amino-acid chains to the brain of an Einstein. Now if in addition we can confirm what many now suspect, that evolution proceeds in accordance with a natural rhythm, then the constant attempts by one group of



people to control another much larger group of people begins to look strangely like an ignorant neuroticism. Democracy, after all, as defined by John Locke was and is an attempt to diffuse central government power and to neutralize the arrogance and the dogmatism of the state. Democracy, if it is to survive, must always challenge the motives of the statist and strive for a diminution of state power. In the last century we seem to have forgotten this lesson as governments are once again relentlessly struggling to return citizens to new forms of feudalism. Perhaps they sense though that very shortly they will no longer be able to achieve their unstated goals in the future in the man-

ner they have in the past by boasting that they can protect each and everyone of us from the vicissitudes of the business cycle. For what will happen when we finally realize that the business cycle is not our adversary, but our inseparable companion.

This is not a *laissez faire* position or a traditional anarchist position, but only a plea for a more objective view of man in society. It is a realization that perhaps comes very close to a participatory view of the world rather than the adversary posture that Western man has always tended to adopt. In a sense, it is perhaps a reaffirmation of



traditional eastern philosophy that has always seen man as an integral part of a never ending cycle in which salvation or satori finally comes when we recognize the oneness of existence.

As to what happens to all the political parties and philosophers when the populace finally realizes that political promises are merely posturing is a matter of conjecture. A general awareness of how the business cycle operates will surely bring about major changes in the way that countries are governed and could well usher in a new area of international stability.

There are also many implications for the architectural and design professions, for when we possess the degree of predictability given us by a knowledge of how economics operate then we can properly advise students as to what chances there will be for employment when they graduate. Architectural offices likewise will be better able to stage their staff requirements, avoiding to a large extent the 'hire/fire' syndrome that has been so prevalent over the last decade.

It is an exciting and encouraging prospect.

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