ECONOMIC POSSIBILITIES FOR OUR GRANDPARENTS

J. E. King

(with apologies to J.M. Keynes)

The traveller's tale that follows is a fable. Like all fables, it has a serious moral – or rather three serious morals - which I discuss at the end.

I have just returned from a most enjoyable holiday in the Pensionati Islands. This little-known country in the North Pacific offers not only the usual pleasures of a tropical archipelago but also some fascinating insights into a problem which, it is often claimed, will soon be of great concern to us in Australia: the rapid ageing of the population.

There are four main islands in the group, but only three of them are currently inhabited. The islanders subsist on the remarkable Pensionati coconut, which supplies them with food, drink and the raw materials from which clothing and shelter can be manufactured. They share a thoroughgoing egalitarianism and a curious taboo according to which no-one over the age of 60 is allowed to work, under any circumstances. Until very recently the retired population amounted to some 40% of the total (there are also a few children, whom I shall disregard in what follows). Within the last decade life expectancy has grown sufficiently to raise this proportion to exactly 50%, at which level it is expected to remain for the foreseeable future.

Although, as I have stated, the islanders are united in their underlying system of beliefs, their social institutions differ considerably. On Kin, the largest of the three inhabited islands, there is no money and no state but rather an extended family system of the traditional type. The economically active population simply share the fruits (so to speak) of their labour with the elderly. When residents of Kin reach the magic age of 60 they celebrate with a huge party and retire from work. They continue to take their share of coconuts from the common pool, and their level of consumption remains unchanged.

Things are arranged very differently on Divi, where the coconut plantations are owned by a Company which employs the under-60s as wage labourers, and in which every retired inhabitant owns one share. Here retirement is marked by a change of status, from worker to shareholder, but as on Kin retirement involves no alteration in the individual's standard of living. The Company's revenue from the sale of its coconuts is distributed between wages and profits in such a way that the workers and shareholders are all able to buy the same number of coconuts with their respective incomes. Thus money is used on Divi, but there is no government, and indeed no political institutions of any type.

The third island is called Tax. It resembles Kin in the sense that there is no money, no wage labour and no market for coconuts. But on Tax the extended family system has broken down. Its function in supporting the elderly has been taken over by the government, which levies taxes on the economically active population and distributes the coconuts that it collects to retired people in the form of a state pension. The tax rate is set so as to ensure that pensioners enjoy the same standard of living as do working people. Anything less would be regarded as quite scandalous, on Tax no less than on Kin or Divi.

A fourth island, Caritas, was inhabited for much of the nineteenth century. It was controlled by European missionaries, who provided for the needs of the elderly by extracting donations from the working population and doling them out as charity to the retirees, on condition that they attended church regularly and abstained from unnatural sexual practices. These rules came to be regarded as excessively restrictive, and early in the present century the people of Caritas moved to the other three islands where (as we have seen) a more liberal regime prevails.

On Kin, Divi and Tax social relations were harmonious in the extreme until the recent demographic change occurred. The three islands reacted in apparently quite different ways to the relative increase in the retired population. On Kin the working members of each family simply decided to spend more time in the coconut plantations than they had done previously. The Pensionatis being extremely fertile, and coconut gathering not being subject to the law of diminishing returns, this was a quite painless business. Before the ageing of the population the typical extended family had ten members, six at work and four in retirement. Each worker can gather 10 coconuts in an hour, and 24 coconuts are enough to provide for an individual's daily needs. To gather the 240 coconuts that are needed each day, 24 hours of work were necessary: four hours each from the six workers. The increase in life expectancy has seen this rise to 4.8 hours (since 5 workers x 10 coconuts per hour x 4.8 hours = 240 coconuts per day). There is still plenty of time for lying in the sun.

On Divi, the same outcome was achieved by a more complicated route. The price of coconuts has remained constant here (at $1) for as long as anyone can remember. There are 100 families on the island, giving a total population of 1000. Before the demographic change, 600 of them were working and 400 retired. The daily output of the Company, some 24,000 coconuts, had a total value of $24,000. The hourly wage was set at $6, so that four hours work yielded an income of $24 per day and allowed the workers to buy the 24 coconuts that they needed. The Company's wage bill was $14,400 (600 x $24), with profits of $9,600. Each of the 400 shareholders received a daily dividend of $24, so that they too could buy the necessary 24 coconuts. After the ageing of the population, Divi had 500 workers and 500 retirees. The wage rate fell from $6 to $5 per hour, and the workers found that they had to put in 4.8 hours to maintain their ability to purchase coconuts. The Company's wage bill fell to $12,000 ($5 x 4.8 x 500), and its profits rose to $12,000, just sufficient to provide a $24 daily dividend to each of the 500 shareholders.

On the third island a 'flat tax' rate of 40% initially applied. The workers kept six of each ten coconuts that they gathered, and set aside four for the state, which were used to pay pensions to the elderly. On Tax, as on Kin and Divi, four hours work was enough to provide for the needs of the retired population. After the demographic change the tax rate had to be increased to 50%; five out of ten coconuts now went to the government to finance pensions and so here, too, the working day has risen to 4.8

hours to enable workers and pensioners to maintain their living standards.

The people of Kin and Divi seem quite content with these new arrangements, but on Tax there is evidence of substantial discontent. It is taking the form of a 'taxpayers' revolt' on the part of many of the working population, who regard the increased tax rate as an intolerable burden. Their resentment is all the greater because pensions are exempt from taxation.

I found myself talking about these developments to a small group of local people in the bar of my hotel, which served a most acceptable coconut wine. One of my new friends was a woman who had been fortunate enough to study economics at an Australian university in the days when it was possible to take courses in the history of economic thought, before, that is, they were replaced by the now-mandatory offerings in Marketing and Business Communications. She confirmed my suspicion that provision for the elderly was essentially the same on the three islands, despite the superficial differences in social organisation: gifts from relatives, dividends from shareholdings (whether owned by the retirees individually or collectively by pension funds on their behalf) and pensions paid by the state all produce the same outcome. Retired people can only consume coconuts that they have not gathered themselves if younger people work for longer than would be necessary to provide for their own consumption needs alone.

Old people, she went on, fed themselves from the *surplus product* of those still at work, which was the result of their *surplus labour*. The contrasting economic systems of Kin, Divi and Tax were simply different ways of organising the performance of this surplus labour and distributing its fruits. It could be avoided only if the surplus product were to fall to zero, which would mean that the elderly were left to starve. Less drastically, the effects of an ageing population could be averted if the standard of living of retirees were allowed to fall, so that they consumed only 16 coconuts rather than 24. This would be consistent with the retention of a four-hour day (and a $6 wage rate on Divi and a 40% tax rate on Tax), but not with the egalitarian convictions of the islanders.

The concepts of surplus product and surplus labour, she told me, had been commonplace among the political economists of the 1820s and 1830s, like Thomas Hodgskin, William Thompson and John Francis Bray. Indeed, the first mention of surplus labour could perhaps be traced to an obscure medical man called Charles Hall, writing as early as 1805, and the notion was implicit in the thinking of many eighteenth century theorists. (Her companion, who had studied philosophy at university, added rather grumpily that he imagined it would have been blindingly obvious to Aristotle). Karl Marx, she continued, would have calculated the *rate of surplus labour* in the Pensionati Islands at 66.7% before the ageing of the population and 100% thereafter, though in this instance he might not have used the pejorative term *rate of exploitation*, which applies only to the inegalitarian class societies of countries like Australia.

Not having studied any of these writers in the course of my Bachelor of Business degree I could contribute nothing to these historical discussions. I did, however, take the opportunity to ask a question that had come to worry me during my stay. Why, if the arrangements on the three islands for the care of the elderly were in essence identical, was there an incipient taxpayers' revolt on Tax but continuing social and political tranquillity on Kin and Divi? My friend's explanation was a little intricate, and I am not sure that I understand it fully.

For the people of Kin, she said, everything was crystal clear. Old folk had a right to live, and young people had a duty to provide for them. If the proportion of retirees were to increase, those under 60 would just have to work a bit harder to look after them. On Divi the opposite was true. No-one was aware of the underlying economic relations, and a shift in the distribution of the Company's output from workers to shareholders was interpreted by both groups as evidence of an increase in something called the 'productivity of capital' and a corresponding decrease in the productivity (and hence the rewards) of labour. Marx had apparently described this state of universal mystification and confusion as the 'fetishism of commodities', though what exactly it has to do with the unnatural sexual practices formerly prohibited on Caritas is beyond me.

The people of Tax, my friend went on, had the worst of both worlds. Their social order lacked the transparency of that on Kin but was less opaque than that on Divi. The workers on Tax realised that they were enjoying less than the full fruits of their labours, but they could not see why. They were, though, rational and humane people, and a little gentle instruction in the laws of economics would eventually win them round.

Towards the end of my stay on the islands a small deputation arrived from the United Kingdom. It was led by a Professor Giddens, who is said to be the world's leading neoconservative sociologist (a member of his party explained to me that the qualifying adjective has become almost redundant). As such, he is quite naturally a significant influence on his country's New 'Labour' government. The object of their visit was to conduct historical research into the economic organisation of Caritas, with a view to introducing a similar system into Britain under the modernised title of Welfare Reform. The role of the missionaries would apparently be taken over by business people.

Two days before I left a second deputation arrived, this time made up of Labor Party supporters from the Economics department at the Australian National University who were supplementing their meagre salaries by writing a report on the islands for the World Bank. Their visit was very brief, as they had taken the precaution of completing their report before leaving Canberra. It showed signs of having been written in some haste. In the 'Recommendations' chapter of my copy the word 'Bolivia' had been scratched out in some places and 'Pensionati Islands' pencilled in instead; in other copies the same fate had befallen 'Uganda' and 'Thailand'.

The Australian economists expressed incredulity at the primitive economic organisation of Kin, and predicted ever-increasing fiscal and political instability for Tax. They seemed much happier with the state of affairs on Divi, but urged the adoption of a Structural Adjustment Programme involving a much greater degree of flexibility in the labour market and the opening of the Company to foreign investment. After only three or four generations of hardship produced by the Programme, they predicted that prosperity would return to the Pensionati, 'just as it has done in…..'.

At this point my copy ended in a blank page, no doubt as the result of a printing error. My friend from the hotel, however, is sure that

'Indonesia' had been scratched out. I have not seen her since. I understand that she is writing a set of lectures so that the islanders can learn economics in order (as Joan Robinson once put it) to avoid being deceived by economists.

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The first moral to be drawn from this tale involves the history of economic thought, a branch of the discipline which is increasingly regarded with disdain by orthodox economists and is taught (and studied) much less than it used to be. The reason for this seems to be a Lakatosian belief that knowledge grows monotonically over time, so that we have nothing to learn from the ancients. But this is not true, least of all in economics. Earlier generations of theorists were not invariably ignorant, or stupid, or wrong. On the contrary: important truths are often neglected, forgotten and denied, so that valuable and important ideas simply disappear from the mainstream discourse. Such has been the fate of the concepts of surplus labour and commodity fetishism, which prove to be indispensable to clear thinking on an issue as serious as the future of pensions. The recovery of lost knowledge clearly requires that attention be paid to the history of ideas.

The second moral applies as much to Marxists as to neoclassical economists. Both often view the labour theory of value as essentially a set of propositions about equilibrium prices and the competitive rate of profit, propositions which are either profoundly correct or profoundly mistaken. Marx, and still more his socialist forerunners, had a much broader perspective in which the question of surplus labour loomed much larger than prices and profit rates. Even mainstream economists have occasionally stumbled upon it. Colin Clark, for example, calculated the ratio of surplus to necessary labour for Australia in 1942 in the course of formulating a plan for full mobilisation against an impending Japanese invasion. Of course Clark did not use the term, and as he was proposing the complete suppression of the use of money for the duration of the emergency his argument ignored the issue of value, inevitably so since it was not being applied to a commodity-producing economy. To put the same point slightly differently: it may be that the cover prices of Rupert Murdoch's Australian newspapers are determined by the operation of the law of value, in the sense that overriding competitive pressure forces them (at least tendentially) towards long-period 'natural prices' or 'prices of production'. This is possible, though it does seem rather unlikely. Whether it is true or not, it is certainly the case that News Corporation would make no profits at all unless, somewhere in the world, someone was performing a large amount of surplus labour. It is also true that this is not obvious, and indeed that it is systematically obscured by the misleading appearance of the equal exchange of labour power for wages. The transformation problem, then, is not the only game in town, and I doubt that it is the most interesting. Crucial questions of exploitation and ideological distortion are very largely independent of it.

The third moral brings us back to the problem of our ageing population. Neoliberal opponents of state pensions argue that they involve an inter-generational swindle which will benefit the baby-boomers at the expense of their children and grandchildren, while personal pensions paid by superannuation funds do not. The fallacy of this claim should by now be clear. If old people are to enjoy a decent standard of life, younger people will have to work harder than they would otherwise need to, irrespective of the way in which this inter-generational transfer is organised. The under-60s on Kin, Divi and Tax are in exactly the same position, however differently things may appear, and there is no case against state pensions which does not apply with equal force to private superannuation. Only if one were to take the pre-Keynesian position that saving drives investment, rather than investment driving saving, so that abstaining from consumption today necessarily increases the capital stock (and hence also the productivity of labour) tomorrow, would this conclusion need to be modified. Even then, the arguments apply equally to public saving, so that a suitably funded state pension scheme is in principle identical in macroeconomic terms to occupational superannuation. Privatisation of pensions will therefore do nothing to relieve the burden that we baby boomers are going to impose on the next couple of generations (though it may redistribute that burden in ethically obnoxious ways). A more liberal, age-targeted migration programme might well do so, but that raises a host of other questions.