

THE BOOM AND THE SLUMP

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Economics is something which interests us all, for everyone, except the jungle Dweller, depends on money to live and a certain measure of money to live well.

In this existential concern, the slump appears as a disaster, which will mean for many, unemployment and a very severe cut back in living standards.

The Trade cycle is a phenomenon which has been well known for two hundred years and more. There is a pulse, a rhythm to economic life. There was a slump in the 1930's. There has been something like a boom for the last fifty years. It appears as if we are entering the new millennium with a great slump arriving.

Boom and slump are emotive terms, the boom obviously good, the slump obviously bad. The term cycle is more neutral: in fact we find cycles in every aspect of life.

If one stated, instead of boom and slump, that for a variety of reasons there were times of high real capital formation and other times when, capital formation being complete, it just needed to be repaired and replaced, then one moves away from emotion and into the domain of scientific and historical fact.

A reason for high capital formation is that scientific technology allows better, more efficient modes of production.

The new technology means money is to be made in purchasing new equipment, acquiring new skills and making new products. So steam replaced sail, and air traffic has replaced ships to a good extent.

But after a while the possible improvements seem largely to have been implemented.

It is this, rather than terrorist attacks or business scandals, which require the adjustment a society needs to make to the fact that capital formation is not so much a feature of life as it used to be.

We tend to think that the reason there is low investment is that profits are low: there is little inducement. Analysis indicates

that the causation is the other way about – the reason profits are low is that investment is low. Where there is investment, money is injected into the economy with the hope of return of course, but with no guarantee. It is this money which, lumped together, makes the totality of profits which investors, old and new, benefit from.

The situation is, if there is high real investment there will be high profit *in toto*. If all that is going on is the repair and replacement of machinery, there will be low profit in general.

The stock exchange in the end comes to reflect this fact.

If one considers just one's own country, then, with a measure of understanding the time of low investment can be a time of higher living standards. Those who were making machine tools can go and work in Disneyland. One needs to keep purchasing power up and encourage prices to fall. There is a transition to be made, the shock of adjustment, the general acceptance of a lower rate of return, or, conversely looked at, the acceptance of lower prices, but there is no necessary reason for widespread hardship. The problem is to get prices so low that existing demand can bring about full employment.

The economy we belong to is increasingly global. This, I think, means we can no longer think of economic problems simply from a national horizon, as has long tended to be the case. Just as ideas do not respect national frontiers, so the process of making things and trading just criss-crosses everywhere. Our concern becomes global as we hear, for example, of famine developing in Africa, or a lack of medical resources and treatment, of children still going without education.

If we are inspired by conscience to recognize the economy as global, then we begin to see that what is needed is not a period of high consumption and low capital formation in the UK but rather a period of appropriate capital formation in the poor parts of the world. To achieve this you need civic security and the absence of war. The Horn of Africa has not been free of war since the early 1950's.

Investment may be not because of new discoveries and new techniques. It may be spreading well-known techniques to parts of the world where they are new and needed.

If the economy is in fact global, then one must suppose that if we increase global investment then global profit will increase equally. This would allow more small enterprise to flourish in the UK.

The theory of the trade cycle turns begins to shape a course for world wide human development. The theory was first posited by Fr. Bernard Lonergan in the 1940's, but has only been published recently.¹ Capitalism as we have known it over the last half century has not been a great success in spreading its benefits to the poorer world. Recent anti-capitalist and anti-global riots witness, albeit incoherently, to some sort of failure. The same witness was given in Pope Paul VI's encyclical *Populorum Progressio*. In that encyclical, the Pope called for a world fund for development. After reading Lonergan carefully, it occurs to one that the world fund for development is simply the credit creating power which belongs to the banking system. There is a responsibility here. The power to create credit can go in some futile boom, a housing boom, a stock exchange boom, or it can go to help a farmer purchase land or a business to reequip itself and expand. If one thinks globally – if one thinks with charity – then it matters not whether the farmer is in the UK or in Uganda or Taiwan. There is one physical world economy, and though it uses different currencies, there is one financial flow and circulation in operation, and in that movement, finance may be used creatively or futilely. It is important to assert morality for the banking system. I met a banker who said, “All a good banker has to think about is figures.”

I fear the above may seem to the reader very worldly, very unspiritual. The obvious answer is to say, “Grace builds on nature.” And we are exploring the nature of economy. If we manage to understand that nature and build it with policy we will make a much better world at the level of nature and so allow human beings to grow visibly in grace in Holy Church. That is so.

There is though another aspect to the relationship between grace and nature. Without grace, we do not endure living long in the darkness of not understanding. We fly to the quick solutions. There is a famine in Africa in development. The parish has had a generous second collection. The parish has acted, the matter is

finished. It is with God's help that we are enabled to stay with a question until light begins to dawn, constructive solutions emerge. It is one discomfort to know the question and not know the answers. It is another discomfort to know the answers and to have to try to convince people. In this discomfort those who are blessed with material security join the poor of the earth.

Notes

¹ B. Lonergan, *For a New Political Economy*, ed. Philip J. McShane, *Collected Works of Bernard Lonergan* 21 (Toronto: University of Toronto Press, 1998).