Arnold Kling's right: Just as Keynes pointed out [1]

Written by **Tim Worstall** [2] | Sunday 29 January 2012

Arnold Kling over at Econlib has been saying for years that there's more (or less if you prefer) to current economic woes than just a shortage of aggregate demand. We're going through a period of quite rapid economic change (the internet is only part of it, the container ship and thus globalisation is perhaps more important) and this leads to restructuring. And restructuring simply takes time as we all scratch our heads and try to work out what to build as our new model to replace the old [3].

> But the PSST story is focused on why we do not observe (b). The answer is that it takes time for entrepreneurs to figure out that there is a need for more health insurance claims processors, for the mortgage underwriters to seek and obtain retraining, etc.

The more change we've got the more pondering we've got to do and thus the longer the restructuring takes. Thus, quite weirdly, the better the future is going to be as a result of all the new wondrous things we can do the worse the present is as we ponder how to do what we can now do.

But here's Keynes writing in 1930 [4]:

> We are suffering just now from a bad attack of economic pessimism. It is common to hear people say that the epoch of enormous economic progress which characterised the nineteenth century is over; that the rapid improvement in the standard of life is now going to slow down --at any rate in Great Britain; that a decline in prosperity is more likely than an improvement in the decade which lies ahead of us.
> I believe that this is a wildly mistaken interpretation of what is happening to us. We are suffering, not from the rheumatics of old age, but from the growing-pains of over-rapid changes, from the painfulness of readjustment between one economic period and another. The increase of technical efficiency has been taking place faster than we can deal with the problem of labour absorption; the improvement in the standard of life has been a little too quick;

Now whether you think this is that Arnold is right because Keynes said it or that Keynes is right for a change because Arnold confirms it is up to you. But it is very much the same story, isn't it? Rapid change will, almost absurdly, lead to economic hard times as we consider how to best make use of these new possibilities.

And yes, I am certain that this is at least a partial explanation of what is going on at present. The policy takeaway from this being that simple stimulus, spending just to get us back to where we were, just won't work. For that entrenches the old way of doing things when the task is to devise the new ways that the new situation allows.

Source URL: http://www.adamsmith.org/blog/economics/arnold-klings-right-just-as-keynes-pointed-out

Links:

[1] http://www.adamsmith.org/blog/economics/arnold-klings-right-just-as-keynes-pointed-out
[2] http://www.adamsmith.org/taxonomy/term/5778
[3] http://econlog.econlib.org/archives/2012/01/psst_and_recove.html#
[4] http://www.econ.yale.edu/smith/econ116a/keynes1.pdf
[5] http://disqus.com/?ref_noscript
[6] http://disqus.com