

Politicalised Economy

THE GROWING INTERFERENCE of the government in the economic life of the country is likely to be accelerated now that the Labour Party is in an undisputed position of power, and a reminder of the consequences is ably outlined in a booklet published by Aims of Industry*. As public corporations acquire significant interests in private firms, the state-orientated sector of the economy will have a regressive influence on competitive investment, with serious effects on the economy and on democracy.

According to the author, no methods have been devised to measure effectively the performance of the state-manipulated sectors of the economy. The market criteria do not apply to the public sector, investment being influenced by general tax revenues, subsidies, protection, monopoly and political whim. This inevitably has an effect on the private sector. As taxation on disposable profits and incomes increases, "fringe expenditure" on company assets and on employees also increases. When this kind of expenditure is discouraged by taxation policies, the only possible outlets are those that receive sympathetic support from the government. This has led to increasing "partnership" arrangements between public bodies and individual firms and to the competitive courtship of government agencies by private firms.

In Gracchus's opinion, in order to deal profitably with nationalised partners, firms must learn the "do's and don'ts" of the politicalised economy. People known to be acceptable to the Government become worth acquiring as board members, consultants, advisers and employees. Moreover, the character of public sector employment is rapidly changing. Nearly a third of all graduates work in the public sector — some as political appointees chosen on account of their views.

"The Department of Economic Affairs," states Gracchus, "and other ministries, the National Prices and Incomes Board, the boards of new public sector companies, seem all set to become happy hunting grounds for those economists, solicitors, professional trade unionists and similar aspirants of the 'new class' who hold fashionable viewpoints . . . In theory the public runs the public sector. In practice it is run by individuals and groups of individuals just as the private sector is. The difference is that whereas the private sector is fragmented and its powers are limited by government, the public sector and the government tend to be one and the same thing. Individual members of the public are far weaker *vis-a-vis* this politico-economic giant than they are in their dealings with private employers or suppliers."

In conclusion, Gracchus points out that there is a trend for enterprises to rely on income that instead of arising out of efficiency, arises from ability to manipulate the economic environment by way of subsidies, protection from competition, government or municipal contracts or "make-work" schemes. In the ensuing power game the

labour-intensive industries have built-in advantages over capital-intensive ones. Thus in the politico-administrative field the backward industries have advantages over the advanced.

While of course Gracchus is right to express concern that private monopoly is now giving way to public monopoly, it must not be forgotten that the root cause of political-economic pressure arises from the monopoly characteristics of the ownership of natural resources. To replace one form of monopoly with another, or one privileged class by another, is no answer to the basic problem.

PROTECTION

(Adapted from the French of Bastiat)

A POOR FARMER of Pennsylvania raised, with great care and attention, a fine crop of wheat, and forgot, in the joy of his success, how many drops of sweat the precious grain had cost him.

"I will sell some," said he to his wife, "and with the proceeds I will buy carpet for our bare floors."

The honest countryman, arriving in Philadelphia, there met an American and an Englishman.

"Give me your wheat," said the American, "and I will give you seventy-five yards of carpet."

The Englishman said: "Give it to me and I will give you one hundred yards, for we Englishmen can make carpet cheaper than Americans, for our wool is not taxed."

But a Customs House Officer, standing by, said to the countryman: "My good fellow, make your exchange, if you choose, with the American, but my duty is to prevent you doing so with the Englishman."

"What!" exclaimed the countryman. "Do you wish me to take seventy-five yards of American carpet, when I can have one hundred yards from England?"

"Certainly. Do you not see that America would be the loser if you were to receive one hundred yards instead of seventy-five?"

"I can scarcely understand this," said the labourer.

"Nor can I explain it," said the Customs House Officer, "but there is no doubt of the fact, for Congressmen and editors all agree that a people is impoverished in proportion as it receives a large compensation for any given quantity of its produce."

Thus having been protected from the Englishman, the countryman was obliged to conclude his bargain with the American. Consequently his wife carpeted three rooms (had he sold to the Englishman, she could have carpeted four).

These good people are still puzzling themselves to discover how it can happen that people are ruined by receiving four instead of three, and why they are richer with seventy-five yards than with one hundred.

The next year the farmer voted for "Protection"—as usual. He wondered why he could not make ends meet as usual.

*The "New Class" by Gracchus. Price 1s.