CHAPTER X

THE REALITY OF ECONOMIC POLICY

1. The reader should not be deceived by the preceding chapters and believe that the formulae tell all about economic policy. Economic policy, like any real activity, has to reckon with many aspects originating from very different realms of life, and hence certainly not only economic view-points: institutional, juridical, technical in the widest sense of the word, and psychological (apart from that restricted psychology taken as the basis for usual economics). Of course, these other factors have been included in our models if they are of primordial importance. Otherwise the models would not have been realistic ones. But nevertheless a number of such factors have necessarily been neglected. We propose in this chapter to go into the implications of the existence of these other factors, if only in outline. It seems useful from the outset to make a distinction between *autonomous* problems of economic policy and the complications created by *negotiations* about economic policy.

2. When speaking about autonomous policy it seems useful again to make a distinction between the contents of this policy and its organisation. The *contents* of economic policy are influenced by a considerable number of non-economic factors. Some of these factors may be considered to co-operate *rightly*: they are necessary elements in a realistic policy. Other ones seem to intervene *wrongly* and should be eliminated if a correct tradition of economic policy is to be established.

Examples of institutional factors that *rightly* co-determine the shape of economic policy seem to be the following. A

sound policy has to satisfy certain *principles* set by or accepted by the majority of parliament, and to express some aspects of what the people consider to be the *basis of the nation's public life*. A number of such principles have been laid down in the constitution or in the laws: equality of all citizens in questions of jurisdiction generally, and to quote an economic example, in taxes or, to quote another example, the principle of the right to strike or the principle of an eight hour working-day. Some of them may be unwritten rules of *social decency*, or vaguer: principles such as some notion of *social equilibrium*.

An example of a purely *juridical* factor that will often be the determinant for certain acts of economic policy is the necessity to respect contracts or agreements, national as well as international.

Examples of *psychological* factors may be seen in the need for continuity as a basis for confidence that is so well expressed in the famous administrative respect for "the precedent". The whole complex of psychological factors known as "confidence" no doubt plays a considerable rôle in the shaping of many elements of economic policy that may be labelled as the *foregoing* of panics or upheaval.

Technical factors rightly influencing the final shape of measures of economic policy may be the *costs* of their realisation, the *delays* to be expected or the *number of subjects* to be affected. The cost factor may be a reason for not taking certain measures that otherwise seem quite sound; or it may be that parts of a possible government task are entrusted to private organisations because the latter are considered more efficient than government agencies. An example presents itself, if there is a choice between two measures of which one hits a large number of people and may therefore be costly, and the other affects few and therefore is less costly, as e.g. allocations or taxes (think of the sugar excise) with regard to commodities produced in few, but large establishments.

Other factors of a technical nature may influence economic policy which are of a *more doubtful nature*, but whose presence cannot be denied. *Lack of data* is one of them. It often means that rather arbitrary decisions have to be taken instead of decisions that are based on economic principles. Economies effected by the government are often for lack of better data distributed proportionally over a number of items; or intuitive methods are applied to estimate priority in this respect.

Uncertainty may be another factor: if there are several equivalent methods to reach a certain end, the choice has to be based on some arbitrary procedure. Uncertainty sometimes is removed by (*a*) choosing some average (say, if the exact level of a tax cannot be determined), or (*b*) waiting for some important decisive factor that is as yet unknown, or (*c*) the application of the rule of simplicity (e.g. taking an integer number for a price to be fixed by government if the relevant interval is only known approximately).

3. Non-economic factors influencing economic policy but *wrongly* doing so, are in the first place all elements that are just errors made by persones inside or outside the administration. But there are numerous other factors of this kind. Personal hobbies or aversions; animosities between various offices, directorates, ministries or countries; all of them happen to have their influence and sometimes even an influence on important matters.

Different forms of *rigidity as to norms* are another example. A particularly important case of this rigidity may, for instance, be seen in the application of standards such as those for building which e.g. may be too luxurious for the present time or which are based on antiquated views concerning solidity of structures.

Personal or institutional *inertia* and the tendency to maintain the existent are other frequent factors which often impede the execution of a rational policy.

The *aversion of the complex* seems to represent another factor: many officials not acquainted with modern developments of economic science dislike to accept somewhat more complicated reasonings or the results of calculations even if from the scientific point of view they are decidedly better than the rules of thumb often accepted before.

A further factor, no doubt considerably influencing practical decisions, is the *way of presentation* chosen by each of the advocates of competing counsels. As far as this presentation inflates or deflates the real contents of the alternative proposals, it is possible that it leads to a wrong decision.

4. *Negotiations* when necessary in the process of realisation of a certain economic policy, require in the formulation of such a policy separate elements that are only too well-known. The result to be obtained by negotiations certainly depends on the ability of the negotiators to range the arguments, to use new facts, the exploit unknown data, etc. Part of these factors may be considered undesirable in the long run as well as from a broader point of view that places itself above the parties. But for those involved in negotiations they are more or less data and that must by no means be neglected. An interesting supplementary factor that may be less inattractive to most observers is the human want even with the "toughest" negotiators, not always to obtain concessions, but also to grant some concessions from time to time, in order not to spoil the atmosphere of the negotiations.

Apart from these factors specific to negotiations most of the other factors described in the preceding sections are present. Not very much need to be added to make it clear which of these factors seem to be necessary and which unnecessary.

5. A few words may be added about the *organisation* of economic policy as distinct from its contents. This chiefly

influences its speed of reaction. Economic policy nowadays is nearly always — in totalitarian as well as in democratic countries — a question of team-work. Large numbers of experts are co-operating and the numbers of those affected and interested is usually large too. This raises the question of the efficiency of meetings. Efficiency evidently may be hampered by too large meetings or delegations, by various of the factors listed in section 3, and by such rules as the rule of unamity as a base for decision.

These scattered remarks may be helpful, it is hoped, to the reader in completing the picture of what economic policy really is. This may contribute, therefore, to the understanding of the real character and the requirements of a well-devised system of economic policy.