

The Political Problem of Adjustment

Gary Banks and Jan Tumlrir

DURING the 1970s, especially after the first oil shock, economic policy in industrial countries became preoccupied, and their mutual relations disturbed, by the emerging 'problem' of adjustment to imports.¹ In the face of rising protectionist sentiment, governments were encouraged to implement special adjustment policies. As described in our Thames Essay, *Economic Policy and the Adjustment Problem*,² these measures did little to promote adjustment and protectionism became more entrenched. This was recognised by the main inter-governmental reviews of the world economy in the early 1980s which placed emphasis on relying more on the adjustment process of the market.³

The gap between the international rhetoric of governments and the reality of their subsequent policy conduct has been everywhere attributed to 'political problems'. It has been readily accepted that adjustment to market forces is not politically realistic when economic conditions are 'bad' (high unemployment, over-valued exchange rates *et cetera*). Given that such adjustment is the condition for economic growth, this is a message of despair, a 'Catch 22' for economic policy. Yet little serious attention has been given to the nature of the political problem and how it might be alleviated. This article takes up those issues.

ECONOMIC POLICY AS INCOME REDISTRIBUTION

The main impediments to adjustment and growth have arisen through government efforts to help various producer groups.⁴ Such efforts cannot but make for bad policy. There is no way — scientific, rational or magic — of reconciling the 'needs' of different producers; that is to say, no way for

GARY BANKS is an Assistant Commissioner, Industries Assistance Commission, Canberra, Australia, and the late JAN TUMLIR was Director of Economic Research and Analysis, Secretariat of the General Agreement on Tariffs and Trade (GATT), Geneva (1967-85). This article is based on the concluding chapter of their Thames Essay, *Economic Policy and the Adjustment Problem* (London: Trade Policy Research Centre, 1986).

governments. Producers' competing claims on resources can be reconciled only by *consumers*, as Adam Smith recognised so long ago:

'Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to only so far as it may be necessary for promoting that of the consumer. The maxim is so perfectly self-evident that it would be absurd to attempt to prove it.'⁵

It is inevitable that policy measures which pay no heed to the consumer will end up harming society at large, irrespective of the transitory gains to special-interest groups.

Yet governments nearly always present public assistance to producer groups as legitimate policy promoting the interest of the nation as a whole. And the public has become accustomed to the idea.⁶ The purely *redistributive* nature of most economic policy is not generally understood. For example, the large literature which now exists on regulation makes it quite clear that most regulatory agencies were either established at the behest, or gradually came under the control, of the interest to be regulated, although being justified on a public-interest rationale. Labour-market policy largely consists of measures for fixing wages, or allowing unions to do so, in ways such that income is redistributed away from certain groups within the labour force (youths, those in disadvantaged regions).⁷ In the various forms of industrial policy ('rescue' operations, support for promising activities) and agricultural price and income policies, the redistributive intent is virtually unconcealed.

Foreign trade policy, too, is pure redistribution, although here again it is masked by the rhetoric of national interest. For example, since the mid-1970s, Western governments have gone to great lengths to convince their electorates that Japan is up to no good in her trade policies. While most of their accusations have no basis in fact,⁸ this tactic has permitted the governments concerned to justify costly discriminatory protection against Japanese goods as 'retaliatory' or 'countervailing' measures, taken in the public interest (although outside the relevant legal procedures established for that purpose).

Even the standard macro-economic policies, as pursued in recent years, have been substantially redistributive, not just in effect but also in intent. It would be very difficult to argue that the Great Inflation of the 1970s was just a purposeless accident, or that the budget deficits — continued government expenditure beyond the limits sanctioned by the electorate — persist for reasons other than inflexible distributive claims or entitlements.⁹

What is most objectionable about such policies, however, is not just their redistributive nature — it can be argued that redistributing income is a legitimate and even necessary function of the democratic political process¹⁰ — but that they are effected through measures which are both surreptitious and extremely costly to society as a whole. Their surreptitious nature consists both in being presented as

something else and, more importantly, in the lack of transparency surrounding them. The smaller part of this redistribution, it could be argued, takes place through public budgets; the bulk of it involves measures directed at controlling prices and quantities of goods and services. It is these measures that are the chief impediments to adjustment and growth.

It should be clear, therefore, that the 'problem of adjustment' as commonly presented by governments is a false one. There need be no *technical* difficulty for economic policy makers at all. A rational adjustment policy would proceed in two stages:

first, governments would discontinue the policies that are known to be impeding adjustment;

then they would wait a while, to see whether some additional (active) intervention may be needed.

After all, economic policy is merely experiment; and progress, as in science, depends on learning from failures. The fact that governments have instead persisted in adding further layers of redistributive interventions on top of the old ones confirms that the underlying problem is not technical but political.

POLITICAL MARKET

The 'asymmetries' in the political market-place which favour producer groups over consumers and taxpayers are well known.¹¹ The key to political influence lies in organisation. Organisation facilitates communication with political representatives, allows block-voting threats, mobilisation of campaign resources (funds, propaganda) *et cetera*. For these reasons, politicians will prefer to deal with organised groups and may even assist in their formation.¹² Nevertheless, there are considerable obstacles to organising a group for collective action, whether to obtain a benefit (subsidy) from government or to avoid a burden (tax), where that action will eventually benefit *all* the potential members of the group whether they sign up or not. This is the 'free rider' problem.¹³ It is most intractable for large, regionally-diffuse groups, such as consumers and taxpayers, and least so for small groups, such as producers, where communication is easier and the expected pay-off to individual members is substantial.

So it is inevitable that governments will be under pressure to make policy changes which redistribute income to producer groups at collective cost. This is a fact of political life. But it does not follow that pressure groups must inevitably get their own way. Whether the democratic political system will succumb to their demands — that is, whether there will be 'political failure' — is crucially dependent on the consequent political discussion.

Frank Knight, the distinguished American economist, outlined the steps necessary for an 'intelligent' (legitimate) political decision-making process.¹⁴ If a

policy is to have a reasonable chance of improving what is and what would be without state action:

- (a) it must first be decided what is most likely to happen in the natural course of events (that is, in the absence of additional interventions);
- (b) then it must be decided what interventions are feasible, given the instruments available to government;
- (c) after which, the most likely consequences of each must be assessed;
- (d) whereupon, an agreed ranking of the alternatives must be made, reflecting the value judgments of the political representatives; and,
- (e) finally, the values themselves (and their weight) must be scrutinised anew for each policy issue under discussion.

It is difficult to imagine that most of the government measures impeding adjustment could have withstood such rigorous political scrutiny. In a political forum where all interests are represented, proposals to 'reassign' income to particular groups, at collective cost, should have difficulty attracting majority support. This is because any reassignment of income will have adverse effects on other interest groups, in addition to those on the large mass of (unorganised) consumers and taxpayers. (For example, a proposal to restrict basic steel imports would normally be opposed by the motor vehicle, construction and other user industries, each of which would have political representation, being more important in certain electorates than the steel industry.)¹⁵

Interest groups are a necessary element of democracy. They are the soil from which political ideas sprout. But in the original conception, these ideas were to be refined by discussion between and among groups, with political *agreements* determining the form of their final implementation. Had there been a thorough discussion of the economic 'problem' of adjustment, the ultimate conclusions could not have been very different from those reached here, namely stop doing what is known to be wrong. So what went wrong? What made it possible for governments to act on the ideas and wishes of each group *before* these ideas could be refined and reconciled through a general discussion?

ADMINISTRATIVE DISCRETION

What has happened in many cases is that legislatures have passed laws in sufficiently vague terms that they can be agreed to be in the public interest. It has been left to the administration to take care of the 'details'. This has given the executive enormous discretionary power and led to the implementation of many measures on which political agreement would not have been possible.

The growth of bilateral export-restraint agreements involving the United States illustrates this perfectly. The two standard opening gambits for negotiating a 'voluntary' export restraint in that country are (i) a threat of import quotas or (ii) an allegation of subsidisation.

In the first case, when a group of legislators in the Congress introduces a bill mandating a discriminatory quota, and the Administration goes into action to 'avoid a greater evil', the whole process is an empty bluff. It is doubtful that such a restriction could attract majority support and, even if it did, the executive would be obliged to veto it because of the country's obligations under the General Agreement on Tariffs and Trade (GATT).

In the second case, the Administration depends on the exporting countries' desire to avoid a drawn-out, costly and uncertain subsidy proceeding. But the provision in the Trade Act of 1974, which effectively permits export restraint as an alternative to countervailing duties, is improper delegation because it is essentially uncontrollable and thus subject to abuse.

Both kinds of procedure achieve the following accommodation: through administrative action, small groups of legislators can satisfy narrow constituency interests without having to persuade a legislative majority that that action is in all their interests.

Elsewhere, the extent of administrative discretion in the reassignment of income is perhaps most apparent in the area of 'industrial policy'. For example, the United Kingdom's Industry Act of 1972 empowered the Government to grant subsidies to new ventures which in its opinion were 'viable', but unable to get adequate finance from private sources.¹⁶ The dangers were noted by some at the time.¹⁷ In Canada, the Regional Development Incentives Act authorises the Department of Regional Economic Expansion to subsidise investment projects where 'it is probable that the facility would [not] be established . . . without the provision of such an incentive'.¹⁸ Numerous other examples could be given.

In essence, the bureaucracy is being left in these cases to judge what is in the public interest. But the 'public interest' can only be evaluated through a political agreement; the bureaucracy is not appropriate for this task. What is more, bureaucracy has interests of its own, which it can best pursue by using its discretionary powers to support *private* interests.

Beginning with the observation that bureaucrats are human beings, it is natural to suppose that their behaviour will be at least partly motivated by self-interest and not, as welfare theory has implicitly assumed, by altruism alone.¹⁹ While the private entrepreneurs' self-interests are promoted by profit-seeking, however, those of the bureaucrat are necessarily confined to other goals: salary, security, prestige, power (or the illusion of it) *et cetera*. All of these are positively related to an administrative department's size and influence. If, as in many cases, the department was initially created to provide a communication link between government and some part of the community, a symbiotic relationship will naturally develop between that department and its 'client'. Sir Anthony Rawlinson and Sir Brian Hayes, as joint permanent secretaries of the Department of Trade and Industry in the United Kingdom, expressed it thus in 1984:

'One of the main functions of a department such as ours is to provide a channel of contact and, one hopes, of understanding between government and the business world. This is a two way activity. As we cultivate relations with the business world we hope they will cultivate relations with the government through the department. . . The first role of our sponsorship divisions is to get to know their industries really well and enable the industry to know whom they should approach whenever they have a problem of any kind that involves government.'²⁰

The outcome is that the bureaucracy tends to be captured by the special-interest pressure groups in the private sector. This is not to suggest that the public servants concerned are acting improperly; only that the 'public' whom they are serving is a rather narrow segment of the whole.

This means, first, that when the legislature leaves decisions bearing on income distribution to the administration, the perverse situation arises, in a democracy, whereby law is made in practice by minorities (an opposite 'tyranny' to that which concerned F.A. Hayek). Secondly, when political decision-makers wish to evaluate policy changes being demanded by pressure groups, the advice they receive from the bureaucracy will be biased.

The interest-group conception of bureaucracy also explains why national administrations welcome a state of politics in which every policy mistake becomes an untouchable accomplishment of a particular group, so that a 'correction' must take the ('second-best') form of getting around it by superimposing a new, bureaucracy-expanding, programme (such as adjustment assistance). In this way, a multi-directional, largely self-cancelling, but extremely costly system of transfers has emerged and redistribution appears to have become the main function of the state.²¹

'POLITICAL FAILURE': THE CONSTITUTIONAL APPROACH

The term 'political failure' is sometimes wrongly interpreted as implying a failure of politicians or bureaucrats. This is no more true than market failure could be held to imply a failure of economic agents. In both cases, failure results from the fact that adequate information is not, or cannot be, brought to bear on decisions. In the economic market, this arises either because property rights are not specified (to air or a stream) or where quasi-property rights (free entry into an industry) are not protected. In the political market, it is due to the absence of, or tolerated disregard for, rules and institutions for structuring and informing political decision-making.

This shows the essentially *constitutional* nature of 'political failure', constitutions being rules for the making of rules. Reforms are needed to ensure that collective decisions are made through an adequately informed political discussion.

The task is to establish procedural devices which could serve to minimise political failure in the same way that decentralisation — competition and private property rights — minimises market failure.

Revival of the 'Delegation Doctrine'

First, it is clearly important that the discussion takes place in a political forum to begin with, that substantive political decisions are not left to the bureaucracy. In a governmental system of separated powers, legislatures should dictate public policy only by majority vote. There is nothing radical about such a proposition. It is the substance of the ancient delegation doctrine in constitutional law, *delegata potestas non potest delegari* (a delegated power cannot be delegated),²² or in common-law countries the 'law of the agency'.

'The maxim *delegata potestas non potest delegari* is not one of the more technical "terms of the art" of the law; it is really a matter of plain common sense and common experience. If I ask a friend to exercise a power of attorney on my behalf, I do so because I have confidence in him; and he would frustrate my purpose if, without my authority, he appointed somebody else for me. On the other hand, I should not expect him to attend on every routine detail himself and I could not complain if he employed typists, secretaries, brokers, bankers and the like in the ordinary course of business for common transactions. This is the doctrine as applied to the commercial law of agency — in so far as the principle relies on the personal qualifications of the agent, duties cannot be delegated. . . .'²³

The function of the doctrine is precisely to ensure that the legislature does not evade its essential responsibility, which is to choose between the policy alternatives pressed upon it by the political process. Thus, in instructing the national administration to deal with a problem, it must provide proper standards for the implementation of policy measures. The ostensible function of these 'standards' is to provide guidance to the courts, but the requirement also ensures that the issue will be discussed thoroughly by the legislature and that the electorate will be educated by that discussion. The discussion required for a proper delegation of legislative power leads to a more comprehensive understanding of the consequences of pursuing political objectives and of the 'trade-offs' among them.

Although clearly constitutional in character, the reactivation of the delegation doctrine would require no constitutional amendments (nor even a formal constitution). The main prospect for reform is through the courts. Indeed, since the 1970s, cases have been multiplying in American and, to a lesser extent, in West European courts in which private parties complain of arbitrary and unreasonable exercise of the trade-regulatory powers delegated to national executives.²⁴ As they respond to these complaints, the courts will eventually have to question the mode of the delegation itself.

The United States Supreme Court, in its June 1983 decision on *US Immigration and Naturalisation Service v. Chadha*, has gone a long way to providing a basis for such questioning. The decision, striking down the device of legislative veto, implicitly although effectively reasserts the proper delegation doctrine in the United States. Legislative veto was actually exercised only seldom. Its main function appears to have been to disarm legislative opposition to bills delegating broad discretionary powers. The impact of the decision on the conduct of trade policy, and the international trade regime, can be suggested by a single example. The recent proliferation of protectionist measures reflects, or is rationalised by, governments' attempts to implement an 'industrial policy', however defined. In many industrial countries, considerable effort has been devoted to securing a legislative basis for such a policy. In the United States that effort has been squashed by the *Chadha* decision. It is inconceivable that a Congressional majority could be assembled for the necessary empowering and appropriation acts devoid of legislative-veto provisions.

A 'Transparency Institution'

A second procedural device for raising the quality of information bearing on political decisions has been attracting some attention recently.²⁵ It involves the establishment of an independent 'transparency institution' whose sole function would be to provide information to policy makers and the community about the economy-wide implications of government measures which reassign income to special-interest groups. This information is under-supplied at present not only because the political process does not demand it but also because the typically fragmented ('sponsorship') bureaucracies have neither the incentive nor the capability of supplying it.

To inform political discussion adequately, a transparency institution would need the following powers:

(a) to advise governments on the national welfare effects of all proposed public assistance/protection to all productive sectors before any decision can be taken;

(b) to publicise this advice, preferably at the same time that it goes to government; and

(c) to undertake a continuous systematic survey and economic appraisal of the existing stock of public assistance (border protection, subsidies, regulations *et cetera*), the details of which must also be publicised periodically.

The transparency institution should not have any executive or judicial power, its role being confined to improving the quality and availability of information. To perform this task effectively, it would need to be designed in such a way as to ensure its independence, impartiality and continuity.

In considering whether to establish such a body, governments might have misgivings about possible usurpation of their political role. But to the extent that the transparency institution improved the understanding of government and the electorate about the long-term, economy-wide effects of assistance to industries, it would increase the power of government to serve the national interest, not lessen it. Naturally, vested interests could be expected to resist the establishment of a transparency institution. In this case, however, their lobbying would be so obviously self-seeking and contrary to the public interest that its effectiveness would be undermined.

It should be made clear that this sort of institution differs in vital respects from the 'tariff boards' found in such countries as New Zealand, Canada and the United States. These bodies are mainly occupied with quasi-judicial questions, such as whether an industry has suffered 'injury' from imports, whether foreign competition is 'unfair' *et cetera*; they do not promote transparency in the broad sense. As J.M. Finger, of the World Bank, has shown, the charter and procedures of institutions such as the International Trade Commission in the United States are inherently biased in the producers' favour, effectively disenfranchising those (larger) sections of the community who bear the costs of protection.²⁶ Indeed, their main purpose seems to be to obfuscate and to relieve the legislature from the burden of making decisions, rather than to educate legislators and the community and to crystallise the issues on which decisions must be made. A more appropriate precedent for a transparency institution is the Industries Assistance Commission in Australia.²⁷

A Non-discrimination Trade Treaty

Analysis of the 'impediments' to adjustment and growth reveals the key role of border protection.²⁸ Without protection against imports, neither cartels (in product and labour markets) nor subsidies would pose such a problem. (If steel could be imported into the European Community without quantitative limitations, subsidy needs would soon exceed the capacity of national budgets.)

Protection at the present levels is possible mainly because it can be discriminatory. In those periods in the past in which the most-favoured-nation (MFN) commitment was by and large observed, levels of protection were stable or declining. The MFN principle, otherwise referred to as the principle of non-discrimination, mobilises the latent mercantilism, especially of the large countries, into a mutually countervailing pattern. A country wanting to raise the protection it was granting to an industry had to negotiate with others, offer a compensating reduction in another import barrier, or suffer their retaliation. In this way, the principle also mobilises the power of the large countries on behalf of the main interest of the small countries, which is that they should be treated equally. Non-discriminatory protection is also relatively transparent; that is to

say, its costs are more clearly visible. For these reasons, legislative insistence that national trade policy should be conducted on the basis of non-discrimination has, through historic precedent, provided the necessary guiding standard for, and a constraint on, the delegated discretionary powers needed by national executives for the conduct of commercial diplomacy.

The reinstatement of the MFN principle would represent a simple procedure for freezing and ultimately reducing the levels of protection. It would be sufficient if only a limited number of core countries, bearing the main (and, for practical purposes, all) responsibility for the international economic order, accepted the commitment. All members of the GATT are bound by it already; the trouble is that, like European Community law, the principle has been disregarded in the conduct of actual policy. This could happen because the GATT is not a real treaty which binds national legislatures and legislatures have delegated to their national administrations powers in trade policy which allow discrimination. If the MFN principle could be entrenched against legislative delegation, the whole GATT system would be strengthened as its own non-discrimination provisions became effectively enforceable.

There are only two ways of accomplishing such an entrenchment. One is by constitutional amendment. But this is clearly out of the question. The other is by *treaty*. It is hard to find an important reason which would make it unfeasible for, say, the seven governments which gather annually at the Economic Summit meetings to conclude a treaty among themselves stipulating that, as of a certain date, they will conduct their policy strictly on the basis of unconditional MFN treatment of their trading partners. No great statesmanship is needed. Any politician of average ability should be able to make it clear to his people that in the principle of non-discrimination, national interest and international responsibility perfectly coincide. Or, if this may seem too exacting a view of what to expect from our statesmen and politicians, let us put it another way. If the governments of the major Western countries cannot agree on the desirability of non-discrimination in international economic relations, there is not much more on which they could reasonably hope to be able to agree.

1. The views expressed in this article are the authors' responsibility and in no respect implicate any other individual or organisation. The article, and the Thames Essay on which it is based, were submitted for publication before Gary Banks was appointed to the Industries Assistance Commission.

2. Gary Banks and Jan Tumlir, *Economic Policy and the Adjustment Problem*, Thames Essay No. 45 (London: Trade Policy Research Centre, 1986).

3. For example, in 1981 this emphasis could be found in the *Annual Report* of the Bank for International Settlements, in the *World Economic Outlook* of the International Monetary Fund, in the July number of the *OECD Observer* and in *International Trade 1980-81* from the Secretariat of the General Agreement on Tariffs and Trade (GATT).

At the Economic Summit meeting held in Ottawa in July 1981, the heads of government representing Canada, France, the Federal Republic of Germany, Italy, Japan, the United Kingdom

and the United States made a point, in their conclusions, of reasserting the reliance of policy on the market process. 'We must accept the role of the market in our economies,' their *communiqué* said. 'We must not let the transitional measures that may be needed to ease change become permanent forms of protection and subsidy.'

4. See Banks and Tumlin, *op. cit.*, ch. 5.

5. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, first published in 1776 (Indianapolis: Liberty Press, 1981) p. 660.

6. This is far removed from John Stuart Mill's conception of democracy as a continuing course of adult education in the facts of political life.

7. For example, minimum wages are demanded by labour unions and justified by governments as a means of preventing the exploitation of workers, especially youths. But minimum-wage requirements in practice prevent low-skilled and less-experienced job-seekers (youths) from being offered employment, thus preserving the high wages of those already in employment. 'Acceptable' unemployment benefits are then demanded by unions to make this inequitable situation more tolerable to the losers. On the 'special interest' rationale for various labour-market policies, see Dan C. Heldman, James T. Bennett and Manuel H. Johnson, *Deregulating Labor Relations* (Dallas, Texas: Fisher Institute, 1981).

8. See Gary R. Saxonhouse, 'What's All This about "Industrial Targeting" in Japan?', *The World Economy*, September 1983, and 'The Micro- and Macro-economics of Foreign Sales to Japan', in William R. Cline (ed.), *Trade Policy in the 1980s* (Washington: Institute for International Economics, 1983); Philip H. Trezise, 'Industrial Policy is Not the Major Reason for Japan's Success', *The Brookings Review*, Washington, Spring 1983; Radha Sinha, 'Japan's Concessions Towards Trade Fairness: Mistaken Western Views', *Intereconomics*, Hamburg, September-October 1982; Banks, 'The Japanese Trade Threat: Myths and Realities', mimeograph, Trade Policy Research Centre, London, 1982; James Y. Bourlet, *Opinion, Economics and the EEC: Half Truths for Britain and Japan* (London: Open Seas Forum, 1984); and *Report of the Japan-United States Economic Relations Group*, Prepared for the President of the United States and the Prime Minister of Japan (Washington: Japan-United States Economic Relations Group, 1981).

9. Professor Charles Kindleberger has put it this way: 'When all groups demand 110 per cent of the national income, and government is unable to resist them, 10 per cent inflation is inevitable.' Charles P. Kindleberger, 'The Aging Economy', *Weltwirtschaftliches Archiv*, Kiel, Vol. 114, No. 3, 1978, p. 419.

10. Dan Usher, *The Economic Prerequisite to Democracy* (Oxford: Basil Blackwell, 1981).

11. The seminal analyses are Anthony Downs, *An Economic Theory of Democracy* (New York: Harper & Row, 1957), and Mancur Olson, *The Logic of Collective Action* (New Haven: Yale University Press, 1965).

12. Peter Aranson, 'Can Democratic Societies Reform Themselves?', in *For a Free Society in the Coming Decade* (Berlin: Mount Pelerin Society, 1982).

13. Olson, *op. cit.*

14. Frank Knight, *Intelligence and Democratic Action* (Cambridge, Massachusetts: Harvard University Press, 1960).

15. Such opposition has been weakened in the past by the expectation that compensatory protection could be obtained.

16. See 'Government Support for Industry: Guide to Schemes of Selective Financial Assistance', *Trade and Industry*, London, 19 January 1979.

17. See Geoffrey Denton and Seamus O'Cleireacain, *Subsidy Issues in International Commerce*, Thames Essay No. 5 (London: Trade Policy Research Centre, 1972), especially the Preface where the authors wrote:

'What is alarming about the Industry Act 1972 is the absence from its provisions of any meaningful criteria for granting assistance [to particular industries]. Nor are there laid down any conditions under which government assistance should be granted. It is not enough to depend on the usual checks and balances of the Whitehall system of government to ensure that public resources are not squandered on economically unsound or inefficiently managed enterprises. Notwithstanding the White Paper and a number of ministerial statements on the subject, little

effort can seriously be said to have been made yet to develop a coherent policy for assisting regions, firms and workers to adjust to changing economic circumstances.

'The absence of publicly known and clearly enunciated criteria and conditions for government assistance amounts to an open invitation to firms in competitive difficulty to resort to political pressure for subsidy support or special protection. Any outside advice on government intervention in industry (and trade) should be representative of the public interest in the broadest sense, including consumer interests and the interests of competitively strong industries, besides independent economic opinion. It is ironic, and even disturbing, that while the Industry Act was passing through Parliament both the Expenditure Committee and the Public Accounts Committee in the House of Commons were actually preparing and publishing reports that expressed grave disquiet over the way in which interventions in industry under previous governments have been managed.'

In this last connection, see *Public Money in the Private Sector*, Sixth Report of the Expenditure Committee (London: Her Majesty's Stationery Office, 1972); and *Third Report of the Committee of Public Accounts: Session 1971-72* (London: Her Majesty's Stationery Office, 1972).

18. Usher, *op. cit.*, p. 134.

19. 'Government may not have acted, in Meade-Tinbergen fashion, in the general interest — all wise and all just.' See Kindleberger, *Government and International Trade*, Princeton Essays in International Finance No. 129 (Princeton: Princeton University, 1978) p. 8.

20. 'Using a Voice in Whitehall', *British Business*, London, 21 September 1984, p. 86.

21. See Gordon Tullock, *Economics of Income Redistribution* (Amsterdam: Kluwer-Nijhoff, 1983).

22. See Aranson, *loc. cit.*, and the quotation from John Locke therein (p. 26).

23. Sir Carleton Allen, *Law and Orders*, 2nd edition (London: Stephens & Sons, 1956) p. 208.

24. For example, in the United States, the Administration's 'country-of-origin' rules for textile and clothing imports were challenged by American importers and retailers at the Court of International Trade in New York on 30 August 1984: 'The suit accuses the Reagan Administration of violating the Multi-fibre Arrangement. . . . The suit also charges that, domestically, the new rules "violate required administrative procedures" and are "arbitrary, capricious, an abuse of discretion and otherwise contrary to law".' See *Far Eastern Economic Review*, Hong Kong, 13 September 1984, p. 73.

25. In this connection, see *Transparency for Positive Adjustment* (Paris: OECD Secretariat, 1982); Patrick Messerlin, 'The Political Economy of Protection: the Bureaucratic Case', *Weltwirtschaftliches Archiv*, Vol. 117, No. 3, 1981; and Hugh Corbet, 'Public Scrutiny of Protection: Trade Policy and the Investigative Branch of Government', in *International Trade and the Consumer* (Paris: OECD Secretariat, 1986).

This section draws on Banks, 'Vested Interests, Domestic Transparency and International Trade Policy', *Intereconomics*, May-June 1984.

26. J.M. Finger, 'Incorporating the Gains from Trade into Policy', *The World Economy*, December 1982. See also Finger, Keith H. Hall and Douglas R. Nelson, 'The Political Economy of Administered Protection', *American Economic Review*, June 1982.

27. On the performance of the Industries Assistance Commission, see *Transparency for Positive Adjustment*, *op. cit.*, and Corbet, 'Public Scrutiny of the Costs and Benefits of Public Assistance to Industries', *Australian Outlook*, Canberra, April 1985.

28. Banks and Tumlr, *op. cit.*, ch. 5.



'The bounty to the white-herring fishery is a tonnage bounty; and is proportional to the burden of the ship, not to her diligence or success in the fishery; and it has, I am afraid, been too common for vessels to fit out for the sole purpose of catching, not the fish, but the bounty'

— Adam Smith, *The Wealth of Nations* (1776)