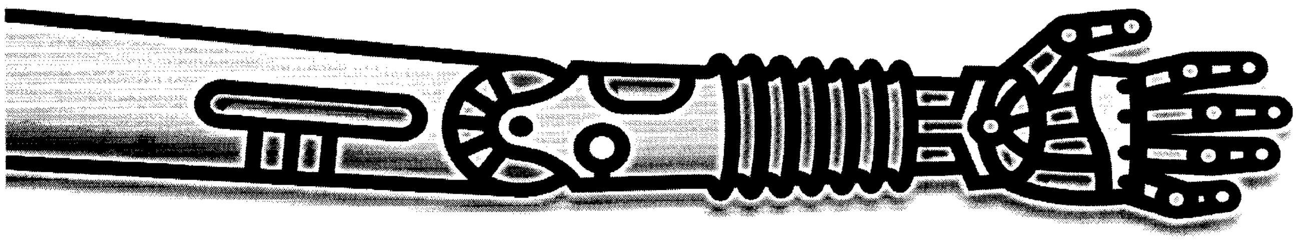

The grabbing hand

Most economists advocate the helping-hand model of government. Some prefer the invisible hand. A new book offers what you might call-were it not for the term's tragi-comic associations-a third way

ECONOMICS FOCUS

MUCH the biggest defect in economics as it is commonly practised is what it assumes about government. Mainstream economics has a detailed and elaborate (if not always entirely convincing) theory about why consumers, workers and firms do what they do. Its thinking about what animates the other main actor in economic life--the overnment-is in contrast laughably thin.

People often complain that it is simplistic for economics to assume that individuals are rational and self-interested. Of course this is a simplification, but it is an enlightening one, and not flatly contradicted in the real world. The corresponding assumption about government-that the state aims to maximise social welfare-is contradicted by the real world about as flatly as you could wish.

A disinterested observer could describe only a small part of what governments do as even an attempt to improve overall welfare. Judging by their largest interventions (taxes and spending), governments are mainly concerned with redistribution: reducing one group's welfare so as to improve another's (at some net cost overall). As Andrei Shleifer of Harvard University and Robert Vishny of the University of Chicago insist in a new book, "The Grabbing Hand", the assumption behind most economists' thinking about the role of the state is not even simplistic; it is plain wrong.

There is no comparably elaborated body of thought based on the idea that governments are, like individuals, rational and self-interested-in other words, that they are chiefly concerned with winning power, exercising power and hanging on to power. Some great minds (James Buchanan, Gordon Tullock and the late Mancur Olsen, to name three) have applied themselves to public-choice theory, as the branch of the subject devoted to this insight is known, but, so far as mainstream thinking is concerned, to disappointingly little effect.

Why is this? There is (of course) a public-choice explanation: neither producers nor consumers of economics (economists and politicians, respectively) have much interest in seeing such truths exposed. But another reason for the limited influence of public-choice theory is that it has often made itself seem irrelevant. The public-choice literature has taken such a cynical view of politics that it regards the state as beyond redemption. Its prescriptions often boil down to the demand that governments withdraw from almost every aspect of economic life. As a result, the insights of public-choice theory have been too little applied to improving government, as opposed to demanding that it be largely abolished.

Devilish details

Messrs Shleifer and Vishny are trying to put that right. They believe their "grabbing hand" model is a distinctive alternative both to the "helping hand" (market-failure correcting) model of mainstream thinking and to the invisible-hand paradigm of the public-choice school. It is certainly closer to the second than to the first. But what divides it from the invisible-hand approach is its prescriptive content-its emphasis on tilting the balance of political costs and benefits in order to bring public and private interests into closer alignment, leading, they hope, to better (but not always less) government.

Consider a specific example: privatisation. How do the three approaches differ in their thinking? Helping-hand economists are not much interested. Ownership alone matters little, they say: what counts is choosing the right managers and giving them the appropriate incentives. Also, privatisation is bad if it creates a monopoly. Put these together and the prescription is "be cautious", or even "don't bother-focus on what matters".

The invisible-hand approach says that, at least in countries where private markets are established, the government has no business owning any enterprise. The government should simply get out: privatise, and let the market do the rest.

Messrs Shleifer and Vishny agree that ownership matters, that it is no accident that state-owned enterprises are nearly always badly run, and that privatisation is a good thing. But they are interested in details that the invisible-hand people often find too disgusting to contemplate. How did the firm come to be nationalised in the first place? Whose private interests does public ownership serve? How, as a matter of strategy, are these interests to be disenfranchised? Most important, how can privatisation be organised in such a way that, first, it becomes politically possible and, second, the new pattern of private interests supports rather than undermines the public interest?

Having set out this agenda, the authors gather a series of papers published over the past few years to show what kind of results one can expect. The range of material is impressive: the chapters deal with the growth of European cities before the industrial revolution, corruption in post-Soviet Russia, privatisation in Eastern Europe, local government in the United States, and more. The authors keep technical apparatus to a minimum. By any standards, let alone the debased standard of most modern economics, the essays are lucid and literate.

Grabbing-hand economics is at best a work in progress-a work barely begun, in fact-rather than an established school of thinking. And it might have been more accurate (though duller) to call it applied public-choice economics, rather than to come down with a touch of third-way syndrome (not this, not that, but something quite new and wonderful). No matter. Good luck to Messrs Shleifer and Vishny. If they are to make a perceptible dent in the reflex statism of orthodox economics, they will need it.

"The Grabbing Hand: Government Pathologies and their Cures" is published in Britain and America by Harvard University Press.