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The Hyperthyroid Economy

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Persistent unemployment, increasing poverty, intensifying stresses in working life all reflect a pathological condition in our economic thought and practice. Its primary symptom is acute obsession with competition.

Free market economists adore competition and ascribe to it magical powers. Their writings gush with enthusiasm for intense or even ferocious competition. Even the more sober devotees of the cult are convinced that competition ought always and everywhere to be as keen as possible. Not only do they abhor any attempt to restrain the tussle where it might be painfully intense; they also yearn for competitive behaviour in situations where it does not occur naturally, such as the supply of electricity or gas.

They conceive the free market as an economic and social system in which all of us are expected, and if necessary compelled, to compete against each other to the utmost. Theirs is a universal panacea, a golden rule to be applied blindly to every situation. The decline to enquire whether, in any particular case, the practical effects of hypercompetitive behaviour are good for those who work in business or the professions; or for those who buy their products or services; or for society in general.

Free market theorists, and the politicians who fall under their influence, see any restraint upon or lack of competition as a thrombosis in the economy's cardiovascular system. They insist upon the prompt and aggressive treatment that such a condition demands. They rebuff any criticism of their approach by citing the dread example of the Communist world, where the suppression of free markets brought industrial ischaemia and commercial infarction.

Yet a very different view of competition is possible; one that fully recognises its value, while also perceiving its destructive potential when present in excess. If we compare the role of competition in the economy with the role of the thyroid hormones in the human body, we find remarkable parallels.

For just as the thyroid hormones regulate the body's growth and its entire complex of metabolic processes, so the intensity of competition in the economy influences the pace of development and the efficiency of business. The hypothyroid child is at risk of dwarfism and cretinism; the hypothyroid adult exhibits lethargy, hypothermia, constipation and obesity.

Compare these symptoms with the economic performance of the Communist states, where for many years competition was outlawed. Those countries emerged from the Marxist era with their industries and commerce stunted. Lethargy prevailed in the workplace, where the prevailing sentiment was *we pretend to work, they pretend to pay us*. The business climate was chilly. Industry was torpid in its response to consumer demand. The system was choked with stocks of unwanted or unusable products. Payrolls were overweight.

The analogy is clear between the body's metabolism and the normal processes of the economy, in which labour and materials are transformed into useful goods and services. Just as shortage of the thyroid hormones can impede the metabolism, so lack of competition can hamstring the economy. Just as thyroid deficiency stunts the development of the growing child, so the uncompetitive economy is unlikely to make much progress. Before the collapse of Communism, visitors to eastern Europe felt as though they had gone back in time 50 years.

So we need have no quarrel with those who insist that competition is essential for a healthy economy, as the thyroid hormones are vital for the growth and survival of the body. Yet those hormones are as dangerous in excess as in deficiency. The hyperthyroid patient suffers a range of potentially fatal symptoms which, as clearly as those of thyroid deficiency, have their counterparts in the economy.

With overaccelerated metabolism we may compare the fretful pace of change in our intensely competitive society. Price wars tend to make established business activities unremunerative, so every company is forced to innovate as fast as possible to preserve a profitable edge over its rivals. There results a frenzy of leap-frogging mutations, most of which offer little real benefit to anyone. However, that does not dismay the free market zealots, for whom *progress is movement for movement's sake*,¹ to quote the economist Friedrich von Hayek. He was Margaret Thatcher's favorite guru, though he held fast to the view expressed in his 1960 essay *Why I am not a Conservative*.²

The extreme emotional swings seen in hyperthyroid patients answer to the abrupt reversals of sentiment on our volatile financial markets. One day they are euphoric, the next plunged in neurotic gloom. Tachycardia [over-rapid heartbeat] and hyperactivity, those hallmarks of thyroid excess, too often affect overcompetitive executives. Weight loss may be likened to the fading away of industries rendered unviable by excessive competition. Diarrhoea recalls the liquidation of assets as loss-making concerns are forced into bankruptcy.

In the 1970s, economists rightly diagnosed inadequate competition in many Western economies. Their therapy, however, entails injecting as much competition as possible into every branch of industry, commerce, professional practice and public service. It is like treating a hypothyroid patient with carelessly excessive doses of thyroxine. Physicians are well aware of the grave danger of overcorrection in the treatment of hormonal and metabolic imbalances; economists seem never to have heard of this risk.

There is another point of which they seem totally unaware. The conversion of thyroxine into the more active hormone tri-iodothyronine (T3) occurs at widely varying rates in the various tissues and organs, implying that while some parts of the body need an abundant supply of T3, others require only a little. This fact too has its counterpart in economics. For while intense competition may be desirable in the development of microprocessors or of antivirals, it does not follow that this is the best route to the effective provision of public services, including health care.

We cannot heal the ills of an uncompetitive economy simply by a headlong dash to the opposite extreme. The task is more subtle, akin to that of achieving a healthy balance in the endocrine system.

¹ Friedrich von Hayek, *The Constitution of Liberty* (Routledge & Kegan Paul, London 1960), chapter 3, page 41.

² This essay is a postscript to the book quoted above