

Too Much Government?

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Determining the proper size and scope for a modern government is one of the major intellectual and personal challenges of our time. Many years of nationalizing problems has left as a residue a greater problem: How can individual freedom, privacy, responsibility and initiative be maintained when government is large and regulation or prohibition restrict choices?

One view tells us that freedom and regulation are incompatible. Even if each of the services provided by government and each of the tasks performed by modern governments is the result of voluntary choice, the size of government gives government power over individuals and non-governmental institutions that threatens personal freedom. At the other extreme is the view that in a modern, industrial state the scope for governmental action increases. The rights of individuals must be protected. Private actions have effects on individuals or groups that are not parties to the decisions affecting them. Government is the proper arbiter and policeman because it is the agency individuals choose expressly for the purpose.

These ideas are often presented as moral issues that arise from the conflict between public responsibility and private decisions. There is, nevertheless, an intellectual core -- the proper division of responsibility between governments and the individuals governed. One should not overlook the power of the moral appeal in gaining acceptance for the intellectual position that is often hidden in the rhetoric of social justice. Neither

should one overlook the intellectual issues hidden in the language of social morality.

There are positive and normative questions to be answered in deciding on the proper role for government and the proper role for citizens. The two are hard to keep separate, and I address both. Mainly, I discuss the positive issues of why the government has grown and why it continues to grow.

The Size of Government

Is there now too much government or too little? The normative question has an easy answer but alas not a single answer. To American Libertarians and to nineteenth century liberals, the answer is yes, there is too much. Jefferson summarized the position in a single phrase: That government is best which governs least. To twentieth century liberals and most socialists, the answer seems equally clear, but is opposite. Government, they believe, should have the power and responsibility to impose standards, to regulate, to redistribute, in the interest of some notion of social justice or equity.

I have no difficulty choosing my own position. I am persuaded now, as I have not always been, that Lord Acton's pithy dictum is correct. Power has a corrupting influence. Beyond a point, passed long ago in all but the most primitive societies, men have had more to fear from the power of the state than from its absence. The power of great corporations, or unions, is large and may be exercised in arbitrary, capricious, or even rapacious ways, but where is the corporate tyrant or labor boss who ranks with Mao, Stalin, or Hitler in butchery, savagery, or destruction? The great tyrannies of history are, I believe, overwhelmingly acts of governments against the citizenry of their own or other countries.

There are, of course, exceptions. The Magna Carta, the Bill of Rights, the Civil Rights Acts of the 1960's, restrict the power of the state or the sovereign, and protect individuals or minority groups. These acts show no tendency to spread; the power of the state shows no tendency to decline. Most recently, under the guise of protecting the rights of particular groups, selected minorities and women, the government has acquired vast new powers over relative incomes and opportunities, powers that are often exercised by failing to make clear the standards by which compliance is judged or the punishment to be meted out for violations.

This line of argument leads to my personal conclusion. The overwhelming evidence from our century is that much of mankind does not hold the same opinion. The state has grown and is growing in power, size, and control of its citizens.

Why is the answer that seems so clear to me so murky for many others? Why has the state grown? Why does it continue to grow?

Surely it is not an answer to say that the government has been a rousing success at providing services that have been under its jurisdiction in most countries for decades, or even for centuries. Police, criminal justice, education, courts, postal delivery, none of these is held today as an example of outstanding performance. Those activities in which the government more recently has directed its attention, and our resources, offer no reason for public confidence that leads to growth of government. The welfare system is generally judged a failure by all but the most partisan social worker. The Social Security system has paid out or promised benefits far in excess of its expected revenues. The special programs of the

Great Society have been absorbed by the agencies they once threatened, and the directors now devote their energies to maintaining their budgets, their personnel, and the monopoly positions they created. The independent regulatory agencies, having successfully guided the railroads into bankruptcy, the world into the most widespread peacetime inflation in recorded history, and the natural gas industry into a badly regulated shortage, have now given their attention to the consumer, whose interests have heretofore been insufficiently protected, and therefore have been neglected, to such an extent that he has available a wider range of choice than at any time in the history of the world.

The record of government as a service agency is not entirely a record of failure. Taxes seem to be collected effectively and perhaps even efficiently in many countries. Once you are enrolled in the Social Security System, checks are received as regularly as the postal system permits. Nor are these the only services that the government performs well. Both Congress and the Executive distribute selected information about themselves and their programs to a wide audience promptly, with technical efficiency, and at times with style. And to these services we must add other services that government performs relatively well, or which, in the modern world, we cannot but accept as collective tasks. It would defeat my present purpose to reduce the discussion, to the question, Is anarchy a stable solution to the problem of organizing societies? Defense, foreign affairs, police, courts, currency -- it is not my intention to discuss whether some or all of these functions are proper functions of the state. To do so misdirects

attention to the first principles underlying the organization of states and governments. By accepting some tasks as governmental, we agree that the optimum size of government is not zero. Perhaps we can take a further step and agree with Jefferson that the best government governs least. How small is that?

There is, I believe, an additional reason to avoid discussion of anarchy as a solution to the problem of social organization. A recent, remarkable book by David Nozick reconsiders the question of the optimal size of government. Nozick argues for what he calls the minimal state. He shows that society meeting criteria that are similar in many respects to the criteria leading to an efficient allocation of economic resources, or scarce resources, also leads to the minimal state. The minimal state is not anarchic.

Both arguments -- from economics and Nozick's argument from political theory -- start with the existing distribution of wealth and income. Neither economic theory nor Nozick's political theory examines the consequences for the distribution of income, of the optimal set of social arrangements -- the efficient allocation of resources in one case and the minimal state in the other. The failure to consider distribution is not an oversight. Nozick is explicit on this point and so is economic theory. That the failure is not an oversight does not make it unimportant.

I believe that the question of optimal size for the state cannot be addressed without addressing distributive questions. Who gets the income, wealth, status and power? How does he get them, and how does he keep them?

The position, sometimes called contractarian, treats the state as a set of voluntary arrangements based on contracts between consenting individuals. No such state exists. Individuals do not choose between a state of nature and some set of restrictive arrangements. Choice is limited now to sets of arrangements differing in the quantity and type of restrictions and in the extent of enforcement.

Eight years ago on a trip to Greece, Hungary and Yugoslavia, I pondered the power of the state that was so obvious in each of those countries. There were differences. To a professor or a research scientist, the right to speak or write on matters within his competence seemed most important. But, far more important to the scientist and the ordinary citizen alike, is the right to leave, and close behind is the right to take possessions and wealth with you when you go. This simple index tells us much about the degree of despotism and the choices men make. In the nineteenth century, as in the twentieth century, the dominant movement is from states with more power to states with less power. East Germans, Chinese, Hungarians, Vietnamese, Cambodians, Jews, Cubans -- the migrations of these diverse peoples tell us that the choice of freedom over despotism is not restricted to a single social class or to a small subset of mankind. The same index also suggests that there are differences in the degree of despotism. Cuba allowed the refugees to leave; East Germany built the wall to keep them in. Hitler and Stalin chose assassination over exit visas. Brezhnev grants exit visas.

Not everyone leaves; not even a majority leaves. Costs of leaving are important, and these costs are much greater when leaving requires escape

or defection, or requires that property, possessions, and market opportunities be left behind. But some find the regimes tolerable, if not attractive, and there is to my knowledge very little evidence of mass dissatisfaction with the existing distribution of power between the states and the citizens. There is at most evidence that many individuals living under despotism believe that power is abused, badly used, misdirected, and held by cynical, self-serving bureaucrats. The uprisings we have seen against these regimes in this century, in Hungary, Czechoslovakia, East Germany, and Poland, have not been directed at the restoration of the market system, laissez-faire capitalism, or the establishment of a minimal state. They are, if one can generalize, revolutions directed at the lack of success in achieving material progress, and the differences between promises and performances.

The relation between size and the index of despotism I have used is not one to one. Despotic governments may offer few services and absorb few resources. In the past, the governments of free societies have controlled, directed or allocated a relatively small share of the resources except in wartime. Many of the issues about the size of government lead inevitably to the question: Does increased centralization of control over resources bring an end to freedom?

In his recent book called An Enquiry into the Human Condition, Robert Heilbroner discussed one side of this question. At one time, he tells us, he looked forward to a future for mankind that seemed attractive. Democratic socialism, somehow defined to emphasize both terms, was his answer. Men could be led or persuaded to choose what seems good to him. If men want

what is right, there is no reason for coercion and no problem of choosing between ends and the means used to achieve them.

Now, looking forward, Heilbroner seems convinced that democratic socialism remains the answer, but not the probable outcome. Governments have not been responsive to his view of what is good. Despotism, hopefully a benevolent despotism, he now believes, is the future prospect for much of mankind. He finds the solution unattractive, but he finds no other likely.

Heilbroner's Enquiry summarizes a currently fashionable intellectual position. I agree neither with the attractiveness of what he regards as desirable nor with the reasons he gives for believing that the destiny he describes is inevitable.

The attraction of the book is the way in which the issues are posed. On one side, there is democratic socialism. On the other, there is despotism. In four sentences, on a single page, capitalism is mentioned and dismissed as an alternative solution to the problem of social organization.

The rejection of capitalism, in principle, does not imply rejection of markets and the market system as a means of allocating resources. Socialism can, in principle, be non-coercive. A generation ago, Schumpeter taught us that it was not an accident that freedom and capitalism rose together, and Hayek warned that governmental planning and directing of economic activity was inconsistent with freedom and was the ally of despotism.

For years, I have tried, unsuccessfully to answer the question: Why do market economies choose coercive solutions to problems when more efficient, non-coercive solutions are available? Several generations of economists

have shown that it is more efficient to solve the problem of pollution by using taxes and subsidies than by using orders and regulations. Nowhere is this answer accepted. In almost every country we call free, the state intervenes in the markets for housing, food, and health care or replaces these markets. Redistribution of income seems to have far less political appeal than redistribution of benefits in kind, such as food stamps, health care, and subsidized housing. Economists can show, and have shown, countless times that direct transfers and money income are preferable. Why are our conclusions rejected and the opposite conclusions accepted much, if not most of the time? If we could answer these questions, we would know a great deal more about why the state has grown, and why it continues to grow in societies where people have other alternatives available.

Tastes differ. No doubt that is part of the answer. Some people prefer to trade off some efficiency and freedom to achieve their notion of equity. But, why do they regard the state as an agency that produces equity? There are so many counter examples we cannot hope to explain these decisions as the result of a rational choice of the state as guardian of equity.

We have a considerable body of evidence, from many countries, that capitalism and free market solutions are rarely, if ever, as popular as parties or programs that promise redistribution and more often deliver despotism. Yet, the popularity of the market system does not grow; it declines. The size of the state grows. Taxes and subsidies are not widely used to solve problems. Direct intervention, regulation and control are used instead.

The problem is with the word redistribution. The word often connotes a shift in income from the rich to the poor. That is surely one type of redistribution. It is by no means the only type. The middle class majority may redistribute income from the rich and the poor to themselves. Voters who reelect their legislator more frequently permit him to gain seniority and benefit, relatively, from federal or state spending in their district. The old may tax the young, or both may tax the middleaged. Redistribution has many different forms. I use the term to describe this more general process.

Once redistribution is used in the more general sense, there is less difficulty in explaining why it is popular. The political process is a means of increasing wealth and power. There is no reason to explain votes for redistribution as different phenomena. What is required is an explanation of why some people allocate more effort to gaining wealth through the political process and others direct their efforts toward the market process. The explanation is much the same as the explanation of why some people are farmers and others are teachers. Prices, opportunities and tastes direct their choices. Some get higher returns for efforts directed at the marketplace; some get their returns in the voting booth.

Allocation of effort between the voting booth and the marketplace does not explain why the government has the size that it does. Why are governments not larger or smaller? Why do the voters and the public not choose more freedom and less redistribution? Why do we add many more government programs than we eliminate? Why does the low effectiveness of government at many tasks not lead to a reduction in the size of government?

I will return to these questions. Before doing so, I want to discuss the size of government in a slightly different way and to give some measures of size and rate of growth in the United States. Knowledge of the historical record will help to distinguish between alternative explanations.

Measuring the Size of Government

How big is the government of the United States? Counting is an elementary skill but some things are hard to count. One is the size of government. If we count all levels of government including water districts, irrigation districts, sanitation districts, and the like we overstate the power and influence of government. Tax exemption is given to the interest on bonds of local governments, so groups that plan to issue debt form governmental units to reduce costs. The issues raised by the existence of such units differ in order of magnitude though not in kind. A more difficult problem arises from claims on future resources. Government guarantees risks, lends below market interest rates, subsidizes rents, and accumulates liabilities that are not recorded anywhere. Government establishes quasi-public agencies that underwrite risks at lower than market rates of return and establishes contingent claims against future income. There are many more problems of the same kind.

The set of data that measures what economists mean by the problem of government does not require a count of the number of units or their tax revenues. It requires measurement of efficiency. Ideally, three measures are required. One is an estimate of appropriately defined real wealth in a distortion free world, a world in which the market system works as efficiently

as it can. The second is a measure of the distortions removed by governments. Governments perform some services that remove distortions and improve the efficiency with which society uses resources. Elimination of private monopolies and reduction of pollution are examples. We would like to count such gains as positive contributions of government. Third, we want to measure the costs of government actions that move society away from the optimum by wasting resources. Government programs introduce distortions by creating monopoly positions, by prohibiting individuals from choosing freely, by restricting access to opportunity, by encouraging excessive use of some resources and too little use of others.

Solving, even approximately, the conceptual problems of measurement is a subject for serious research, not casual speculation. Let me illustrate with two examples.

A large share of the housing built in recent years was financed under a formula that ties the owner's minimum mortgage payment to the owner's income. The government is obligated to pay the balance. The owner's payment cannot exceed twenty percent of his income up to some maximum. The maximum is determined by a different formula that computes the standard applicable to each district as a percentage in excess of the poverty level. Computation of the poverty level requires a third formula. How large is the present value of the government's liability under the housing program? Several years ago when I worked on the problem of housing, inquiries with government budget officers, housing officials, home builders, and others convinced me that no one knows. No one has made an attempt to calculate the

true cost of the program. The present value of the subsidies, if available, would only begin to measure the effect of the government's action. Risks have been socialized and income has been redistributed. These changes must be included in a true measure of the change in wealth and welfare. Zero may be the right answer for the effect of redistribution but the problem of measuring the present value of the liability remains.

Sam Peltzman's study of the Federal Drug Administration is an outstanding illustration of the obstacles in measuring social cost and of the ability of careful research to overcome the obstacles. The costs of the Federal Drug Administration to society are not shown in the agency budget. The principle benefits that society receives from the agency come in the form of reduced risk when we use medication. The principle costs are the deterrent effect the agency has on the introduction of new products. We have fewer drugs, but safer drugs. Some live or live longer because harmful drugs are not marketed. Some die because effective drugs are delayed. The net cost or benefit is a measure of the agency's contribution.

My colleague Lester Lave has applied the same high standards to measuring some costs and benefits of controlling pollution. Some die because the air is fouled, and some are made ill by pollution. Reducing pollution reduces these costs and therefore produces benefits. Against the benefits, we must set the costs of implementing regulations or collecting the taxes or paying the subsidies that make us a more efficient society.

The proportion of income taken in taxes is a common measure of the size of government. To the extent that government subsidies are paid by current

taxes, the proportion includes the cost of the subsidy. To the extent that government programs lower efficiency and reduce income, taxes fall as a proportion of income if tax rates are progressive. However, if government programs increase the price level, tax collections increase in countries with progressive taxation. For these reasons, alone, differences in the share of income taxed tell very little about efficiency losses across countries or over time.

Even if we measured the efficiency loss accurately, we would not find a uniform relation between this measure and loss of freedom or growth of despotism. To cite only one comparison, the costs of Hitler's government to the prewar German economy were probably no larger than the costs imposed on Britain by successive postwar governments.

Friedrich Hayek makes the point forcefully in the Road to Serfdom that economic and political freedom cannot be separated. I accept that conclusion within his framework. His argument is directed, however, at the consequences of centralized planning and particularly at the resistance of the planners and their protectors, supporters, and patrons in the legislature to major changes in plans. Hayek warned that the planners, and the advocates of planning, would move to restrict political freedom rather than accept public rejection of their plan.

I am not aware that confrontation of this kind has occurred up to this time in any of the states that we would call democratic political states. The reason may be that growth of government has not taken the form described in the Road to Serfdom. In the United States, particularly, but in other

market economies as well, the regulatory authorities and the controllers have many names and even acronyms. There is no central plan, and there isn't much coordination between the programs that the various agencies pursue.

The main conclusion I draw is that no single measure of relative or absolute size adequately measures the loss of freedom. Nor, is there an obvious one-to-one correspondence between loss of freedom of choice and the growth of arbitrary power. Freedom, like any other valuable right, can be traded -- and is traded -- willingly for protection and security, that are in some stages complements of freedom, not substitutes. John Locke, and other classical political theorists, developed this theme at some length, and recently David Nozick has added new arguments.

I have developed two measures of the size of government. I believe both are positively related to loss of freedom, but neither is exact or ideal. One is the number of employees in the government sector; the other is the amount of taxes paid. Both are measured as compound annual rates of change for various periods, and both are compared to compound annual rates of change in the economy as a whole.

We may not be able to agree on the appropriate size of government. Some believe that the government became large enough to pose a threat to freedom long ago. Others press for programs that increase the size of government.

Whatever the desirable size of government may be, if government grows faster than the private sector, it reaches that size. More importantly, if freedom and efficiency decline as the government grows relative to the private sector, the larger the relative size of government the more likely it is that

the government is "too large" by the loose standard of social consensus. The larger the government relative to the private sector, the more people there are who view the government as "too large."

There are two other reasons for using the measures I have chosen. They are available and understandable. Moreover, there is a relation between freedom and tax rates and between size of government and the individual's right to choose the goods and services he favors. The choice of goods and services is an important freedom, and it is the loss of this freedom that we measure imperfectly when we measure the power of government and the loss of freedom by the share of income taken by government in taxes.

The record shows that tax collections of the federal government have grown at 6.4 percent compound annual rate since 1792. After adjusting for inflation by subtracting the compound average annual rate of price change, the annual rate of growth of taxes is 5-1/2 percent in real terms. At this rate, the real size of taxes doubles about every thirteen years.

We do not have reliable measures of private output or national product that go back to 1792. However, for output or income to have grown at the same rate as real tax payments, 5-1/2 percent in real terms for 182 years, requires that real output (GNP) in 1792 be about \$80,000,000 of 1974 purchasing power. Per capita GNP in 1792 would have been \$20.00, a number that is much too low. We can be confident, therefore, that the growth of government tax collections has been larger than the growth of real output for the nearly two centuries of U.S. history.

[Insert Table 1 here]

The 5-1/2 percent growth rate of real tax collections is not a uniform rate throughout the period. From 1792 to 1901, the growth of tax collections minus the rate of price change, shown in Table 1, is about 4-3/4 percent compounded annually. The comparable growth rate is 7 percent for the twentieth century. The latter includes a period of acceleration, 1919-1951, followed by deceleration from 1951 to 1974. The differences in growth mark the redistribution of activities between federal and state and local governments that occurred in this century. The growth of total taxes to all levels of government, federal, state and local, adjusted for inflation is much more stable than the components. Total taxes have grown in real terms at 5.4 percent per annum (8.08 percent minus 2.69 percent) about the same rate as the rate of growth of federal taxes during the entire history of the republic. In the last 25 years, the growth rate of total taxes has fallen to 4-1/2 percent (7.58 percent minus 3.03 percent). If we adjust for the effects of inflation on the purchasing power of money and debt, as we should, the real tax burden may have increased in recent years, but I will avoid these complicated, though appropriate, corrections.

Real gross national product has grown at a 3.2 percent rate on average during this century. Real taxes rose 1.7 times as fast as real output. The depression, the New Deal and the second World War raised the growth rate of total taxes to government in dollars of constant purchasing power to 7.17 percent (9.59 percent minus 2.42 percent). Real growth declined to an average rate of 2.92 percent per annum, so government grew 2.4 times as fast as the private sector. For the most recent quarter century, the relative growth of taxes has fallen to 1.3.

The data on government employment relative to the labor force in Table 1 tell a very similar story. We have employment data for the federal government from 1821 on, so we can compute the compound annual rate of growth for the federal bureaucracy for the entire period. The growth rate is 4-1/2 percent per annum. For this century, there is a slightly lower growth rate, 3-1/2 percent for total government employment. The public sector has grown, however, more than twice as fast as the labor force in the current century.

Jefferson, whom I quoted earlier in a different context, may be quoted again. He characterized government employees as a group from which "few die, and none resign."

Two conclusions merit attention. First, both of the crude and not entirely accurate measures of the growth of government point to the same conclusion. Whether measured by tax share or employment share, the government has grown from 75 percent to 100 percent faster than the private sector during much of our history. Second, the relative share of government in the labor force is about half the size of the share of output taken by government, our measure of tax burden, at each benchmark date. When employment in the federal government was 4 percent of the total labor force, the tax percentage was 8 percent of output. That was at the turn of the century. In 1929, the numbers were 6 and 11, respectively, and in 1974 they were 15 and 32.

If we extrapolate using the most recent rates of growth for the government sector and output in Table 1, we can estimate the future tax burden

and share of government in the labor force. By the year 2000 the government taxes away about 50 percent of GNP and employs about 25 percent of the labor force. Before the end of another 100 years, in 2075, the government takes everything, all of the GNP, and everyone works for the government.

If the government is not "big" now, it will be bigger later. If a majority believes there should be some private output and employment, there will be a growing consensus that government is "too big." Sometime in the future the government will pass the point at which more people will regard the government as too large rather than too small, if not in the next 50 years then in the next 75 years. The trend rate of growth has been going on for the century and affects other Western democracies in the same way. The relative growth of government has been going on too long and at too high a rate to treat as a temporary phenomenon resulting from the New Deal, the Fair Deal, the Great Society, the New Freedom of Woodrow Wilson, the Populism of the nineteenth century, or any other single event or program. If the government is not "big" now it will, as I said, be bigger later.

Why Governments Grow

The present size of government is not the result of a few chance events, like the New Deal, the Great Society, or the war in Vietnam. A process appears to have started with the republic and to have continued, faster at times, slower at times, but continued nonetheless throughout our history. Any valid explanation of the size of government must account for the trend over two centuries, not just over the last 30 or 50 years.

I present three explanations. One is popular and because it is popular it deserves some mention, but it is also superficial and can be dismissed readily. A second appealed to me for a time; though it is flawed in an important respect, it is intriguing. Some of the propositions or predictions that have come from the theory have turned out to be correct, although the theory and the argument are at least 40 years old. The third appeals to me now and has the virtue of explaining the facts that I just presented and perhaps some others as well.

A currently popular explanation identifies the Cold War and the threat of military confrontation as a reason for the growth of the power of the state. You could read some version of this explanation in leading newspapers during the recent political scandals. I identify the argument with Arthur Schlesinger's book, The Imperial Presidency, although it can be found earlier in the radical press and has a loose connection to the Marxist notion that military spending is required for prosperity in the capitalist system. The Schlesinger view cannot explain trend growth lasting for two centuries. Neither can it explain the rising size, power, and influence of government in most of Western Europe, where there are few signs of resurgent militarism and not much spending for defense. Moreover, in totalitarian countries it is the internal security forces not the external security forces that exercise power. The size and power of internal security forces around the world are unrelated, I believe, to the size or dominance of the government by the military. It is true that the government grows in war time; it is not true that the government requires a war to grow.

An explanation that long appealed to me was given by Joseph Schumpeter in Capitalism, Socialism, and Democracy. Schumpeter argued that capitalism was a passing phase in a man's experience. Like Marx, he believed that capitalism would not survive, but unlike Marx, he thought capitalism would be brought to an end by its successes and not by its failures. The successes Schumpeter stressed are of two types. One is material success. Capitalism produces goods efficiently, more efficiently than other systems. The other success is the extension of freedom. Freedom thrives under capitalism. There are profitable opportunities in publishing criticisms about the existing order, including the government of the capitalist state and the capitalist system. There is a market for critics, and they command a positive price. Equally important, there is no central agency screening ideas and deciding what is acceptable.

Using this general framework, with much more detailed elaboration, Schumpeter made a number of predictions that have proven more accurate than many predictions of more mundane matters, and more accurate than most predictions made 40 years ago. Such successes are not so common in social science that we can dismiss the theory from which the predictions arise.

Schumpeter's principal argument is that capitalism rests on a particular set of institutions and social arrangements that crumble as capitalism succeeds. The church, bourgeois family, the dynastic ambitions of the capitalists, the respect for privacy in private and public affairs, these are some of the arrangements on which the system rests. He predicted that these arrangements would be criticized, attacked and weakly defended.

Women would have fewer children. The birth rate would decline. The ownership and control of the enterprises that produced wealth would pass from the founding families to others, perhaps no less ambitious, but without hope of passing control to their children and grandchildren.

With rising wealth, the desire to travel increases; the time required to raise children does not decline. Women choose careers outside the home weakening the family, one of the main institutions supporting bourgeois society.

To Schumpeter's argument I would add the change in attitude that occurs as the government grows. More business is done with the state. Customer relationships develop between the agencies of the state and the corporations. Within the business sector, groups develop that see their interests joined to the interests of the political bureaucracy. While some may for a time retain the rhetoric of hostility to "government," they find reason to support the growth of those agencies and programs to which they sell.

A few corporations defend the market system publicly. Most grumble silently, if at all. There are many reasons. A main one is that the interests of the corporation and the stockholders are mixed. The shareholders did not join a crusade. The public relations directors point out the difficulties that may come from criticizing the government.

The corporations that lead the charge against "big" government bear a larger share of the cost than of any prospective gain. It is much less costly to cooperate, to work with and even for the regulatory agencies than to oppose regulation. By cooperating the regulations can be made less

onerous. There may even be a chance to squeeze out some small competitors, or to keep out potential entrants. Thus, the regulated become the regulators or the clients of the regulators.

I have been told by a former senior official of the government, who is now a senior official of a respected firm, that one of the great advantages of the Europeans in the 1960's was that the leaders of government could sit down with the leaders of business at lunch to decide what needed to be done. Think of the savings. No legislative process. No public scrutiny. Just a matter of finding common interests among a small group of people. There is the same yearning in the talk of Japan, Incorporated, so prevalent a few years ago in business circles, and in government as well. Government and business cooperation--that was the key to Japan's high rate of growth as viewed from many corporate board rooms.

Many of Schumpeter's arguments are appealing because many of the predictions have come true. It is the main premise that troubles me, and I now believe the thesis incorrect. Schumpeter believed that capitalism would be brought to an end by its successes. If his analysis is correct, the growth of government controls and the breakdown of capitalism should be faster in rich nations than in poor. This clearly has not happened. Most poor nations in the world never accepted capitalism or even the market system. The fact that Hong Kong, Taiwan, Singapore, Japan and Brazil have increased real income much more in the last ten to twenty years than India, Srilanka, Egypt, or Syria has not raised demands for less regulation, smaller bureaucracies, or less control, smaller government influence, and smaller governments.

In the United States the government has grown faster than the private sector since the beginning of the republic. This is contrary to Schumpeter's premise. Moreover, when we think of governmental activity in the nineteenth century, we think of canal building, road building, land grants, railroads, but also regulation of banking, railroads, and corporations. Populism was a nineteenth century movement in the United States that returns with major force in every generation.

A third explanation has greater appeal. I believe that three main conditions lead to the growth of the state.

- (1) Candidates and officials propose many more programs than they enact. Their purpose is to find issues which attract attention and votes. To do so, they must arrange low cost access to the principal means of disseminating information.
- (2) A voter chooses a candidate who promises to act in his interest and votes to reelect a candidate who does so.
- (3) The cost of learning about existing programs and organizing effective opposition is generally greater than the cost of introducing new programs.

The first two conditions imply that candidates, office holders and their opponents search for issues that attract and maintain a winning

coalition. Most officeholders are reelected. Successful candidates search for votes, on the margin, by expanding their offerings.

The third condition depends on the absence of a particular type of tax system. Taxes must not be concentrated on a single group. A small group does not have the resources to pay for large programs. This limits the size of government or requires an increase in the size of the heavily taxed group. As the size of the taxed group increases, the opportunity increases to organize a coalition in favor of lower taxes or a broader tax base.

For large scale government to be supported by taxes on the rich requires a distribution of income that does not seem consistent with the distribution observed in modern industrial societies. Moreover, it seems unlikely that we will observe societies in which income is concentrated and votes are dispersed.

The third condition is ~~stated~~ more precisely in the proposition that government grows when the costs of government programs are more diffuse than the benefits. Complex programs with costs and benefits, but particularly costs, difficult to trace and difficult to measure are more likely to survive. The more complex the program, the more difficult it becomes to list the beneficiaries and trace the costs. The more difficult it is to find the costs the less likely is repeal by a subsequent government. The reason is that diffusing the costs of the program raises the cost of organizing opponents of the program. Those who bear only a small cost are not likely to devote much effort to ending the program. Programs that place a disproportionate burden on particular groups are more likely to be repealed. The anti-war protesters of a few years ago provide a recent familiar example.

Potential draftees and their friends faced large costs if the war continued. They were therefore willing to pay the costs of organizing and carrying the burden of protest.

Repeal is not the common way of eliminating programs or redistributing the burdens imposed by government. There is occasionally talk of a taxpayers' "revolt." The second law of economics tells us that talk is cheap because the marginal product is low. Taxpayers do not revolt because the net benefit to the organizers from organizing a low tax party is smaller than other competing opportunities. The organizers cannot capture the gain but must share any gain with all other taxpayers. The more attractive alternative is to organize a group to obtain selective benefits, commonly called "loopholes" if they are viewed by opponents, and designated as "social purposes" when they are described by the proponents.

The argument I have made has some relation to the view that government grows through the process of log rolling. "Log rolling" explains the growth of government as a consequence of coalitions of minorities who agree to enact each other's programs. The log rolling model, however, does not explain why a majority tolerates log rolling. Why is there not a "low tax" coalition to effectively block most spending. The answer, I believe, is that politicians gain more votes by proposing than by opposing programs.

There is a difference between the political process and the market process that appears to me to be of decisive importance for the long-term growth of government. There is nothing in the political process that plays the role of the invisible hand, guiding market decision making toward an

optimum. In the market, inefficiency is penalized and unsuccessful policies or programs are eliminated, if not immediately then eventually. Power, wealth, and income are incentives for innovation that brings change. It is costly for dissident stockholders to organize and take control of a mismanaged firm, but at times they do. Mergers and takeover bids are another means of changing control and direction of mismanaged assets. Those who pay the costs expect to receive the benefits, and they largely do.

There is no comparable political process. Campaigning against existing programs alienates the beneficiaries. The more complex the program, the smaller the chance that the loss of votes will be offset by some other gain.

If voters would inform themselves about program costs the gain from eliminating programs would increase, and more programs would be eliminated. Voters do not do so, I believe, because unlike the market process the political process does not permit the informed voter to capture very much of the gain. He has less incentive to learn about the costs of existing programs than to devote his energy to promoting programs that benefit him. In this way government grows.

The political process combines identifiable groups into winning coalitions by offering new programs. Programs are not repealed to achieve redistribution, new programs are enacted. Over time, the distribution of income is affected much less than the size of government. The government grows and its share of resources increases.

The political history of the United States in its interface with economics does not show the signs of a struggle between those who favored

and those who opposed regulation and government action. The political division has been mainly between groups that favored using government to assist one set of regional, occupational or commercial interests and those who favored a different coalition.

The tariff was a dominant issue during the nineteenth century. The tariff was a principal source of revenue, so the burden of taxation was diffused. Specific tariffs could be raised or lowered to benefit or harm particular groups. Political activity should have been dominated by coalitions favoring changes in specific types of duties not by groups favoring "high" and "low" tariffs, if my thesis is correct. ¹

I have attempted to explain some puzzling features of the political processes. The size of government increases because the gain from starting new programs is larger than the gain from eliminating old programs when benefits are concentrated and costs are diffused. A passion, desire, or willingness to trade efficiency for some notion of equity furthers the tendency, but it is not essential to explain why the process starts, continues, or remains.

If this thesis is correct there is a reason for the decline of the market system and the growth of the political system. The cost of eliminating programs is too high relative to the benefits.

The size of government is often treated as a moral question or an emotional issue. Men grow passionate, and properly so, when they believe that freedom is threatened. Large government is a threat to freedom, yet the government grows in every democratic society.

I have taken a different course. Persuasive arguments have been made perhaps a thousand times. Though I am convinced the government is too large and too powerful, I do not believe it is an accident that government grows. Nor do I believe I can convince the majority to act to reduce the size if it is not seen by them to be in their interest and worth their individual attention.

The majority may share my conviction. If they do not now, I expect they will in the future because the relative size of government is increasing. The problem is to find a way to reduce the size of government, and this means to organize, to find a coalition that favors program reduction, or at least relative reduction. I despair of that for the reasons that I have made abundantly clear.

Footnotes

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† I have discussed the subject matter of this paper for many years with many different people. Most of all I have benefited from discussions with Karl Brunner. So deep is his involvement that I cannot easily separate my ideas from his. He must share responsibility for what I have written.

1. William Brock and Stephen Magee brought this point to my attention. They indicate that in most industrial countries there is, generally, a consistent pattern. Tariff rates increase as we move from raw materials to consumer goods. This pattern arises if firms have lower costs of organizing than consumers.