In Support of the Resolution

Paul Milazzo

When polls suggest, as Gallup did again recently, that a majority of Americans (64%) think too much government afflicts their lives, the clucking of pundits and professors is never long to follow. The crudest gleefully invoke some permutation of “government hands off my Medicare;” the more measured point out how many of the largest federal transfer programs benefit the middle class, or note the ways in which federal (and state) policies have shaped the contours of modern life, from the high tech economy of the (politically conservative) Sunbelt to the residential patterns of the suburbs. The growth of big government was the big story of the 20th century, but a complex one that often resists simple dichotomies of right versus left. For conservatives, however, that history offers something other than an ipse dixit. Despite the prominent role government has come to play in our lives, the average Tea Partier in 2011 has much she can draw from the past to support the case George Will and Paul Ryan defended Sunday morning. Trend is not destiny, after all, and progress need not follow the teleology of state expansion. We can learn from our mistakes.

And mistakes there have been, of a most predictable kind. Americans have repeatedly overlooked the real limits of what government can deliver, and the real damage that can accrue when those limits are transgressed – not the least of which, as Ryan noted, is genuine cynicism about government that erodes our civic life and public discourse. In essence, the congressman was calling for a modicum of modesty when contemplating what government ought to do (Robert Reich’s concern about “who government should be for” elides this ultimate question of means and ends).

But it is difficult to win elections with modesty. Modern governance is framed as problem solving, and our problems, like our wants, are endless. Since World War II we have come to expect the government to marshal the resources, institutional capacity, and technical expertise to right the wrongs of an imperfect marketplace society, to provide the kind of positive security President Roosevelt imagined when, in his 1944 evocation of an “economic bill of rights,” he first employed the explicit rights-based discourse that would animate post-1945 liberalism. The problem, however, even for the wealthiest of nations, comes with an inability to articulate any implicit limit on the reach of those rights or the scope of the socio-economic agenda that ensues, leaving no inherent brake on recourse to state power.

Curiously for a showdown on big government, the debaters made few references to President Obama’s signature health care law, which nonetheless embodies the dearth of modesty in our politics quite nicely. No one mentioned Friedrich Hayek, either, but his economic philosophy infused the case Will and Ryan put forth. In short, Hayek, like Ludwig von Mises and other economists of the “Austrian School,” emphasized how the
spontaneous order of the price system conveys vast quantities of information among countless market actors, allocating scarce capital, labor, and resources far more efficiently than top-down planning mechanisms ever could.

For Hayek, the prospect of government management of the health care system, encompassing about one-sixth of the American economy, did not simply pose difficult technical or institutional challenges; rather, it represented an epistemological impossibility. The information needed to run such a system is dispersed, localized, and subject to the ever-changing individual preferences of consumers and producers. Not even the most adroit, public spirited bureaucrats could hope to manage it all as efficiently or impartially as the market. Such information in its totality simply cannot be “known” from the top down. What is not allocated by the market, however, will be allocated by some other criteria, determined inevitably by priorities of politics or political influence. Bureaucratic technocracy in the end yields fewer choices and stifles innovation, which, Hayek notes, is also a product of dispersed information and the use entrepreneurs make of it. Lost in the rhetoric of health care as a right is the reality of health care as a service – and a knowledge-intensive, technologically complex, expensive one at that – which government can ration but cannot ultimately manage in any meaningful sense.

Robert Reich expressed befuddlement with George Will’s faith in the market, in part because he has been seduced throughout his career by the lure of technocratic rationalism, which distrusts the messy spontaneity of liberty and prefers to substitute the authority of experts like himself. Had Reich had his way in the 1980s, he would have imposed a neo-corporatist system of “industrial planning” that would have condemned the American economy to the kind of stasis Japan has suffered for more than a decade. Score one for Hayek – and Reagan.

Hayek’s philosophy offers the principled constraint on state expansion liberals tend to abjure, but we needn’t invoke epistemology to make a more pragmatic case for modesty. Elizabeth Warren, the senatorial candidate from Massachusetts, gained notoriety recently for her defense of government economic development:

“There is nobody in this country who got rich on his own. Nobody. You built a factory out there — good for you! But I want to be clear. You moved your goods to market on the roads the rest of us paid for. You hired workers the rest of us paid to educate. You were safe in your factory because of police forces and fire forces that the rest of us paid for.”

Warren attacks her straw man with the intensity of a professional wrestler, but her case is ultimately unpersuasive. First, few Americans, particularly the entrepreneurially-inclined, oppose the kind of government infrastructure spending referenced here (Reich and Frank employed this same slight of hand). Second, one is tempted to ask, “what do
you mean ‘the rest of us,’ kimosabe?” Do businessmen and the wealthy not pay a disproportionate share of state and federal income taxes? Should they not benefit from the public amenities they themselves subsidized?

Of course, roads and police are all well and good, but does Warren’s conception of economically productive government activity include the National Labor Relations Board’s coercive efforts to decide where a factory may be built? Or the DOE’s funneling of hundreds of millions of dollars to a solar panel manufacturing firm long on political influence but short on competitive products, which subsequently went belly-up? Or Fannie Mae and Freddie Mac’s underwriting of unsustainable mortgage loans to unqualified buyers, which inflated the cost of homes and brought on the collapse of nation’s housing market? Or the same effect federal loans are having in the market for higher education, tempting thousands of marginal students to take on crippling debt for devalued diplomas and limited job prospects? Or the federal government’s bail out of a distressed automobile manufacturing sector to the tune of billions of dollars, even though the restructuring required for the industry to remain competitive would have occurred more cheaply and efficiently through the traditional procedures of bankruptcy? Or the decision to provide federal subsidies to better-off Americans to trash their cars and purchase more fuel efficient models they would likely have purchased anyway, pulling the rug out from under the used car market and the working class drivers who depend on it?

This ripped-from-the-headlines parade of horribles has its analog in the myriad of similar government programs that libertarian critics have assailed, on much the same grounds, since the 1930s. One of the most influential of these critics, Henry Hazlitt, was an economic journalist for the New York Times and Newsweek who dedicated his six-decade career to cataloging the sophisms used to justify various schemes to fix prices, protect domestic markets, or divert tax dollars to subsidize favored industries, commodities, public works, exports, or welfare projects. The eponymous lesson offered in his most famous book, the best-selling Economics in One Lesson, was to recognize the long-term, secondary consequences of economic policies beyond the immediate benefits sought by pleading interests. Though written in 1946, Hazlitt’s book and its lucid encapsulation of Austrian economic principles (he was the most prominent mass media proponent of Mises and Hayek) apply with eerie prescience today.

Hazlitt, for example, would peg the “Cash for Clunkers” program as the embodiment of the French classical economist, Frederic Bastiat’s “broken window” fallacy: you can’t create new wealth by destroying existing resources, you simply shift the limited resources remaining from one set of producers to another to replace what was destroyed. Society as a whole is not better off, just one segment of it. Most government subsidy programs are like that, diverting tax dollars to make certain interests better off at the expense of others – as when agricultural subsidies divert the taxes paid by urban dwellers to increase the price of the food they buy. Hazlitt never used the term “rent
seeking” that George Will borrowed from the public choice economists of the seventies and eighties, but he understood the problem well. When faced with the universal question, “well, what would you cut from the budget?” Hazlitt turned the burden of proof back on those who demanded the expenditures. “It is not enough for them to prove, even if they could do so, that everything that these expenditures will buy is ‘needed,’” he insisted. “They must prove that the citizens of the country need each of these things even more than they need the things for which they would spend their own money if it were not taken away from them in taxes.”

Hazlitt, like the neoconservative social scientists who followed him in the sixties and seventies, also pointed out that government programs have an annoying tendency to hurt the very people they are designed to assist. Minimum wage and rent control laws price the poor and unskilled out of the labor market and suppress the growth of affordable housing stock, for example. Easily available government loans merely inflate the cost of whatever good they are supposed to subsidize. This “law of unintended consequences” did not come up during the debate, but it remains one of the great indictments of big government. It is not exactly hard-hearted to question the outcome of government “investment” (Reich’s word) in job training and education, for example, when so much of it has proven counterproductive or wasted (the budgetary sink hole of public sector union contracts for teachers account for much of that waste and counterproductivity).

Unintended consequences abound when the government tries to engineer economic equality while ignoring the non-systemic reasons inequality exists in the first place. Libertarian legal blogger Glenn Reynolds captured the problem perfectly in reference to housing and education:

The government decides to try to increase the middle class by subsidizing things that middle class people have: if middle-class people go to college and own homes, then surely if more people go to college and own homes, we’ll have more middle-class people. But homeownership and college aren’t causes of middle-class status, they’re markers for possessing the kinds of traits — self-discipline, the ability to defer gratification, etc. — that let you enter, and stay.

Unfortunately, some of the most persistent causes of income inequality prove particularly impervious to government social engineering. Forsaking marriage, having children out of wedlock, dropping out of high school – reams of social science literature identify these as the markers for lower class status. To the extent that federal welfare programs tried to treat social inequality purely as a problem of income distribution, they created perverse incentives that tended to exacerbate family instability, particularly within minority communities. At the end of the day, the intentions of state planners
count for very little, but the incentives their programs create to alter people’s behavior count for just about everything. Here is one more argument for modesty.

Hazlitt, like Will, also emphasized that big government was a magnet for influence peddling. He spilled gallons of ink making this crucial point: when government bureaucrats are allowed to pick winners and losers in the market place, the inevitable consequence is political corruption. This apothegm, to my mind, would make a worthy addition to the Pledge of Allegiance. Hazlitt could have predicted the outcome of the auto and financial industry bailouts, as well as the push for green jobs, because government officials of any era are never savvy in the way private investors have to be – they’re playing with house money, after all. Since bureaucrats lack requisite knowledge and exercise discretionary power over market actors, the recourse to political favoritism is incentivized (there’s that word again!) as those market actors lobby furiously to insure that government discretion works to their ultimate advantage. As Milton Friedman once noted, the problem of corporate “greed” is really not a problem exclusive to capitalism, since greed is a universal human characteristic driving all political-economic systems. Capitalism has proven far better at putting self-interest to work for the greater good of society, however, than those other systems, and does it best when decision making is dispersed, spontaneous, and guided by a consistent rule of law rather than directed by the discretion of elites.

Americans like to believe they can move on from their mistakes, but the structural nature of policy networks in Washington virtually insures that government programs, effective or not, will persist and expand. Some of the most far reaching federal policies are not debated in the public eye, but rather take form in obscure subcommittees, regulatory agencies, or federal courtrooms. Targeted lobby groups know their contours well, and fight fiercely to implement, fund, and grow new programs, with the active assistance of congressmen, administrators, and judges. This process is not undemocratic, per se, since these venues are designed to maximize access to environmental, educational, and other interest groups across the spectrum of social concerns. The narrow economic regulation of the New Deal thus expanded to encompass the “new social regulation” of the 1970s, affecting millions of Americans at home, on the job, or at school. Most Americans support rules for clean air and water (despite their expense and inefficiency). But citizens never really voted for federal affirmative action programs, for example, and when they get the opportunity to do so they usually vote them down. Plenty of bad or ineffective ideas, like bilingual education, took hold within these “issue networks,” and getting rid of them is a tough row to hoe. Of course, conservatives themselves are often seduced to expand the government in this way in matters of education or law enforcement. But the durability and relative insularity of government policy networks explain why Ronald Reagan could never follow through on his tough anti-government rhetoric. Here’s one more argument for modesty: once a government program is created, for good or for ill, it’s probably not going anywhere any time soon.
Barney Frank made a useful distinction between conservatives and libertarians, noting that many conservatives don’t shy away from using state power to moderate or restrict personal behavior. Liberals are far more comfortable with cultural laissez faire than its economic equivalent. Frank’s impassioned advocacy on behalf of those Americans who wish to partake freely of on-line poker, gay marriage, and the occasional blunt may fall somewhat short of the Founders’ conception of “ordered liberty,” but perhaps it is not too far removed from that position to, say, the realization that those same people might just want to invest their retirement money independently in something other than low-yield government securities. Frank did admit, after all, that the social security tax was regressive, as it has been since first introduced in 1937 (when it helped bring about the second major depression of the 1930s). Why cling to government programs that stifle innovation in this way? Is there not more room for “bold experimentation” and choice in the economic realm as well? (Frank is also correct that the limits of nation building abroad should be forthrightly addressed, although in fairness, mandatory social spending on programs like Medicare and Social Security dwarfs the military budget, and the wars in the Middle East will end long before the demand for transfer payments does).

Conservatives may not renounce all government power, but they do embrace the Founders’ vision of power sharing through federalism. The Constitution created a national government of unprecedented energy, but limited it to distinct spheres and deferred to states and localities for everything else. The genius of the Founders was their pessimism, and they sought to disperse government authority whenever possible. But federalism was badly discredited in the 1960s, when the civil rights abuses of the Southern states seemed to beg Washington for redress. Since that time, across a variety of fields, nationalization has become synonymous with justice. As we have discussed, this equation is questionable at best. But conservatives lost the moral high ground to defend federalism by abdicating on African American civil rights (perusing the pages of National Review during this period makes for cringe-worthy reading). Neither Will nor Ryan addressed this problem, but reclaiming the mantle of federalism offers conservatives a blueprint for governance that promises more flexibility, innovation, and diversity than a rigid top-down model.

In the end, it will take political skill to sell modesty as a virtue of 21st century governance. Both parties are tempted by the grand schemes of system builders. We would do well, then, to heed the recent advice of the Bard College Professor and prolific blogger Walter Russell Mead, who suggested that if America is to prosper in the twenty-first century, “power is going to have to shift from bureaucrats to entrepreneurs, from the state to society, and from qualified experts and licensed professionals to the population at large.”
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