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Why Government Grows: The Modern Democratic Dilemma

Government has more than tripled in size over the last forty years in America. Economists have tried to explain why government grows by applying the logic of the marketplace to the political arena. Restoring traditional constitutional restraints may be the only way to reverse the biases toward bigger government.

Regardless of where you may view yourself along the political spectrum, there is always a variety of government programs and activities that you either think are not worth the money or should not be the business of government in the first place. Yet, it seems almost impossible to rein in government. It keeps growing and growing in one direction after another.

This has certainly been the case with the federal government. In the current fiscal year, Washington is budgeted to spend \$2.93 trillion. This compares (in inflation-adjusted 2007 dollars) with \$627.6 billion in 1965. In other words in a little more than 40 years, federal spending has more than *tripled*—and nearly doubled from what it was in 1980.

The same dramatic growth has occurred on the revenue side. The federal government is expected to take in about \$2.52 trillion in taxes in fiscal 2008, compared to \$620 billion in 1965, in 2007 inflation-adjusted dollars.

This increase in expenditures and revenues over the last 40 years is reflected in the tax burden on the American people. The average household will pay \$22,100 to the federal government in 2008, up from \$10,800 (in inflation-adjusted 2007 dollars) or more than double what it was only about 4 decades ago.

While the population of the country has increased by around 56 percent during this time period, per capita federal government spending has almost tripled. Growth in federal spending also

has vastly outpaced growth in the U.S. median income. Adjusted for inflation, median income grew by 35 percent between 1965 and 2007, while federal spending grew by 334 percent over this same period.

Both defense and non-defense spending have significantly increased over these years. Between 1965 and 2007, defense spending, after adjusting for inflation, has gone up 203 percent, while non-defense spending has grown by 246 percent.

The greatest growth in the non-defense category has been in entitlement spending, which includes Social Security, Medicare, and Medicaid. Since 1965, this category of spending has increased from \$169 billion (in inflation-adjusted 2007 dollars) to more than \$1.45 trillion in the current year's budget. Entitlements now represent more than 58 percent of total federal expenditures, compared to only 27 percent of the federal budget in 1965.

According to public choice theorists, this growth in government transcends the political differences in a modern democratic society. Rather, it is structured into the existing political system itself.

Public Choice Theory and the Growth in Government

Public choice theorists are economists who argue that the political process should be studied in the same manner as markets are analyzed. Over the last several decades, they have attempted to explain the factors behind the

growth of government in modern democratic society. They say that individuals in the political arena are motivated by self-interested goals (which can include ideological or ethical ends, as well as financial gains).

This self-interest prompts individuals and pressure groups to weigh the costs and the benefits in deciding to be for or against various government policies; they attempt to influence political outcomes through their votes, their campaign contributions, and their lobbying expenditures.

Politicians, on the other hand, desire to be elected and reelected. They gain political office by "selling" programs, regulations, and spending taxpayer dollars for the benefit of various constituent groups whose votes and contributions they hope to receive.

Those who run the government bureaucracies desire larger budgets and greater administrative responsibilities over economic and social affairs. They hope to gain promotions, higher salaries, and more control through discretionary decision-making.

One of the core ideas of public choice theorists is that there is a bias toward growth in government spending that follows the pattern of a "concentration of benefits and a diffusion of burdens." The logic of this process was actually explained more than a century ago, in 1896, by the famous Italian economist and sociologist Vilfredo Pareto.

Imagine that in a country of 30 million people, the government proposes to tax each citizen \$1, and then redistribute that \$30 million among a special interest group of 30 individuals. Each taxpayer will have one extra dollar taken away from them by the government for the year, while each of the 30 recipients of this wealth transfer will gain an extra \$1,000,000.

Pareto suggested that the 30 recipients will collectively have a strong incentive to lobby, influence, and even corruptly "buy" the votes of the politicians able

to pass this redistributive legislation. Each individual taxpayer, on the other hand, will have little incentive to spend the time and effort to counter-lobby, influence, and petition members of the legislature merely to save one dollar off his or her tax bill.

Let's look at a part of the U.S. federal government's budget. The table below shows how much some of the federal government's cabinet-level departments and agencies plan to spend in this fiscal year's budget. The table also shows the per capita cost of these departments and agencies for the entire U.S. population, and the per taxpayer cost of these government activities.

In 2008, per capita cost of government expenditures will be around \$9,610 for every man, woman and child. The cost per taxpayer will average \$26,052. While the average taxpayer will be paying over \$26,000 in taxes, the cost of each of these departments and bureaus and the specific line items in each of their budgets will be only a fraction of the overall tax burden.

Suppose a "conservative" is critical of the Department of Education, thinking that many of its activities are misplaced, or perhaps that the whole department should be abolished. While the Department will be spending over \$68 billion this year, the average taxpayer will only shoulder \$582 of this expense, or on average only \$48.50 in monthly withholding tax, which comes to around \$1.60 a day.

In most instances, it would be hard to interest the general taxpaying public to learn enough of the pros and cons of the actual programs of the Department of Education to make informed decisions. After all, even if the Department was abolished, it would save the average taxpayer less than two dollars a day—assuming taxes were cut by the full amount.

On the other hand, that \$68 billion will be concentrated on the incomes and activities of, at most, several hundreds of thousands of teachers, educators, school administrators and textbook and school-supply providers. Those federal dollars will represent a sizable portion of their administrative budgets, take-home pay, and business profits. The lobbying and voting incentives, therefore, will be heavily on the side of those who see economic and related gains from continuing and increasing federal spending on public education.

Someone on the "liberal" side of the political spectrum might be equally critical of some of the line item spending in the budget in the Department of Defense or on subsidies to corporate agribusinesses planned by the Department of Agriculture. But the same bias would work in these areas of government activity, as well, making it difficult to create the necessary political counterweights to lobby for the reduction or elimination of these federal programs.

Because of this, government tends to grow in many directions in the form of concentrated benefits for special interest groups of all types at the expense of all the citizens and taxpayers. The dispersed financial burden nonetheless adds up to hundreds of billions, indeed trillions, of dollars a year.

Division of Labor and the Bias Toward Producer Interests

Since the time of Adam Smith in the 18th century, economists have emphasized the productive benefits from specialization through the division of labor. Each of us will be materially far better off if we specialize in what we are relatively more productive at doing, and then trade away our particular good or service for what others are offering to sell us. This is really the basis for all the material, scientific, intellectual, and cultural advancements of modern civilization.

But near the beginning of the 20th

century, British economist Philip Wicksteed pointed out, in his *The Common Sense of Political Economy* (1910), that such specialization also tends to create a bias against the open, competitive market that stimulates people to apply themselves in the most productive and cost-efficient ways.

Once individuals have divided their labors, each becomes the producer of one product (or at most a small handful of things) and the consumer of all the multitudes of goods that others in society produce. But it is impossible for any of us to buy goods that others are selling, unless we have first succeeded in earning an income from what we, ourselves, are producing.

Because of this, our interest as a producer always tends to take precedence over our role as a consumer. If I oppose some special interest group that is trying to get a subsidy from the government, I may save a dollar in my role as taxpayer and consumer (to use the earlier example from Pareto). But is it worth the cost in time, effort and expenditure to do so? Lobbying and otherwise influencing the legislative process to win some favor or privilege for myself and the others in my sector of the economy may produce better results. A protective tariff to limit foreign competition, for example, or a regulatory or licensing rule that restricts new domestic rivals can increase my income per year by thousands of dollars.

Selected U.S. Government Expenditures

<i>Department & Federal Agencies</i>	<i>FY 2008 Planned Expenditures</i>	<i>Per Capita Dollar Cost</i>	<i>Per Taxpayer Dollar Cost</i>
Agriculture	\$94,768,000,000	\$311	\$810
Commerce	7,327,000,000	24	63
Defense	583,058,000,000	1,912	4,983
Education	68,066,000,000	223	582
Energy	24,501,000,000	80	209
Health and Human Resources	707,785,000,000	2,321	6,049
Homeland Security	42,352,000,000	139	362
Housing & Urban Development	52,271,000,000	171	447
Interior	11,358,000,000	37	97
Justice	25,131,000,000	82	215
Labor	49,667,000,000	163	425
State/International Programs	34,404,000,000	113	294
Transportation	68,662,000,000	225	587
Treasury	66,744,000,000	219	570
Veterans Affairs	86,645,000,000	284	740
Corps of Engineers	7,232,000,000	24	62
Environmental Protection Agency	7,541,000,000	25	64
NASA	17,318,000,000	57	148
National Science Foundation	6,256,000,000	21	53
Small Business Adm.	530,000,000	2	5
Social Security Adm.	648,625,000,000	2,127	5,544
Net Interest on Federal Debt	243,900,000	1	2

Source: Government Printing Office, Budget of the U. S. Government, FY 2008

The Democratic Dilemma and the Need to Limit Government

This is, in a sense, the modern democratic dilemma.

Over the last century, there have been fewer and fewer restraints on what is viewed as the proper limits of government in society. The arena in which government may take an active role, both in the United States and around the world, grows ever wider. And this widening arena of government has become the playground of special interest politicking from left to right.

In 2007, there were more than 15,600 registered lobbyists in Washington, D.C. They officially spent more than \$2.8 billion to influence legislation on behalf of special interest groups from across the political spectrum. The number of such lobbyists has increased by one-third since 1998, and they now spend twice as much as they did ten years ago.

How do we break out of this dilemma? The late Col. E.C. Harwood, the founder and long-time first president of AIER, always emphasized the importance of studying the historical facts before reaching any policy conclusions. He argued that the facts all pointed to the importance of placing limits on government activity. In 1945, shortly before the end of the Second World War, he observed:

Freedom for the individual is the acknowledged primary aim of our form of government. This government was based on the assumption that freedom for the individual makes him responsible for his actions . . . that such responsibility leads to the cultivation of judgment, ability, and character in men. . . . The plain truth is that the human being who is not permitted to assume responsibilities of grown men must remain a child. And in our Constitution there is implicit the assumption that the best society results when human beings are permitted and encouraged to become responsible adults.

Col. Harwood contrasted individual freedom with slavery, under which "the master" makes the slave work for him and appropriates for himself what the slave has produced. "Nothing more than ability to add and subtract is needed to prove that, when some men are robbed of the fruits of their labor, the appropriators get something for nothing," he con-

tinued. "It follows that if there are men in society who are able to get something for nothing, other men must be getting nothing for something."

He went on to state:

It is equally clear, however, that the income derived from a [government-bestowed] monopoly privilege must ordinarily be at the expense of those devoting their human effort to the production of goods. Consequently, all who get something from nothing as a result of owning monopoly privileges of one sort or another are in effect and to a degree enslaving their fellow men who work for a living. To the extent that some men are forced to give up part of the value of their efforts applied in production, they are enslaved.

What Col. Harwood was pointing to

is that if government favors, privileges, and tax-based redistributions of wealth for some at the expense of others are ever to be reversed—so people may be self-responsible individuals who keep the fruits of their labor in the free marketplace—it will involve a return to the more traditional Constitutional limits on political power upon which the country was originally founded.

To get people to break out of their producer-interest biases may require making the wider ethical case for the rights of the individual to his life, liberty, and honestly acquired property, against what Col. Harwood called "a legalized robbery, a means by which some men are forced to live a part of their lives for the benefits of others" through government favors. □

—Richard M. Ebeling
Senior Fellow

BUSINESS-CYCLE CONDITIONS

Our indicators continue to signal that a business contraction is likely. The job situation has weakened across many industries.

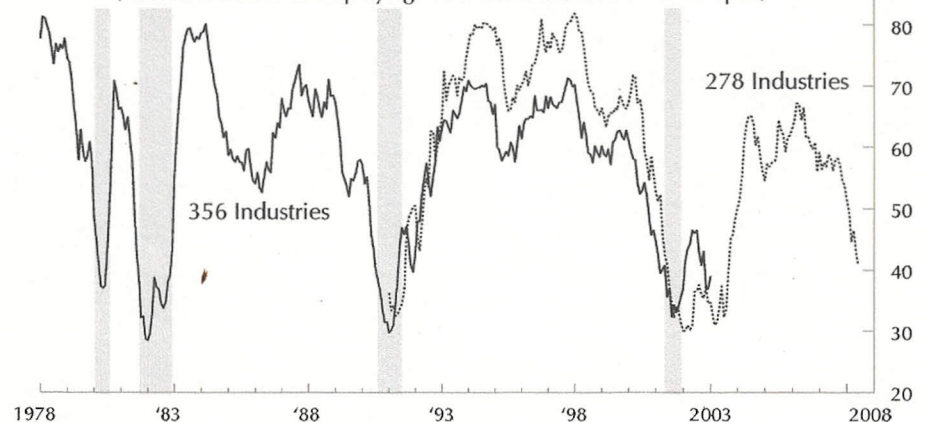
On July 31 the Commerce Department announced that constant-dollar *Gross Domestic Product* (GDP) increased at an annual rate of 1.9 percent in the second quarter. Revised data show that GDP actually decreased by 0.2 percent in the fourth quarter of last year and increased 0.9 percent in the first quarter. So growth has accelerated over the past six months. The latest figure is subject to revision, but it raises doubt about whether the economy is in recession.

GDP is one of our primary roughly coincident indicators, and it remains appraised as clearly expanding. How-

ever, decreases in two other coinciders, *nonagricultural employment* and *personal income less transfer payments*, led us to downgrade their cyclical status. *Manufacturing and trade sales* has also been trending downward, but an increase this month raised doubt about this trend; it is now appraised as probably, rather than clearly, contracting.

Overall, the percent of coinciders appraised as expanding remains at 40 (two out of five for which a trend is evident), unchanged from last month. A percentage below 50 indicates that a business contraction probably is un-

Diffusion Index of Employees on Private Nonagricultural Payrolls
(Percent of Industries Employing More Workers Over a 6-month Span)



Source: U.S. Department of Labor, Bureau of Labor Statistics.