

# [ CRISIS AND LEVIATHAN ]

## Critical Episodes in the Growth of American Government

Robert Higgs

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For KSCH

If the gods grant me leave,  
I'll come back as a  
gull over Grayland,  
To soar above that sunlit shore  
where we walked in the wind  
and my searching soul  
Found a harbor not marked on the map.

*J. Cook & Partners*

## Foreword

The literature related to the emergence of Big Government in the United States is vast. Many historians and social scientists have surveyed and interpreted the decline in traditional American values and institutions, but few scholars have attempted to study in depth and empirically the growth of American government: to try to understand how it has happened and to provide the data that underscore the change. By focusing on certain critical episodes in American history, Robert Higgs has documented the remarkable and alarming growth of Big Government. His ambitious work covers the subject in great detail and in a way that will appeal to both scholars and a more general audience.

Surveying the most popular hypotheses advanced to explain the growth of government, Higgs recognizes that Big Government has various sources. But he makes an excellent case for his thesis that it has been nurtured by a succession of crises over the past century: depressions and wars that have occasioned both massive governmental spending and an increased regimentation of American life and thought. Although a crisis eventually subsides, a residue of governmental functions and authority remains; government grows bigger via a ratchet phenomenon of enlarged residual powers following each crisis. Even more alarming, the crises encourage a climate in which government achieves a kind of autonomy. Political officials and bureaucrats can now do almost anything they please, subject only to the political passions of the moment. Traditional limited representative government goes by the boards. In Lord Acton's famous phrase, the passengers exist for the sake of the ship.

For many persons, unfortunately, Big Government has its own fascination. There are, of course, the numerous beneficiaries who in one way or another are on the payroll. Higgs supplies a useful statistical survey of the proliferation of federal agencies, programs, and activities. But more signifi-

cant than this is the way the ideology of Big Government has captured the popular imagination and obscured reality. Statism has succeeded the older absolutisms of monarchy and church. The warfare state is accepted in the guise of the welfare state. Big Government thus has become a kind of national lottery in which everyone thinks that he or she has a chance to win, and in which no one contemplates losing. The pageantry of Big Government unfolds in Washington, sedulously encouraged by the hero worship with which we surround the Imperial Presidency. Ordinary citizens seldom stop to think that all this is costing money—their money. They complain of taxes but fail to associate those taxes with the trappings and ideology of Big Government.

The conclusion of Higgs's analysis is a thoughtful but disturbing view of American prospects. Whether traditional constitutional restraints or the unique operation of a mixed economy can avert what he and others fear as a march into socialism or fascism no one knows. As we consider the future, Higgs offers enlightenment if not optimism.

Arthur A. Ekirch, Jr.  
*State University of New York, Albany*

## Preface

There was a time, long ago, when the average American could go about his daily business hardly aware of the government—especially the federal government. As a farmer, merchant, or manufacturer, he could decide what, how, when, and where to produce and sell his goods, constrained by little more than market forces. Just think: no farm subsidies, price supports, or acreage controls; no Federal Trade Commission; no antitrust laws; no Interstate Commerce Commission. As an employer, employee, consumer, investor, lender, borrower, student, or teacher, he could proceed largely according to his own lights. Just think: no National Labor Relations Board; no federal consumer “protection” laws; no Securities and Exchange Commission; no Equal Employment Opportunity Commission; no Department of Health and Human Services. Lacking a central bank to issue national paper currency, people commonly used gold coins to make purchases. There were no general sales taxes, no Social Security taxes, no income taxes. Though governmental officials were as corrupt then as now—maybe more so—they had vastly less to be corrupt with. Private citizens spent about fifteen times more than all governments combined.

Those days, alas, are long gone. Now, in virtually every dimension, our lives revolve within rigid limits circumscribed by governmental authorities; we are constrained continually and on all sides by Big Government. Regulations clutter the landscape. Governmental spending equals almost four-tenths of the gross national product.

This book is an attempt to explain the rise of that awesome aggregation of forces, programs, and activities we know as Big Government. To understand *why*, over the past century, the United States has developed a Big Government, one must know *how* the government has grown. Knowledge of only the amounts by which governmental spending, taxing, and employment have

increased is not sufficient for understanding the process that generated the growth. Besides knowing how much such common measures of the size of government have increased, one must know when; that is, one must pay close attention to the growth profile, for the actual growth was more episodic than smooth and steady. An analysis that ignores timing, sweeping everything into a long-run explanation, leaves out essential aspects of the subject in question.

Further, knowing how the government has grown requires an examination of what, exactly, the government does: the growth of government has resulted not so much from doing more to accomplish traditional governmental functions; rather, it has resulted largely from the government's taking on new functions, activities, and programs—some of them completely novel, others previously the responsibility of private citizens. Evidence of such governmental expansiveness cannot be extracted from aggregative data on spending, taxing, or employment by the government. In fact, many forms of governmental control over the economy and society leave no trace at all in the budget figures, yet they do just as much as the measured activities to determine the allocation and enjoyment of the economy's resources. To comprehend the complete substantive composition of governmental activities and its change over time, one must extract information from laws, regulatory directives, executive orders, court decisions, and similar documents. I have attempted to bring a variety of such evidentiary resources into play in my analysis, in accordance with the conviction that one cannot understand why government has grown unless one understands how it has grown. In comparison with other analyses of the same subject by economists, therefore, mine is less aggregative, more qualitative, and, some might say, less rigorous and elegant. I hope, however, that it gets closer to the heart of the matter.

My account, unlike those typical in the literature, places heavy emphasis—indeed, central emphasis—on how governmental officials and citizens have reacted to national emergencies. For some analysts this approach seems to attribute the outcome to “accidents of history.” In a way that is so, but it is nonetheless essential. Accounts of the growth of American government that view it as the inexorable unfolding of a dynamic, closed system (for example, those that say any urbanizing, industrializing economy inevitably gives rise to bigger government) cannot explain the timing of the government's expansion; nor can they explain the substantive composition of that expansion. To illustrate, it was no mere statistical anomaly that federal spending jumped dramatically between 1929 and 1934 and that the bulk of the increased spending was for the relief of farmers and unemployed urban workers. No theory based exclusively on long-run tendencies can explain the timing and content of that change. Nor can such a theory help us to understand the enduring legacies of programs first created to deal with temporary crises.

Chief among the enduring legacies of emergency governmental programs

has been ideological change, in particular a profound transformation of the typical American's beliefs about the appropriate role of the federal government in economic affairs. In recent years economists and other social scientists have increasingly recognized the fundamental importance of ideology in the workings of any political economy, but useful models of ideological change are hardly to be found. A novelty of my book is the seriousness with which ideological change is treated: an entire chapter is devoted to examining the nature of ideology in relation to political economy; another chapter is largely devoted to the development of a working hypothesis about how crises—and the government's reactions to them—have generated specific kinds of ideological change in twentieth-century America. This model of ideological change serves to inform and direct much of the historical investigation reported in Chapters 5 through 10. I know of no other extensive study of the growth of government that makes ideological change so central to its explanatory framework. Relations between politico-economic and ideological changes are extraordinarily difficult to identify and test. Probably no other subject in the social sciences is so complex and elusive as the sociology of knowledge—but none is so fundamental either. If my book helps, in some small way, to enhance our understanding of the interplay of politico-economic and ideological changes, I shall be satisfied that my efforts were worthwhile.

*Easton, Pa.*  
*January 1987*

R.H.

## Acknowledgments

While I have been occupied as a full-time professor of economics, I have been preoccupied for the past six years with the research that underlies this book. The growth of American government, properly conceived, is an enormous subject. To understand it one must become familiar with the pertinent materials and findings of several disciplines, including history, law, and several of the social sciences. I could not have made much progress without the assistance of many scholars and several institutions.

For reading and commenting—often at great length and in minute detail—on preliminary versions of one or more of my chapters, I am grateful to Lee Alston, Arthur Ekirch, Price Fishback, Paul Gottfried, John Hughes, Aileen Kraditor, Dwight Lee, Forrest McDonald, Douglass North, William Parker, Murray Rothbard, Andy Rutten, Charlotte Twight, John Wallis, and Gary Walton. The anonymous reviewer for Oxford University Press also gave me some good last-minute advice on revision.

For providing me with copies of published papers and drafts of works in progress, I am grateful to Terry Anderson, Ben Baack, Edward Budd, Jon Elster, Max Hartwell, Michael Hechter, Albert Hirschman, Joseph Kalt, James Kau, Allen Kelley, Gary Libecap, Karl-Dieter Opp, E. C. Pasour, Edward Ray, Joseph Reid, Hugh Rockoff, Richard Rose, David Schap, Harry Scheiber, and Richard Timberlake.

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Economic History Association, the Public Choice Society, the Southern Economic Association, the Association of Private Enterprise Education, the Summer Institute on Public Choice Theory (sponsored by the Council for Philosophical Studies), and the Ninth International Economic History Congress. Finally, at the Greater Washington Area Economic History Seminar and the Hoover Institution on War, Revolution and Peace.

Early versions of small portions of the book appeared as articles in the *Pathfinder* (1982), the *Freeman* (1983), *Continuity: A Journal of History* (1983), the *Intercollegiate Review* (1984), and *Explorations in Economic History* (1985). I am grateful to the editors of these journals for giving me the opportunity to disseminate my ideas and expose them to critical notice.

The Pacific Research Institute for Public Policy has sponsored the project from its inception. I am grateful to William Mellor, David Theroux, Bruce Johnson, Charles Baird, and Gregory Christensen for accommodating me so graciously and sticking with me in spite of the delays. Not the least of the Pacific Research Institute's favors was introducing me to the Center for Libertarian Studies. The Center made a significant financial contribution to the success of my project by awarding me a Ludwig von Mises Fellowship in the Humanities and Social Sciences during 1983-1984.

I began the project at the University of Washington and completed it at Lafayette College. At Washington I learned much from students and colleagues. In particular, discussions with Douglass North over a period of some fifteen years stimulated my interest in studying the growth of government. In addition, Doug assisted me in so many other ways that I shall not be able to repay him. But I shall never forget, nor shall I cease to appreciate deeply, all he has done for me. At Lafayette, President David Ellis and Provost Sarah Blanshei generously supported my research. Jerry Heavey, chairman of the economics department, made exceptional efforts to ease the difficulties of my relocation. Ron Robbins, Marie Ciofalo, and others at Skillman Library consistently assisted my scholarship by tracking down fugitive documents, rushing a book order, or interrupting their daily routine to make copies for me. Mandy Shane, my student assistant during 1983-1984, aided me considerably. My secretaries, Carol Riffert and Elaine Molchan, have lightened my burden in countless ways.

After I had, with great relief, completed the final draft and sent it to the Pacific Research Institute to be readied for publication, Donald McCloskey read the draft and convinced me that it was not good enough, that I ought to revise it one more time. For this heartbreaking last-minute intervention I should thank him? In any event, the reader owes McCloskey a debt; his painstaking advice on how I could improve the exposition has resulted in a better book.

Finally, Kathy and Matt, loves of my life, have made my efforts seem worthwhile. They have put up with my obsession, my reading books while eating breakfast, my working until late at night and during weekends, and my constant whining about "not getting any work done." Matt helped me cope with our computer; he also made it draw the graphs in Chapters 2 and 4. Early in the project Kathy worked as my research assistant. Later, when other things occupied her, she never failed to support and encourage me and serve as my sounding board. She knows why the book is dedicated to her. Without her it simply would not have been written.

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Any society that entails the strengthening of the state apparatus by giving it unchecked control over the economy, and re-unites the polity and the economy, is an historical *regression*. In it there is no more future for the public, or for the freedoms it supported, than there was under feudalism.

ALVIN W. GOULDNER

PART ONE

*Framework*

## CHAPTER ONE

# The Sources of Big Government: *A Critical Survey of Hypotheses*

One of the most striking phenomena of modern times has been the steady growth of the government sector. Despite the hot political debates that have greeted the successive steps of government expansion, there is surprisingly little scientific understanding of the forces tending to bring it about.

J. HIRSHLEIFER

We must have government. Only government can perform certain tasks successfully. Without government to defend us from external aggression, preserve domestic order, define and enforce private property rights, few of us could achieve much. Unfortunately a government strong enough to protect us may be strong enough to crush us. In recognition of the immense potential for oppression and destruction, some consider government a necessary evil. Ludwig von Mises, an arch-libertarian but not an anarchist, disputed this characterization. "Government as such," he declared, "is not only not an evil, but the most necessary and beneficial institution, as without it no lasting social cooperation and no civilization could be developed and preserved." Like all who inherit the Lockean tradition, Mises believed that a strong but limited government, far from suffocating its citizens, allows them to be productive and free.<sup>1</sup>

For more than a century after its formation the United States had a government that approximated, perhaps as well as any actual government ever did, the ideal envisioned by Mises: strong but limited. Despite major shortcomings, especially its oppression of blacks and Indians, the government created a political and legal environment conducive to rapid economic development, fostering what Willard Hurst, the eminent legal historian, has called a "release of energy."<sup>2</sup> Inventiveness, capital formation, and organizational innovation flourished as never before. Specialization and trade increased

we'd Govt - but the army can kill it

prodigiously. During the nineteenth century the nation became the world's richest and freest society.

The nation's second century, however, has witnessed a decline of the commitment to limited government and extensive private property rights. In 1900 the government still approximated a minimal state. Americans did not practice pure laissez-faire—no society ever did—but they still placed binding constraints on government and allowed relatively few projections of its power into the economic affairs of private citizens. That long-established restraint has largely dissolved during the past seventy years. Government now suffuses every aspect of economic and social life; it may now, as Warren Nutter said, "take and give whatever, whenever, and wherever it wishes." Merely to list its numerous powers would require volumes: farms, factories, and stores; homes, schools, and hospitals; science and technology; even recreation and amusements—all feel its impact. Virtually nothing remains untouched by the myriad influences of governmental expenditure, taxation, and regulation, not to mention the government's direct participation in economic activities.<sup>3</sup> An abbreviated organizational chart for the federal government, shown here as Figure 1.1, suggests the gargantuan scope of modern government, even though it represents only a general outline of the activities undertaken at a single level of government.

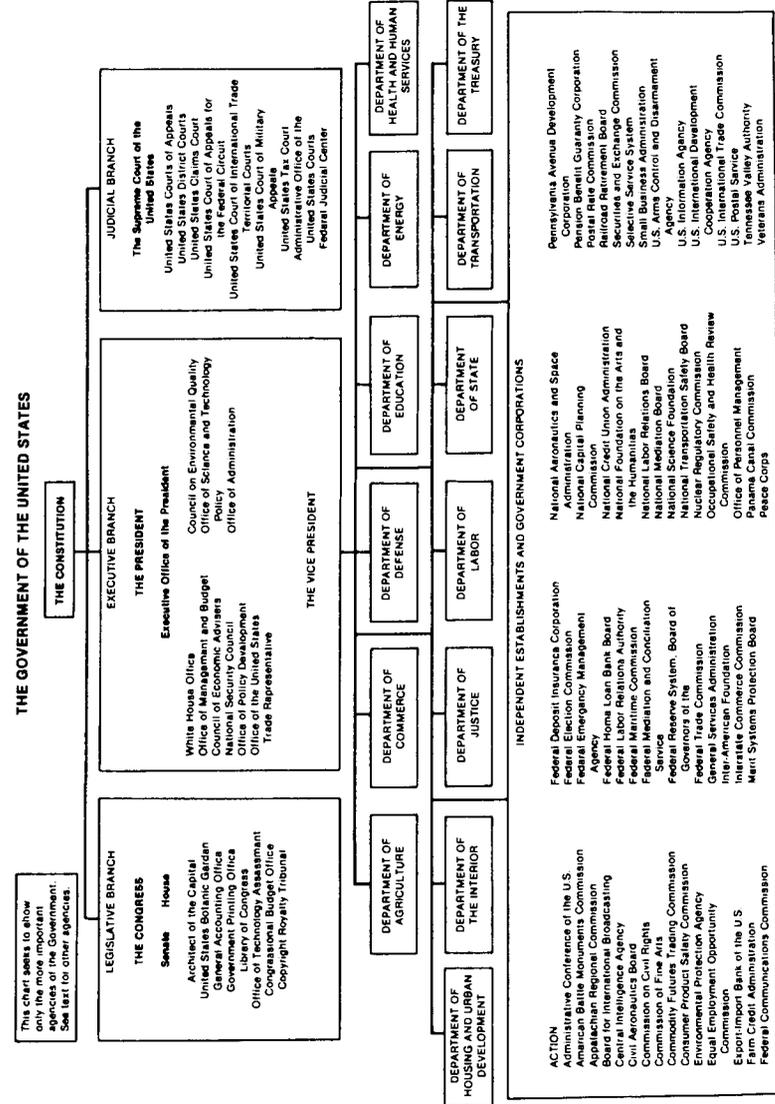
How did this momentous transformation of American political, legal, and economic institutions occur? What motives and convictions inspired it? What socioeconomic developments promoted or obstructed it? Who expected to gain, or lose, as a result? What persons, elites, and interest groups played decisive roles? What circumstances allowed them to seize the helm of history? Did the growth of government proceed smoothly or episodically, and what forces shaped the profile of its change? I shall attempt to answer these questions.

My answers necessarily will leave much of the story untold. So many events and influences have had a bearing that nothing less than a comprehensive social, political, legal, and economic history of the past century could begin to answer all the pertinent questions. My objectives are more limited, partly because so much has already been done.

Several explanations of the growth of government have been advanced. Too often, however, the proponent of a particular hypothesis extols it as if no other wheel will roll. But many of the proposed explanations contain valid insights, and they are not necessarily mutually exclusive. Nothing is gained and much is lost by attempts to locate a single source of Big Government.<sup>4</sup> I reject the approach that seeks a monocausal explanation. I shall strive instead to comprehend what the various hypotheses can and cannot explain, applying them selectively and using them as points of departure in developing my own ideas.

1900 - less limited part

Figure 1.1 Organization of the Government of the United States



Source: Office of the Federal Register, *The United States Government Manual, 1982/84* (Washington, D.C.: U.S. Government Printing Office, 1983), p. 810.

Unfortunately some explanations of the growth of government deal in abstractions that obscure the very nature of government. Some speak of government as if it were One Big Nonhuman Thing, a gigantic man-eating machine. The Spanish philosopher José Ortega y Gasset, for example, said, "In our days the State has come to be a formidable machine . . . set up in the midst of society . . . anonymous . . . a machine whose existence and maintenance depend on the vital supports around it . . . sucking out the very marrow of society." But for better or worse a government is itself human: it is simply the collectivity of persons who exercise legal authority.<sup>5</sup>

Treating government as One Big Nonhuman Thing, distinct and apart from the people, encourages misleading characterizations of what government is and does. Real governments cannot survive without the sustenance and support, or at least the tolerance, of nongovernmental people. Moreover, some people are always circulating between the rulers and the ruled. The American government includes several levels—federal, state, local, and hybrid; and several branches—legislative, executive, judicial, and hybrid. The sheer number of separate governmental entities belies a conception of government as a coherent institution. There are more than eighty thousand separate governments in the country today, more than sixty thousand with the power to tax.<sup>6</sup> Obviously the multitude of people occupying positions of authority within these varied and numerous governments lack unity of purpose. Conflicts within government may be as common and significant as conflicts between the rulers and the ruled.<sup>7</sup> Because no one in the huge, fragmented domain of authority can simply impose his will on all the others, governmental policies normally result from rivalry and struggle resolved through negotiations, compromises, deals, pulling and hauling. We would do well to bear constantly in mind that the American government is and always has been not One Big Nonhuman Thing but rather many coexisting human institutions of varying function, scope, and authority.<sup>8</sup> My concern in this book is mainly with the widening scope of the legislative, executive, administrative, and judicial powers exercised by the persons who constitute the federal government. One must remember that the growth of the federal government is only part of the story of the growth of government.

## EXPLANATIONS OF THE GROWTH OF GOVERNMENT

### *Modernization*

Reading between the lines of many historical works, one encounters the Modernization Hypothesis. It maintains that a modern urban-industrial economy simply must have an active, extensive government; that laissez-faire in

80000 GOVTS  
GOVT GROWTH: MODERNIZATION

the late twentieth century is unimaginable. Declamations about the absurdity of horse-and-buggy government in the Space Age or the impossibility of turning back the clock of history give rhetorical thrust to the idea. Exactly why a modern economy must have Big Government usually remains obscure.

Subscribers to the Modernization Hypothesis sometimes argue that a modern urban-industrial economy must have considerable governmental activity because it is so complex. "That the increased complexities and interrelationships of modern life necessitate this extension of the power of the state," insisted Calvin Hoover, "is no less true because it is such a well-worn cliché."<sup>9</sup> No one denies that the economy has become more complicated. New products, technologies, and industries have proliferated. The population has grown and become more concentrated in urban areas. Interregional and international movements of goods, money, and financial instruments have multiplied. Increased specialization has made individuals less self-sufficient, more dependent on a vast network of exchange.

Yet one cannot correctly infer that, merely because of growing complexities, economic affairs have required more governmental direction for their effective coordination. Many economists, from Adam Smith in the eighteenth century to Friedrich Hayek in the twentieth, have argued that an open market is the most effective system of socioeconomic coordination, the only one that systematically receives and responds to the ever-changing signals transmitted by millions of consumers and producers.<sup>10</sup> This argument turns the Modernization Hypothesis on its head: while the government might be able to coordinate economic activities in a simple economy, it could never successfully do so in a complex one. The artificial shortages and gasoline lines of the United States in the 1970s—not to mention the chronic frustration of consumers in the socialist countries—give force to the critics' argument.

How a market economy operates, of course, depends on the character and degree of the competition that propels it. Some observers believe that the emergence of large corporate firms in the late nineteenth century fundamentally altered the economy's competitiveness, ushering in a new era. "This transformation of competition into monopoly," wrote V. I. Lenin in 1916, "is one of the most important—if not the most important—phenomena of modern capitalist economy." Accepting this claim, one might interpret the growth of government during the late nineteenth and early twentieth centuries as a reaction, a development of "countervailing power," by which the public resisted the higher prices, lower outputs, and distributional distortions that big business would have entailed under unregulated conditions. Representative events include the enactment of antitrust laws and the creation of the Federal Trade Commission and the various industry-specific regulatory commissions such as the Interstate Commerce Commission and the Federal

Complexity of modernity requires GOVT.  
But not a free market

Communications Commission. In short, according to this interpretation, economic modernization fostered the growth of private monopoly power, and government grew more powerful to hold that pernicious, irresponsible power in check.<sup>11</sup>

The explanation is weak in both theory and fact. Many large corporate enterprises developed during the late nineteenth century, and the turn of the century witnessed a spate of mergers crowned by the creation of such industrial giants as United States Steel, American Tobacco, and International Harvester. But no one has ever established that the economy as a whole became substantially less competitive. Even within specific industries neither huge firms nor high industrial concentration ratios necessarily imply an absence of effective competition. The founders of the big firms sought monopoly power and profits, to be sure, but rarely did they succeed in gaining these objectives for long. The decisive aspects of competition are dynamic—chiefly technological and organizational innovation—and under conditions of dynamic competition neither a firm's bigness nor an industry's high concentration poses a serious threat to the welfare of the public.<sup>12</sup> Furthermore, despite the almost exclusive attention lavished on manufacturing by analysts of the monopoly-power school, manufacturing is not the only important sector of the economy; nor is it in a relevant sense the "dominant" or the most "strategic" sector. Elsewhere—in wholesale and retail trade, for example—competition clearly increased enormously during the decades around the turn of the century. Consider how many local bastions of monopoly power must have been battered down by the advent of the mail-order distributors such as Sears, Roebuck & Company and Montgomery Ward. In many industries the monopolistic proclivities of large firms in concentrated industries were held in check by foreign competitors, actual or potential.

Besides, the government's actions have tended more to preserve weak competitors than to assure strong competition. In this respect the historical performances of the FTC and many of the industry-specific regulatory commissions are notorious. As George Stigler has said, "Regulation and competition are rhetorical friends and deadly enemies: over the doorway of every regulatory agency save two should be carved: 'Competition Not Admitted.' The Federal Trade Commission's doorway should announce, 'Competition Admitted in Rear,' and that of the Antitrust Division, 'Monopoly Only by Appointment.'"<sup>13</sup> The government's regulatory agencies have created or sustained private monopoly power more often than they have precluded or reduced it. This result was exactly what many interested parties desired from governmental regulation, though they would have been impolitic to have said so in public. The "one common conclusion" reached by historians of regulation is that "regulatory politics involved an intricate,

Lenin - monopolies need govt - W.Ron L  
 bore - weak competitors v. strong comp.

complex, struggle among intensely competitive interest groups, each using the machinery of the state whenever it could, to serve particularistic goals largely unrelated to 'public interest' ideology except in the tactical sense."<sup>14</sup> But antitrust activities and the regulation of entry, prices, and services within industries—however one views their motivation and results—constitute a minor part of the multifarious activities of modern government.

Sometimes arguments in support of the Modernization Hypothesis make much of the population's increased crowding. People living cheek by jowl inevitably create spillover costs, which economists call "negative externalities"; outsiders unwillingly share the costs of others' actions. Pollution of air or water is a familiar example. If the legal system fails to define and enforce a private property right over every valuable resource, including clean air and water, then negative externalities may entail an inefficient pattern of production and resource use in the free market. For example, smoke from your factory smokestack may soil the clothing hanging on my clothesline, yet I cannot make you pay for the damages; nor can I effectively constrain or prevent further emissions. From a social point of view the activity of your factory is excessive because a portion of its true cost of operation is shifted without consent or compensation onto outsiders like me, who have no voice in determining how your factory is operated.

Governmental regulation conceivably can ameliorate such conditions. Whether historically it has done so has depended on how the government has framed and enforced its regulations, which has partly determined the magnitudes of the costs and benefits of its interventions. Proponents of the Modernization Hypothesis take for granted that negative externalities historically have been common and significant, that much governmental activity has been motivated by a desire to rectify such conditions, and that the interventions have routinely succeeded in bringing about a more efficient pattern of resource use. Each of the suppositions may be questioned. Some economists doubt that government can or will deal successfully with externalities. As Leland Yeager has said, government is itself "the prototypical sector in which decision makers do *not* take accurate account of all the costs as well as all the benefits of each activity."<sup>15</sup>

No doubt some significant negative externalities have existed and some governmental interventions have been motivated by a desire to rectify baneful conditions. Public health regulations furnish the most compelling examples. Contagious diseases undoubtedly generate external costs: historically they caused tremendous harm; and government's public health regulations were generally framed and enforced to bring about a more efficient condition.<sup>16</sup> In recent decades, antipollution laws and enforcement bureaus such as the Environmental Protection Agency provide examples of the governmental attack

Regulation leads to monopoly  
 negative externalities - pollution  
 - govt is not

on negative externalities, though the framing and enforcement of the environmental regulations raise many questions about their exact intent and about their success when all costs and benefits are taken into account.<sup>17</sup>

In sum, the Modernization Hypothesis has some, but not much, merit as an explanation of the emergence of Big Government. Regulation of industrial competition, public health, and environmental externalities makes up only a small part of what modern governments do. Most governmental activities have no plausible connection with the increased complexity of the economy, maintenance of competition, or the spillover costs that attend population concentration.<sup>18</sup> Especially in application to the federal level, where governmental expansion has been most prodigious in the twentieth century, the Modernization Hypothesis has little to offer.

### Public Goods

A related idea—it also involves nonexclusivity or spillover effects—has to do with public goods. In the language of economics a “public good” is not simply or necessarily one supplied by government. Rather, it has the peculiar property of nonrivalry in consumption: its enjoyment by one consumer does not diminish its availability for the enjoyment of another. Once the public good has been produced, its use has no marginal cost, because its enjoyment by additional users requires no further sacrifice of valuable alternatives. National defense is the most familiar example. If more protection from external aggression is provided, all citizens within the protected territory share the benefit of enhanced protection equally. My enhanced security does not entail diminished security for any other citizen.<sup>19</sup>

Public goods create a problem: because all consumers share their benefits fully, each consumer has an incentive to avoid paying for them. Each wishes to be the “free rider.” Where private goods are concerned, consumers who won’t pay for a good cannot enjoy it, because those who do pay can exclude others from sharing in its benefits. For some public goods, however, the exclusion of nonpaying beneficiaries is either impossible or prohibitively costly. When foreign enemies are deterred from aggression against the United States, every person in the country receives the protection equally; and the all-inclusiveness can scarcely be avoided. Left to provide a nonexclusive public good in the market, people would provide little or nothing. As everyone held back, hoping to be the unexcludable free rider, no provision at all would be made.

Government can break the stalemate created by the free-rider problem. By taxing all—or at least a sufficient number—of the beneficiaries of a public good, it can obtain the funds to pay for the good. Thorny issues remain even after government intervenes, because the appropriate amount of provision and

Public goods - Police, Military  
- free riders =  
- but only partial explanation

the proper apportionment of the tax burden cannot be determined by any straightforward and practical procedure. In practice the political process determines how much is provided and how the costs are shared by the citizens.<sup>20</sup>

The Public Goods Hypothesis asserts that during the twentieth century the costs of producing nonexclusive public goods—chiefly national defense and the technology associated with modern warfare—have grown and, as only government can assure the production of these goods, government has grown correspondingly. The argument has considerable merit—particularly with reference to the federal government, where the provision of national defense is concentrated. Certainly the twentieth century has witnessed extraordinary international instability and hostility. Two world wars, a host of smaller international conflicts, and the Cold War have elevated the demand for the services of the military establishment far above its nineteenth-century levels. At the same time the development of modern military technology has made the production of national security enormously more costly. Since World War II an ongoing arms race has meant that national security cannot be achieved once and for all, as each round of action and reaction alters the requirements for effective deterrence.

Still, notwithstanding its clear pertinence, the Public Goods Hypothesis provides only a partial explanation of the growth of government. Even at the federal level, most governmental expenditures have no direct relation to national defense. The massive outlays for old-age pensions, unemployment benefits, public housing, job training, medical care, agricultural subsidies, school lunches, and so on—not to mention the hydra-headed regulation of everything from children’s pajama fabrics to commodity futures contracts—have no connection with national defense or other nonexclusive public goods.

### The Welfare State

The United States has developed not simply a large government but a welfare state. One may employ a variant of the Modernization Hypothesis to explain this aspect of the rise of Big Government. Economic growth and the concomitant socioeconomic transformation have tended in various, often indirect, ways to diminish the social-service roles formerly played by such private institutions as families, churches, and voluntary associations. Victor Fuchs has argued that the “fruits of the market system—science, technology, urbanization, affluence”—have undermined the institutions on which the social order formerly rested. “With the decline of the family and of religion, the inability of the market system to meet such needs becomes obvious, and the state rushes in to fill the vacuum.” Bigger government becomes a “substitute for family or church as the principal institution assisting individuals in time of

welfare state  
K undermined family & religion - govt tried to fill vac.  
Endless redistribution

economic or social misfortune.”<sup>21</sup> No doubt the substitution of governmental social services for private social services has occurred on a wide front. But Fuchs’s remarks stop short of exploring exactly how the wide-ranging substitution has been effected. One needs to know who benefits and who pays, how much and in what ways.

Wilhelm Ropke, like Fuchs and many others, viewed the modern welfare state as “without any doubt, an answer to the disintegration of genuine communities during the last one hundred years.” But he also recognized that “[t]oday’s welfare state is not simply an improved version of the old institutions of social insurance and public assistance.” Rather, it has become “the tool of a social revolution” where “[t]aking has become at least as important as giving,” and “it degenerates into an absurd two-way pumping of money when the state robs nearly everybody and pays nearly everybody, so that no one knows in the end whether he has gained or lost in the game.”<sup>22</sup> The welfare state has become, if it was not from the beginning, the redistributive state. Governmental policies for the limited purpose of saving the most unfortunate citizens from destitution have merged into governmental policies for the unlimited purpose of redistributing income and wealth among virtually all groups, rich as well as poor.

#### Political Redistribution

An explanation of how “the state rushes in to fill the vacuum,” transforming the welfare state into something far more comprehensive and penetrating, is the Political Redistribution Hypothesis. This argument views government as an instrument for the coercive redistribution of wealth. Often it portrays the voters as highly knowledgeable and narrowly self-interested and the elected officials as sensitively responsive to clear messages sent them by the voters. The argument has taken various forms.

In Allan Meltzer and Scott Richard’s version it maintains that Big Government “results from the difference between the distribution of votes and the distribution of income. Government grows when the franchise is extended to include more voters below the median income or when the growth of income provides revenues for increased redistribution.”<sup>23</sup> The explanation fits the historical facts poorly. Extensions of the franchise apparently have had no independent effect on the growth of government, and the most dramatic extensions of governmental power have occurred in periods of stagnant or falling real civilian income, during the world wars and the trough of the Great Depression. Furthermore, to assume that government always transfers income to lower-income recipients flies in the face of facts too numerous and familiar to require recitation. As Mancur Olson has observed, governmental redistributions typically “have arbitrary rather than egalitarian impacts on the

Political Redistribution -

distribution of income—more than a few redistribute income from lower to higher income people.” Many governmental activities are “of no special help to the poor” and many others “actually harm them.”<sup>24</sup>

Sam Peltzman’s version of the Political Redistribution Hypothesis holds that “governments grow where groups which share a common interest in that growth *and* can perceive and articulate that interest become more numerous.” Here governmental growth is seen as driven exclusively by citizen demands, governmental response being taken for granted. Peltzman maintains that “the *leveling* of income differences across a large part of the population . . . has in fact been a major source of the growth of government in the developed world over the last fifty years” because the leveling created “a broadening of the political base that stood to gain from redistribution generally and thus provided a fertile source of political support for expansion of specific programs. At the same time, these groups became more able to perceive and articulate that interest . . . [and] this simultaneous growth of ‘ability’ served to catalyze politically the spreading economic interest in redistribution.”<sup>25</sup>

The apparent sophistication of Peltzman’s mathematically specified and econometrically tested model dissolves under close inspection. His approach is to “treat government spending and taxing as a pure transfer” and to “assume that the amount of spending is determined entirely by majority-voting considerations . . . that political preferences are motivated purely by self-interest . . . [and that] each voter understands costlessly the details of a proposed policy and its implications for his well being.” In another version of the model, intended to be more realistic, Peltzman relaxes these stringent conditions slightly, assuming that only one group of voters is fully informed while all the others are completely ignorant and either stay away from the polls or vote randomly. Such assumptions cannot support a convincing explanation of the growth of government. The dubious data and auxiliary assumptions used by Peltzman to implement his econometric tests do nothing to reassure the reader troubled by the highly unrealistic specification of the underlying model.<sup>26</sup>

Unlike the Modernization, Public Goods, and Welfare State Hypotheses, which implicitly assume that government grows automatically in the service of a broad but changing “public interest,” the Political Redistribution Hypothesis explicitly views the growth of government as the product of political actions. (Political actions = seeking or wielding the coercive powers of government in order to determine who gets what, when, how.) That perspective is, in any realistic account, indispensable. But in many of its detailed formulations, as we have just seen, the argument characterizes politics in a highly stylized, grotesquely unrealistic way. It usually assumes that the size of government is determined exclusively by elected officials seeking reelection. Where are the Supreme Court and the fundamental restraints of the Constitu-

tion and conservative public opinion? What roles are the permanent "civil service" officials of the executive branch and the independent regulatory agencies presumed to play?<sup>27</sup>

Certainly the assumption of fully informed voters is untenable and misleading. To assume that the typical voter is completely ignorant would approximate the truth more closely. An authority on public opinion has reported that Americans can name their astrological sign more readily than they can name their representative in Congress. To suppose that political actors know precisely how an electoral outcome will be linked to a specific policy action and hence to a particular redistribution of wealth is to push the assumption of complete knowledge to an absurdly fictitious extreme. As James Buchanan has observed, "The electoral process offers, at best, a crude disciplinary check on those who depart too much from constituency preferences." Elections occur infrequently. Few citizens possess much accurate information about political issues or the actions of politicians; nor do many citizens have much incentive to inform themselves better. Public choice theorists, the scholars who study politics by using the methods of economics, call this lack of knowledge "rational ignorance." Rational or not, its effect is the same: "almost any politician can, within rather wide limits, behave contrary to the interests of his constituents without suffering predictable harm."<sup>28</sup>

Most likely the politician will behave contrary to the interests of his constituents even if he wants to serve them faithfully. Apart from the heterogeneity of the constituents' interests—and the consequent impossibility of serving all or perhaps even a sizable minority of them—the information problem is simply overwhelming. Political scientists, more often than economists, recognize the problem and emphasize "the practical difficulties legislators experience in discovering what their constituents' interests really are."<sup>29</sup>

The slippage between the interests of constituents and the actions of their elected officials can be readily confirmed, sometimes in an amusing way. Reagan's first budget director, the former congressman David Stockman, provided a charming example in his notorious confessions: "I went around and cut all the ribbons," he said, "and they never knew I voted against the damn programs." Congressman Pete McCloskey made the same point in recalling his first congressional victory. A postelection survey, intended to demonstrate the victorious candidate's mandate, revealed, as McCloskey put it, "that 5% of the people voted for me because they agreed with my views; 11% voted for me even though they disagreed with my views, and 84% didn't have any idea what the hell my views were."<sup>30</sup>

In sum, one has many good reasons to agree with Joseph Schumpeter's assessment: "The freely voting rational citizen, conscious of his (long-run) interests, and the representative who acts in obedience to them—is this not

Politics action - builds gov't  
by no. ant voters

the perfect example of a nursery tale?"<sup>31</sup> Political actions commonly take place in an environment of ignorance, misinformation, posturing, and heated emotions; there are long seasons of lassitude and maneuvering punctuated by brief episodes of frenzied action. In the formulation of detailed policy, the voters at large do not count for much. Strategically placed leaders and interested elites constantly apprised of each moment's political potential are more decisive. Moreover, ideologically motivated actions may drive the course of political events far more than proponents of the Political Redistribution Hypothesis recognize.

### Ideology

Many scholars maintain some form of the Ideology Hypothesis to explain the growth of government. The idea is that true believers, committed to a vision of the Good Society, have sought and obtained expanded governmental powers in order to shape social reality in conformity with their ideals. Supporters of the hypothesis make unlikely confederates. They include John Maynard Keynes, the patron saint of modern liberalism, who asserted that "the ideas of economists and political philosophers . . . are more powerful than is commonly understood. Indeed the world is ruled by little else. . . . [S]oon or late, it is ideas, not vested interests, which are dangerous for good or evil."<sup>32</sup> Another firm believer in the force of ideas is Friedrich A. Hayek, perhaps the most celebrated intellectual on the right. He has identified the ultimate cause of the abandonment of the market system as "certain new aims of policy," in particular a conviction that government should "determine the material position of particular people or enforce distributive or 'social' justice" by means of "an allocation of all resources by a central authority."<sup>33</sup> Thus Keynes, who argued in favor of a "somewhat comprehensive socialization of investment," and Hayek, who has devoted a long professional life to combatting socialism of any sort, agree that the growth of government depends ultimately on ideas or, more accurately, ideologies.<sup>34</sup>

Ideology, which some refer to more vaguely as "public opinion," must have played an important part, at least a decisive permissive role. As Ortega y Gasset has said and many others have recognized, "there can be no rule in opposition to public opinion."<sup>35</sup> If people generally had opposed Big Government on principle, free markets could scarcely have been abandoned as they have been during the past seventy years. One can easily document the shift of public opinion toward the left during the twentieth century. Examining evidence from numerous sample-surveys, Herbert McCloskey and John Zaller recently confirmed "a virtual turnabout in American attitudes toward laissez-faire over a period of fifty to seventy-five years."<sup>36</sup>

Because ideologies are intangible and difficult to gauge, one must tread

Ideology - 1 person can impact whole

lightly in arguing about their effects. Yet much can be established, especially when one recognizes that opinion leaders have the ability to guide the beliefs of the masses. Public opinion, a political scientist has observed, is "often vague, transitory, and inconsistent. . . . In so far as the public is aware of issues, it focuses frequently on issues and topics which have been promoted or popularized by politicians and the media." The views of a Walter Lippmann or a Walter Cronkite, not to mention a Franklin D. Roosevelt, can do more to determine the climate of opinion than the views of millions of less respected and less strategically situated people can do—consider that despite his faltering delivery and often faulty logic, Ronald Reagan gained a reputation as the Great Communicator. "[I]n a mass democracy," Ropke wrote, "policy has to withstand . . . the pressure of . . . mass opinions, mass emotions, and mass passions," but these are "guided, inflamed, and exploited by pressure groups, demagogues, and party machines alike."<sup>37</sup> By concentrating on the ideas disseminated by strategically placed elites and influential persons, one has a more defensible basis for generalizations about the prevailing ideologies that matter. (What has caused the historical twists and turns of ideology among opinion leaders themselves is a separate question.)

Even if the dominant ideologies can be identified, however, one must recognize that a legislature "is not a factory that mechanically converts opinion into statutes."<sup>38</sup> Just as there is much slippage between the economic interests of constituents and the actions of their political representatives, there is much slippage between the opinions or ideologies of constituents and the actions of their political representatives. To understand the discrepancy would be to understand a great deal of the reality of the workings of modern representative democracy. Conceivably it occurs in part because some public officials try to promote the "public interest," which has been described as "broad-gauged, inclusive conceptions of what constitutes the best interests of the societal groups who support them or of society as a whole . . . something other than the summation, processing, or mediation of societal interests."<sup>39</sup> Another part of the slippage may result from nothing more than simple venality, as governmental officials serve the highest bidder. One can only speculate whether the occasional cases of outright bribery that come to light are just the tip of a skunk's tail. Some scholars consider direct bribes a "significant mechanism" in the determination of the actions of governmental agents. Others doubt the importance of direct bribes, mainly because of the "greater ease and legality of bribing policymakers indirectly."<sup>40</sup>

In any event, ideology is not simply an independent variable in the sociopolitical process. Schumpeter perceived this complication when he observed that "whether favorable or unfavorable, value judgments about capitalist performance are of little interest. For mankind is not free to choose. . . .

Things economic and social move by their own momentum and the ensuing situations compel individuals and groups to behave in certain ways whatever they may wish to do—not indeed by destroying their freedom of choice but by shaping the choosing mentalities and by narrowing the list of possibilities from which to choose."<sup>41</sup> Some may object that this declaration goes too far, that it is unjustifiably deterministic, leaving no room at all for ideology as an independent variable.<sup>42</sup> Still, in his provocative formulation of the sociology of knowledge in relation to the growth of government, Schumpeter identified a critical issue and laid down an analytical challenge that any fully satisfying account will have to meet.

Crisis

The final explanation of the growth of government to be considered here is the Crisis Hypothesis. This maintains that under certain conditions national emergencies call forth extensions of governmental control over or outright replacement of the market economy. Supporters of the hypothesis assume that national emergencies markedly increase both the demand for and the supply of governmental controls. "At the time of economic crisis," observed Calvin Hoover, "when critical extensions of governmental power are likely to occur . . . there is little opportunity for a meaningful vote on whether or not, as a matter of principle, the powers of the state should be extended. Instead, there is likely to be an insistent demand for emergency action of some sort and relatively little consideration of what the permanent effect will be."<sup>43</sup>

In American history the most significant crises have taken two forms: war and business depression. At the outbreak of war a suddenly heightened demand for governmental provision of military activities leads immediately to displacement of market-directed resource allocation by greater taxation, governmental expenditure, and regulation of the remaining civilian economy. The larger and longer is the war, the greater is the suppression of the market economy. Modern "total" war, widely regarded as jeopardizing the nation's very survival, also encourages a lowering of the sturdiest barriers—constitutional limitations and adverse public opinion—that normally obstruct the growth of government. In severe business depressions many people come to believe that the market economy can no longer function effectively and that an economy more comprehensively planned or regulated by government would operate more satisfactorily. Hence they give greater support to political proposals for enlarged governmental authority and activity. Though to a lesser degree than during wartime, changes in public opinion during depressions may also stimulate the supply of new governmental interventions by

(Crisis) - wars - rise taxes, lower constitution  
- depressions - govt control

demanding, approving, or at least condoning facilitative reinterpretations of the Constitution. (Note that once constitutional barriers have been lowered during a crisis, a legal precedent has been established giving government greater potential for expansion in subsequent *non*crisis periods, particularly those that can be plausibly described as crises.)

Some scholars have rejected the Crisis Hypothesis completely because by itself it cannot explain all of the growth of government; they have in effect rejected the hypothesis because the evidence appears to show that, although crisis may have been a sufficient condition for governmental expansion, it has not been a necessary condition. Judged by this standard, however, every existing hypothesis would be found wanting. Sometimes the Crisis Hypothesis has been rejected because the growth of government, as measured by a quantitative index such as spending or employment, appears less than perfectly correlated with the sequence of crisis episodes. Such a simpleminded basis for rejection of the hypothesis fails to appreciate the various ways in which crisis may promote the rise of government and ignores the possibility of lags between the occurrence of the crisis and the appearance of some of its effects. Some scholars have rejected the hypothesis because it cannot account for the growth of government in all countries, as if no explanation with less than universal validity has any pertinence at all.

In fact, governmental expansion historically has been highly concentrated in a few dramatic episodes, especially the world wars and the Great Depression. A major virtue of the Crisis Hypothesis, a virtue that it alone appears to possess, is that it conforms fairly well to the most prominent contours of the historical experience. To employ the hypothesis to best advantage, however, one must look beyond the crises themselves. One must discover why the expansions of governmental power during a crisis do not disappear completely when normal socioeconomic conditions return. And one must explain why crises led to upward-ratcheting governmental powers in the twentieth century but not in the nineteenth, which had its own emergencies. Accounting for this difference requires that some of the other hypotheses be brought into play as complements of the Crisis Hypothesis.

### CONCLUSIONS

Big Government in the United States has various sources. Not all are equally important, but scholars have yet to develop analytical procedures for determining with precision their relative importance. Given the many intricate interdependencies among the various sources, such a determination may be beyond our grasp conceptually as well as empirically. Ameliorating negative externalities, providing nonexclusive public goods, guaranteeing the liveli-

hood of the most unfortunate citizens, redistributing income and wealth, pursuing the elusive goals of influential ideologies, reacting to crises—such are the activities of modern Big Government. They are related differently to any particular stimulus or obstruction. Only by detailed historical study can one hope to understand the complexities of the growth of American government.

## CHAPTER TEN

# Crisis and Leviathan: From World War II to the 1980s

This is the one song everyone  
would like to learn: the song  
that is irresistible:  
the song that forces men  
to leap overboard in squadrons  
even though they see the beached skulls.

MARGARET ATWOOD

By the end of World War II, as Jonathan Hughes has written, "the balance of economic power had been altered for good, away from the primacy of private decision making and into the arena of government and politics."<sup>1</sup> Three decades of crisis after crisis had left the free-market system, once the predominant national institution for the pricing and allocation of resources, constrained and corrupted almost beyond recognition. Strangely, economics textbooks continued to be written and many people continued to talk as if the American economy remained essentially a free-market system. Left-wing radicals continued to castigate American "capitalism," something that certainly had not existed since the 1920s, perhaps not since before World War I. One could for various reasons dislike the socioeconomic regime of the post-World War II era, but what one was disliking was by the standard criteria surely not capitalism.

To recognize that capitalism no longer existed and that some kind of "mixed economy" had come fully into sway does not conclude the story. The great transformation that had been completed by the late 1940s entailed not only that governmental officials henceforth would either make or effectively constrain many of the economic decisions previously made by autonomous private citizens. It entailed also, and more portentously, that the dynamics of the political economy from that time forward would take a different shape. Under the new rules the game would be played differently,

3 decades of crisis

and its sequence of outcomes would differ as well. Most significantly the new regime possessed no enduringly effective checks on the continuing growth of government. Once the fundamental barriers of a restrictive ideology and the old Constitution had been battered down, persistent political forces pushing toward Bigger Government could exert themselves virtually without limit.

Added to the now unchecked "normal" growth of government were the effects of recurring postwar crises and, even more fundamentally, the consequences of that permanent emergency known as the Cold War. First in Korea, then in Vietnam, massive military adventures gave the usual fillip to the powers of government. Concurrently with the Vietnam War a violent unraveling of the civil-rights movement, marked by large-scale riots, arson, and other disturbances in cities across the nation, prompted new governmental programs to deal with the so-called urban crisis. Partisans of other causes—environmentalists, "consumerists," egalitarian redistributionists, and those dedicated to eliminating a variety of workaday risks to life and health—organized to exploit the potential created by the more significant political forces opposing the war or promoting the interests of blacks and other ethnic minority groups.

Throughout the post-World War II era, in war and peace, in storms of international conflict and lulls of détente, the military-industrial complex consumed a variable but always substantial portion of the nation's resources. The planning, production, and deployment of armaments occupied an exceptionally large proportion of the technical and scientific work force, at the heavy cost of forgone opportunities for innovation in civilian production. Comprising an enormous coalition of military officers, politicians, contractors, labor unions, universities, and research organizations, all financed on a grand scale by citizens whose natural fears were kept chronically aroused by Pentagon propaganda, this huge nonmarket system directed hundreds upon hundreds of billions of dollars into the pockets of its privileged participants.<sup>2</sup> Never did so many prosper so much by feeding on fear.

In an atmosphere of unending crisis the emergency game became one of the most common gambits in the political economy. No grasping interest-group proposal was complete without the claim that it ought to be carried out because "an emergency exists." Many people eventually grew jaded, having heard the bogus claim so often, but its continued assertion suggests that the emergency game still promises a positive payoff. Sometimes, most notably with the wage-price controls and the energy controls of the 1970s, the game was played with huge stakes. Even under the Tory administration of Ronald Reagan, emergency claims continued to be pressed, and honored. Special farm loans, international travel restrictions, and export controls exemplify the recent emergency actions taken by the "conservative" American government.<sup>3</sup>

Cold War

### THE MIXED ECONOMY: MARCH INTO SOCIALISM OR FASCISM?

Joseph Schumpeter, one of the most celebrated social scientists of the twentieth century, delivered his final public address on December 30, 1949, just nine days before he died. He entitled the talk, which dealt with the probable future of the American economy, "The March into Socialism." Forswearing any pretense of absolute knowledge of the future, Schumpeter claimed only a vision based on past tendencies and the logic by which one might reasonably expect the tendencies to work themselves out. While his analysis of the politico-economic dynamics of Western countries pointed to socialism as the "likely heir apparent," he recognized several other possibilities, including one in which the political economy would become lodged in a "halfway house" short of full-fledged socialism.<sup>4</sup>

The Schumpeterian model of politico-economic dynamics, which indicates a probable transition from capitalism to socialism, rests on four central propositions: (1) Large corporate firms, bureaucratically managed and routinely innovative, displace the entrepreneurs and owner-managers of classic capitalism, thereby shrinking the size, attenuating the economic function, and diminishing the social and political standing of the business class. (2) As capitalism matures, society grows ever more "rational," which causes a loss of respect for and allegiance to such extra-rational institutions as private property rights and freedom of contract. (3) Capitalism nurtures a growing intellectual class that, ironically, is inherently hostile toward the system that makes possible its existence. (4) As the opposition of intellectuals, labor unionists, and their allies mounts, the bourgeoisie loses faith in its traditional values and ideals; its defense of the free-market system grows steadily weaker as it accommodates itself to a political environment that gives ever greater priority to social security, equality, and governmental regulation and planning. While Schumpeter recognized at the end of the 1940s a residual capitalist vitality in the American economic order, he emphasized that "we have traveled far indeed from the principles of laissez-faire capitalism."<sup>5</sup>

Although he conceded that crises such as war or depression would accelerate the secular tendencies, he denied that "any mere 'events,' even events of the importance of 'total wars,' or the political situations created thereby, or any attitudes or feelings entertained by individuals or groups on the subject of these situations, dominate the long-run contours of social history—these are a matter of much deeper forces." Mere events could only "remove obstacles from the path of the more fundamental tendencies. . . . Evolution toward socialism would be slower" in the absence of social crises "but also steadier."<sup>6</sup> In the long run, Schumpeter concluded, chronic inflation plays a crucial role in the process by which the capitalist order breaks down: the

Schumpeter - Socialism -

Intellectuals v. Capitalism -

Faintly visible text on the left margin.

economy will pass through a succession of wage-price controls into complete socialism.<sup>7</sup>

Schumpeter's ideas have been evaluated and reevaluated in great detail. While almost everyone acknowledges his penetrating insights into politico-economic dynamics, critics generally have concluded that Schumpeter's vision harbors unsolved problems and unwarranted inferences and suffers from considerable vagueness in critical components of the analysis. For present purposes several questions are pertinent, all relating to ideas Schumpeter seems to have derived from Marxism.<sup>8</sup>

First, is the growth of government that has occurred in the United States since Schumpeter issued his final forecast really a march into socialism? Certainly many conservatives have characterized it as "creeping socialism." Social scientists generally presume that extensions of the government's control over the economy constitute in effect moves toward socialism. One may seriously question, however, whether this characterization is the most descriptively accurate one available in the terminology of social science. As William Fellner pointed out, Schumpeter's analysis "leaves the question open why the decomposition of Western-type systems could not lead to a non-socialist variety of 'fascism.'" Schumpeter himself only hinted at the possibility in passing remarks, as when he observed that the future is unlikely to bring "the advent of the civilization of which orthodox socialists dream. It is much more likely to present fascist features."<sup>9</sup>

If by socialism one understands, as Schumpeter in his celebrated book generally did, a high degree of outright public ownership and management by governmental planners of industry, agriculture, and public utilities, then the United States since 1945 clearly has not marched far into socialism.<sup>10</sup> As the American mixed economy has developed, the tendency has been to destroy the substance more than the form of private ownership. The most common methods of governmental control have been not explicit takeovers but rather heavy taxation and subsidization (often in hidden forms) and, especially, extensive regulation of ostensibly private activities. Although critics decry the pervasive governmental intrusion in the economy as "socialistic," it clearly has not produced an economic order resembling any standard form of socialism.

Has it instead produced "fascism"? The term unfortunately has been abused by Americans in at least two distinct ways. On the one hand, "fascist" serves merely as a loose term of opprobrium by which radical leftists characterize anything they dislike about the present political economy. On the other hand, and more commonly, it simply brings to mind the regimes of Mussolini and Hitler, which are generally considered to have nothing in common with the postwar political economy of the United States. Indeed most Americans find the mere suggestion of such similarities offensive and

My ne-  
solution  
Destroy  
Private  
Ownership

repellent—did Americans not spill their blood to destroy the fascist regimes?—and refuse to consider seriously the possibility that the United States may be fascist in some respects.

The term *fascism*, however, has a definite meaning; and one may employ it as an analytical concept independent of distasteful historical exemplars. As Charlotte Twight has shown, the essence of fascism is nationalistic collectivism, the affirmation that the "national interest" should take precedence over the rights of individuals. So deeply has the presumption of individual subservience to the state entered into the thinking of modern Americans that few people have noticed—and no doubt many would be offended by the suggestion—that fascism has colored countless declarations by public officials during the past fifty years. Unfortunately, as Friedrich Hayek noted during World War II, "many who think themselves infinitely superior to the aberrations of nazism, and sincerely hate all its manifestations, work at the same time for ideals whose realization would lead straight to the abhorred tyranny."<sup>11</sup>

More than anything else, the peacetime military draft signaled the triumph of fascist sentiment in the post-World War II era. "There existed," wrote Richard Gillam, "a state of quiet consensus that America had entered a period of perpetual national emergency which demanded and justified creation of a garrison state based on peacetime military conscription." For more than twenty years, periodic extensions of the draft law took place with little or no debate. No one in Congress stood up in favor of voluntarism or an individual right of ownership over one's own body and one's own life. "Gone was any sense that conscription itself violated ideals which were once themselves seen as vital" to the American way of life.<sup>12</sup> When Richard Nixon ended the draft in the early 1970s he acted not so much to restore a traditional individual liberty as for reasons of political expediency, hoping to diminish the troublesome opposition of students and others to the administration's conduct of the war in Vietnam.<sup>13</sup> Even in the mid-1980s the fascist idea that the government has a superior claim to the lives of innocent citizens whenever political leaders deem military conscription necessary retains its grip on the thinking of elites and masses alike. Young men are required by law to register for a draft—and sent to federal prison for conspicuous failure to comply—even though no conscription is presently authorized. Only the absence of an emergency prompting a large increase in the number of people under arms permits the volunteer military system to survive.

Alone among collectivist systems, fascism preserves private property, but "capitalism is turned inside out in this unlikely union." Fascism recognizes people's desire to possess private property and admires the strength of the profit motive, but it "uses these features of capitalism [only] insofar as they do not conflict with the national interest as formulated by fascism's political authority."

Fascism → nationalistic collectivism  
- not conflict w/ national interest

ties. Every part of economic life is ideologically, constitutionally, and legally vulnerable to governmental control. Hence "fascism tolerates the *form* of private ownership at the government's pleasure, but it eliminates any meaningful *right* of private property." It is "a bogus capitalism indeed, a sham deferral to individual economic rights readily nullified whenever political leaders deem it expedient."<sup>14</sup>

Twight argues that this abstract description of fascist economic policy matches in detail not only the actions of the regimes of Hitler and Mussolini but the practice of the government of the United States since World War II. Of course the fanatical hero worship, the general suppression of civil and political rights, and the mass murders that marked the fascism of Germany and Italy have not characterized the American case. But the similarities of economic policy are striking. All fascist systems have imposed the same sweeping controls over such "vital" industries as agriculture, energy, transportation, communications, and armaments whenever the political authorities deemed the controls appropriate; all have heavily regulated the labor markets and union-management relations; all have captured the financial and money-supply mechanisms and used them to promote "national" objectives; all have resorted, at least episodically, to wage-price controls and physical allocations; all have extensively controlled international travel and international exchanges of goods, financial capital, and currencies; all have employed a huge administrative corps to monitor private activities and to formulate and enforce governmental directives. In all cases a coalition of big business and the government has emerged, as "fascism's abrogation of the market in favor of political control over the economy inherently favors big business at the expense of the small entrepreneur." Characteristically there has been an "extensive interchange of positions between ranking civil servants and high corporate executives"—the revolving door familiar at the highest levels of American government, especially but by no means exclusively between the Pentagon and the major defense contractors.<sup>15</sup>

In recognition of the apparent openness of the American political system and the "care and attention . . . devoted to the formal trappings of due process," Twight calls the political economy of the United States "participatory fascism." There is an "ostensible inclusion of all potential dissident parties within the government's decision-making process." This "provides the appearance of fairness"; it placates the losers in the policy struggles, who settle for having had their views considered. Thus "the bright facade of fair procedure blinds the public to the system's fundamental abrogation of individual economic freedom."<sup>16</sup> Evidently Schumpeter missed the mark: America's political economy has marched not into socialism as he understood it but rather into an arrangement more accurately described as participatory fascism.

Twight

Schumpeter's vision of the future political economy went awry in part because he misperceived the character of the individuals and groups effectively contending over it and thereby determining its form. Adopting a modified Marxian two-class scheme, he viewed the major contending parties as on one side the bourgeoisie or "business class," the only potential defenders of capitalism, and on the other side the labor unionists and intellectuals and governmental bureaucrats, who seek to tear down capitalism and replace it with socialism or at least with what he sometimes called "laborism." For one who constantly espoused taking the long view, Schumpeter appears in retrospect to have been too much impressed by the rise of organized labor and by the disaffection of big business from the Roosevelt administration after 1935. He failed to appreciate how much the abandonment of traditional economic liberties over the long run had resulted not from the acquiescence or defeat of businessmen but from their enthusiastic sponsorship. As Douglass North has pointed out, "conflicts amongst propertied groups . . . set off the growth of government regulation." Businessmen have done more than their full share to foster the active regulatory state from its very inception.<sup>17</sup>

Consider William Simon's recent description of the relation of business and government as he witnessed it during his tenure as Secretary of the Treasury in the 1970s:

I watched with incredulity as businessmen ran to the government in every crisis, whining for handouts or protection from the very competition that has made this system so productive. I saw Texas ranchers, hit by drought, demanding government-guaranteed loans; giant milk cooperatives lobbying for higher price supports; major airlines fighting deregulation to preserve their monopoly status; giant companies like Lockheed seeking federal assistance to rescue them from sheer inefficiency; bankers, like David Rockefeller, demanding government bailouts to protect them from their ill-conceived investments; network executives, like William Paley of CBS, fighting to preserve regulatory restrictions and to block the emergence of competitive cable and pay TV. And always, such gentlemen proclaimed their devotion to free enterprise and their opposition to the arbitrary intervention into our economic life by the state. Except, of course, for their own case, which was always unique and which was justified by their immense concern for the public interest.<sup>18</sup>

One wonders whether anyone—with the possible exception of a few right-wing ideologues—any longer supports the free-market system as an inviolable desideratum; whether anyone is willing to bear its costs in order to preserve its benefits. Talk is cheap, and accordingly business people often talk as if they favor capitalism. But the blatant hypocrisy of their rhetoric suggests that it is either a political device, deliberately employed as part of a "public relations" strategy, or a mindless reflex inherited from the past and readily abandoned when it seems incompatible with short-run gain.

Leland Yeager has argued that business people "as such" have no strong

business class - labor unionists

interest in limiting governmental activism. Business interests frequently profit from constraints on the market economy. Firms can usually cope with regulation, even when it is not immediately beneficial. Indeed "[t]he prospects for businessmen of ordinary ability relative to the prospects of the most dynamic entrepreneurs may even be better in a highly regulated economy than under substantial laissez faire." Leftist ideology notwithstanding, "Businessmen as such, rather than simply as human beings, are not the main beneficiaries of a free economy."<sup>19</sup> They know this and act accordingly.

Besides misconstruing the relation of the business class to the preservation of capitalism, Schumpeter persistently underestimated how much governmental authorities would act not as an executive committee of the bourgeoisie, or of any other group, but as interested parties in their own right, especially during crises. By accepting the classic Marxian formulation of socioeconomic change propelled by "the" class struggle as his point of departure, he failed to appreciate the emergence of a separate "class," neither bourgeoisie nor proletarian, possessing sufficient autonomy to pursue interests exclusively its own, whether material or ideological.

Finally the Marxian foundations of Schumpeter's thought served him poorly in his assessment of crises. As I have argued above in some detail, what he called "mere events" played a supremely important part in the historical breakdown of the free-market regime. In his insistence on the preeminence of so-called more fundamental tendencies, he disregarded his own observation that "the very concept of historical sequence implies the occurrence of irreversible changes in the economic structure which must be expected to affect the law of any given economic quantity"—*a fortiori* the evolution of any politico-economic system.<sup>20</sup> Such irreversibilities, giving "mere events" magnified and enduring significance, marked American historical development after 1950, too.

#### CRISIS AND LEVIATHAN: THE RECENT EPISODES

Not long after the Truman administration committed the armed forces of the United States to fight in Korea the government greatly expanded its powers over the American economy. A leader in moving public opinion to favor the strong controls was—*mirabile dictu*—Bernard Baruch, the gray eminence still going strong at age eighty-one in his performances before news reporters and congressional committees. On September 8, 1950, the Baruch-inspired Defense Production Act became law, empowering the President to mobilize resources for the war. Under authority granted him by this act, Harry Truman issued Executive Order 10161, delegating his economic war powers

to various administrators and creating such agencies as the National Production Authority, which set up rules for a priority system, and the Economic Stabilization Agency, which arranged for wage-price controls.<sup>21</sup>

On December 16, 1950, in response to "the increasing menace of the forces of communist aggression," Truman proclaimed a national emergency. Urging that individuals lay aside their own interests in favor of the "national interest" as he and his political pals had defined it, he summoned

all citizens to make a united effort for the security and well-being of our beloved country and to place its needs foremost in thought and action . . . our farmers, our workers in industry, and our businessmen to make a mighty production effort . . . and to subordinate all lesser interests to the common good . . . every person and every community to make . . . whatever sacrifices are necessary for the welfare of the Nation . . . all state and local leaders and officials to cooperate fully with the military and civilian defense agencies of the United States in the national defense program.<sup>22</sup>

The President established the Office of Defense Mobilization to coordinate the war program and the Defense Production Agency to oversee the production controls. On January 26, 1951, the ESA issued regulations to control wages and prices. In July 1951 a Controlled Materials Plan patterned after that used in World War II was initiated; it became fully effective three months later. Additional controls were imposed on shipping, credit, and the production of consumer durable goods.<sup>23</sup>

Despite the many controls imposed, the government's mobilization of the economy during the Korean War never reached the extremes experienced during the Big One. It was simply a much smaller war, only about one-third (5.8 million military personnel) or one-sixth (1.6 million draftees) or one-eighth (54,000 total deaths) as big. Adjusted for changes in the price index for federal purchases, the \$54 billion original cost of the Korean War is about one-eighth as much as the corresponding outlay during World War II.<sup>24</sup> Although the controls were imposed quicker than before—"evidence that the American public was growing accustomed to the type of action that must be taken in economic mobilization"—the limited scale of the war meant that the government did not need to divert resources from civilian to military uses so forcefully as before.<sup>25</sup> To a greater extent, ordinary fiscal and market devices could serve the government's purposes satisfactorily. Because much smaller costs had to be borne, the government had less incentive to adopt cost-concealing methods of capturing resources. As an expert on the economics of war described it, the mobilization for the Korean War was "part way between the methods of free enterprise and the strong governmental control and regulation of World War II."<sup>26</sup>

The limitations of the government's program became clear in the steel seizure episode. Placed in an uncomfortable political position by a dead-

*Steel Seizure*

locked union-management dispute that threatened a nationwide strike, Truman directed the Secretary of Commerce to seize and operate the steel industry in April 1952. The owners obtained an injunction to prevent the seizure. The Supreme Court upheld the injunction by a 6 to 3 vote in the *Youngstown* case decided June 2, 1952. Although the Court thereby denied Truman—by that time a very unpopular President—a power previously exercised freely by Wilson and FDR, the decision did not impose a restriction on the government's power to take private property. It restrained only a presidential taking without specific statutory authorization. As Justice Hugo Black said in announcing the majority's opinion, "This is a job for the Nation's lawmakers, not for its military authorities." Justice Robert Jackson, in a concurring opinion, emphasized "the ease, expedition and safety with which Congress can grant and has granted large emergency powers." Neither the majority nor the minority gave any weight to private property rights. While the majority objected only to Truman's presidential high-handedness, the minority grumbled that "such a [presidential] power of seizure has been accepted throughout our history."<sup>27</sup> The Constitution was read in this case, as in many others, not as a bulwark against governmental oppression of private citizens but rather as the institutional setting within which high officials in the different branches of government conduct their internecine struggles for supremacy.

After cessation of the fighting in Korea the United States enjoyed a decade of respite from the growth of governmental authority over economic affairs. The wartime wage-price and production controls lapsed, although the authority to reinstitute the production controls remained. No major extensions of the government's economic controls were enacted. Big Government did not disappear; virtually all the controls that had been created before 1950 remained in force. But businessmen, according to Herbert Stein, "had learned to live with and accept most of the regulations." Disturbed only by new and unfamiliar regulations, "they regard the regulations they are used to as being freedom."<sup>28</sup> Governmental spending, especially for Social Security benefits, crept upward. All in all, however, the administrations of Eisenhower and Kennedy were remarkably placid in comparison with those that preceded and followed them.

Under LBJ and Nixon the federal government's intrusion in the economy took another leap. As Table 10.1 shows, many major regulatory laws were enacted during 1964-1976. The bulk of the legislation belongs to five broad areas: (1) protection of consumers from dangerous, defective, or misrepresented products; (2) protection of employees and consumers from discrimination based on race, sex, age, or handicap; (3) protection of the natural environment from various kinds of pollution; (4) protection of employees from workplace risks of injury or disease; (5) wage-price controls and

Table 10.1  
Major Federal Regulatory Legislation, 1964-1976

1964	Civil Rights Act
1966	Traffic Safety Act
	Coal Mine Safety Amendments
1967	Flammable Fabrics Act
	Age Discrimination in Employment Act
1968	Consumer Credit Protection (Truth-in-Lending) Act
1969	National Environmental Policy Act
1970	Economic Stabilization Act
	Clean Air Act Amendments
	Occupational Safety and Health Act
1972	Consumer Product Safety Act
	Water Pollution Control Act
	Equal Employment Opportunity Act
1973	Emergency Petroleum Allocation Act
1974	Federal Energy Administration Act
	Employee Retirement Income Security Act
1975	Energy Policy and Conservation Act
1976	Energy Conservation and Production Act
	Toxic Substances Control Act

physical allocations, either across the board or specifically in energy markets. Taken together, these regulatory measures raised the governmental presence in the economy to a considerably higher level—one is tempted to compare them to the New Deal. Though the comparison would show the New Deal to be the more significant episode, the surge of new regulatory programs between 1964 and 1976 was unquestionably of great consequence.

What accounts for the interventionist outburst? Perhaps the most revealing answer requires that one consider each new regulatory program separately. A large literature taking such a piecemeal approach has come into being. From it one learns, not surprisingly, that the explanation of why regulatory program *x* was created generally differs somewhat from the explanation of why regulatory program *y* was created. No doubt the Consumer Product Safety Act and the Equal Employment Opportunity Act do have quite different backgrounds. One ought not to dismiss such distinctions or to depreciate the efforts of the scholars who have illuminated them. Still, from this literature one cannot learn, except by additional investigation and inference, why so many distinct regulatory programs appeared simultaneously during the late sixties and early seventies.

Some scholars have attempted to find a common denominator in the diverse regulatory measures. Stein, for example, argues that an important influence was exerted by an intellectual development that he dubs, after its leading popularizer, Galbraithianism: a loose collection of socioeconomic

Truman - SC - "Nope" Youngstown

analysis and evaluation hostile toward the free-market system and favorably inclined toward more sweeping governmental controls. "There was," says Stein, "no demand for a new and different economic system" in the Galbraithian view. Rather "[t]he ideological case for the old system, the free market capitalist system, was punctured by the demonstration of exceptions to its general rules and claims, and this opened the way for specific policy interventions and measures of income redistribution without any visible limits." The arguments and attitudes of Galbraithianism gained strength from a spreading conviction that the American economy would continue to grow forever at a high rate, thereby insuring that new and costly governmental programs could easily be financed by drawing from the so-called growth dividend.<sup>29</sup> Henry Aaron's description of the climate of opinion in the sixties essentially agrees with Stein's. Aaron traces the roots of Galbraithianism back to previous crises: "The faith in government action, long embraced by reformers and spread to the mass of the population by depression and war, achieved political expression in the 1960s. This faith was applied to social and economic problems, the perceptions of which were determined by simplistic and naive popular attitudes and by crude analyses of social scientists."<sup>30</sup> As the observations of the conservative Stein and the liberal Aaron illustrate, scholars of diverse ideological persuasions agree that prevailing attitudes among both elites and masses in the mid-1960s favored increased governmental intervention in the market economy. Ideological postures engendered by past crises had come once again into political prominence.

Some scholars, especially those former radicals and liberals now known as neoconservatives, associate the ideological trends of the sixties and seventies with the growing ascendancy of an alleged New Class. According to Irving Kristol, who has popularized the notion, this class comprises scientists, lawyers and judges, city planners, social workers, professors, criminologists, public health doctors, reporters, editors, and commentators in the news media, and others. Many of these people work for the government or in the not-for-profit sector; they are "idealistic" and denigrate profit-seeking activities. Ostensibly reformist, they harbor, in Kristol's view, a "hidden agenda: to propel the nation from that modified version of capitalism we call 'the welfare state' toward an economic system so stringently regulated in detail as to fulfill many of the traditional anti-capitalist aspirations of the Left."<sup>31</sup> One may question whether the individuals implicated by Kristol constitute a class in the sense that sociological theorists employ the concept of class, but no one can deny that a multitude of left-leaning intellectuals and quasi intellectuals gave prominent leadership and support to the regulatory outburst of 1964-1976.

Questions remain about the specific timing of the outburst and about how the New Class and others who shared its values and aspirations succeeded in

Galbraithian Exception to K  
 ... ..

transforming their ideals into concrete regulatory measures. To answer the questions, one must consider some more prosaic political developments.

Presidential and congressional changes in the mid-sixties loom large in this story. The accession of Lyndon B. Johnson from the vice presidency and his subsequent landslide election placed in the highest office a man driven by an ambition to leave an indelible mark on history, to carry forward the political programs of his hero and mentor, Franklin D. Roosevelt. Formerly a powerful senator, LBJ knew well how to work with Congress, and he had compliant members of Congress to work with. Not only did the Democrats have enormous majorities in both houses of Congress—an advantage they would continue to enjoy until the 1980s—but the election of 1964 brought into office on Johnson's coattails an extraordinarily liberal group of legislators. No longer did the traditionalist "conservative" Democrats, mainly Southerners, dominate the lawmaking branch of government. According to Aaron, "No administration since Franklin Roosevelt's first had operated subject to fewer political constraints than President Johnson's."<sup>32</sup> Under such favorable political conditions the proponents of collectivist programs had enormous room to maneuver.

But what determined the specific forms the regulatory programs took? To which constituencies did the activist Presidents (Johnson and Nixon) and the left-leaning Congress cater most during the decade after 1963?

In considering these questions one must recognize the unprecedented proliferation of animals in the American political jungle during the 1960s. None of the old factions disappeared—big business, labor unions, middle-class professional and trade groups, farmers, and many other longstanding interest groups remained well entrenched—but a plethora of new groups emerged. The civil-rights movement first spawned a number of politically organized and active groups seeking to promote better economic and social conditions for blacks, then spun off "by way of osmosis and highly contagious analogical thinking" various groups to promote the political aims of other "oppressed minorities": women, Indians, Chicanos, white ethnic groups, students, homosexuals, the handicapped, the elderly, and many others, all previously not directly represented as such to an important extent in American politics. The newly potent groups demanded that the federal government solve diverse racial, urban, employment, and consumer problems, real and imagined. Similarly the antiwar movement spilled over into "a spreading interest in an assortment of 'general publics' and 'public goods' supposedly in need of the protection that organized political action brings." Agitation in support of environmentalist, consumerist, and zero-risk regulations reached unprecedented levels. By the early seventies "the universe of political organizations was handsomely populated by groups widely discounted before as unorganizable."<sup>33</sup>

Spec. Int. Groups

That all these groups organized and began to flex their political muscles precisely when they did was no accident: once again social crisis had substantially enlarged the domain of political feasibility. The turmoil of the sixties, with its acrimonious divisions on a scale not witnessed in the United States since the Civil War era, created two critical preconditions for a burst of regulatory legislation. First, it got the attention of many people who in normal times would have remained uninterested in politics. The promise—or the threat—of massive changes in race relations awakened millions of politically dormant citizens. Troubling questions about the aims, methods, risks, and costs of American military actions in Vietnam gained the attention of even more people; virtually no one could ignore or stand aloof from a conflict that claimed the lives of fifty-eight thousand U.S. servicemen, 86 percent of them white men, in a distant land of doubtful strategic importance. Second, the socially divisive crises of race relations and the war, widely felt as overriding moral issues, provoked massive participation in protests, demonstrations, and more conventional political activities: that is, ideologically motivated actions swept aside the free-rider problem.<sup>34</sup>

Once masses of people had been politically motivated, activated, and organized, their solidarity greatly heightened in many instances by hostile encounters with ideological opponents or police, they readily extended their interests and energies in directions that seemed to them parallel to their original aims and actions. Many—especially among the students—came to believe that a ruling politico-corporate establishment, which they mistakenly identified with capitalism or the free-market system, was responsible for the unjust racial relations and the savage, pointless war. “War-related dissent had been the catalyst for unusually acerbic political divisions and had created a large cadre of radicalized political activists disposed to continue their struggle against other aspects of the system once the war was over.”<sup>35</sup>

Galbraithianism and other varieties of critical socioeconomic analysis helped to justify the displacement of antiwar and pro-civil-rights enthusiasms onto a diversity of antimarket causes. Sensing an enlarged opportunity, members of the New Class strove to realize their cherished regulatory aspirations, drawing strength from the errantly anticapitalist climate of opinion and, not wholly by accident, doing well while doing good. After Johnson was driven from office, the Nixon administration, only mildly reactionary, dared not resist the leftists too much, and the regulatory mania born in the mid-sixties carried into the seventies before a conservative reaction—and a severe, inflationary recession—finally began to restrain it.<sup>36</sup>

While under modern ideological conditions almost any kind of crisis promotes expanded governmental activity, some do so more than others. Lawrence Brown has advanced the provocative idea of a “good” crisis. In such an event “simple causes seem to be evident for all to see, . . . simplistic

race  
Vietnam

Capitalism = reaction

solutions lie near at hand and command consensus, and . . . the upper and middle classes of the population can identify with efforts to solve someone else's problems.” In Brown's view the urban crisis of the sixties exemplifies a good crisis: its causes were taken to be poverty and racism; a “war” on poverty and racial discrimination would eliminate them once and for all; both the legislators and the poverty fighters liked this kind of war.<sup>37</sup> (By such criteria World War II was an even “better” crisis.) Whether one views the twin crises of the mid-sixties as especially “good” or not, they were clearly fundamental in the creation of sociopolitical conditions favorable to the regulatory outburst that began then.

Like FDR, Richard Nixon had a crisis mentality. In 1962, unhappily out of public office, he wrote an autobiographical account entitled *Six Crises*. But whereas Roosevelt's crises were real, Nixon's were more the product of his personal sense of siege. As President, Nixon twice declared a state of national emergency, once on March 23, 1970, in response to a strike by postal workers, and again on August 15, 1971, when balance-of-payments problems led him to impose a 10 percent surcharge on dutiable imports.<sup>38</sup> Had the declarations done nothing more than facilitate the President's handling of the problem at hand, they would not have been particularly noteworthy. At that time, however, Nixon's declarations—along with FDR's of 1933 and Truman's of 1950, which remained in effect—gave force to 470 provisions of federal law delegating extraordinary powers to the President.

As a congressional committee report described them, the emergency powers conferred “enough authority to rule the country without reference to normal constitutional processes.”

Under the powers delegated by these statutes, the President may: seize property; organize and control the means of production; seize commodities; assign military forces abroad; institute martial law; seize and control all transportation and communication; regulate the operation of private enterprise; restrict travel; and, in a plethora of particular ways, control the lives of all American citizens.<sup>39</sup>

Not until the passage of the National Emergencies Act of 1976 did Congress provide for the termination of existing declared national emergencies and for the systematic oversight and termination of future declared national emergencies. Still, the law stopped short of withdrawing past statutory delegations of emergency power to the President. In particular the emergency presidential authority to control international financial and property transactions, first authorized by the Trading with the Enemy Act of 1917, was kept in force. In 1977 Congress further clarified that authority, by no means eliminating it, in the International Emergency Economic Powers Act.<sup>40</sup>

Nixon, like most incumbent politicians, gladly took advantage of crises to augment his power, but he did not just sit waiting for an emergency to come

along. For him the risk that he might not be reelected was crisis enough. According to his economic adviser Stein, he "tended to worry exceedingly about his reelection prospects and so to feel impelled to extreme measures to assure his reelection." Years before the election of 1972 Nixon and his aides began to scheme how they could manipulate the economy to maximize the likelihood of his reelection. The economic policies they implemented epitomize those that generate so-called political business cycles. (Whether such cycles have actually occurred is a separate, more complicated, and controversial question.)<sup>41</sup>

Nothing illustrates Nixon's political opportunism better than his imposition of mandatory wage-price controls in August 1971. The President, who had served as a low-level functionary in the OPA during World War II, had often expressed an aversion to price controls. Such controls, he declared during the campaign of 1968, "can never be administered equitably and are not compatible with a free economy." Yet, as James Reichley has observed, he was "not prepared to take extreme political risks for the sake of economic dogmas." Having convinced himself that his defeat in 1960 had resulted from the Eisenhower administration's failure to generate favorable macroeconomic conditions on the eve of the election, Nixon was determined not to suffer again from the same kind of mistake. His latent fears were sharply aroused in 1970-1971, when the new administration's restrictive fiscal and monetary policies had a more immediate effect in raising unemployment than in reducing inflation.

Impatient that the government's macroeconomic policies seemed to be working so slowly, many politically important people began to call for direct price controls: labor union leaders, big businessmen, members of Congress, potential presidential candidates in the next election, high-ranking economists in the Treasury Department, even Arthur Burns, now heading the Fed—all prodded the President to impose an "incomes policy" because, as Burns put it, "The rules of economics are not working in quite the way they used to." Congress, as if daring Nixon to do what he insisted he would never do, passed the Economic Stabilization Act, authorizing the President to control all prices, wages, and rents. Nixon signed the bill—which was attached as a rider to an act extending the Defense Production Act of 1950—with apparent reluctance on August 17, 1970.

Late in 1970 the appointment of the flamboyant John Connally as Secretary of the Treasury and his subsequent designation as the administration's chief economic spokesman tipped the balance toward controls. Connally had few economic scruples; he specialized in dramatic political gestures, favoring, in Nixon's football metaphor, the "big play." He supported the imposition of controls because he thought it would appeal to the public as a sweeping, take-charge action by the President.<sup>42</sup>

Nixon - wage-price controls

Nixon liked that aspect of the controls. As he later wrote in his memoirs, imposition of the controls "was politically necessary and immediately popular in the short run." Indeed it was. Not only did the stock markets soar and the opinion polls indicate a huge preponderance of approval of the President's action—a response that showed in Stein's view "how shallow was the general support in principle for the basic characteristics of a free market economy"—but Nixon was overwhelmingly reelected a year later, while rigorous controls remained in force.<sup>43</sup>

Economists, with notable exceptions, can be relied upon to testify that price controls "don't work," and in the sense that economists take to be germane—actually reducing inflation, not just temporarily suppressing its manifestations—their conclusion is valid. But in the perspective of political economy it misses the point. Price controls do work: they work to gain short-run political support for the politicians who impose them. The public never seems to learn that it is being sold a faulty political product. As Stein remarks, even after all the economic disruptions, artificial scarcities, and inequities of Nixon's price-control program, which finally ended on April 30, 1974, "the experience did not leave the country with a strong commitment to the free market, monetarist way of restraining inflation. The attraction of the direct approach remained." Just four years later the Carter administration yielded to political temptation and imposed another incomes policy, albeit a half-hearted one entirely reliant on indirect sanctions.<sup>44</sup>

The most important legacy of Nixon's wage-price controls was the government's energy price controls and allocations that persisted long after the comprehensive price controls had expired. When the energy crisis struck, the administration was looking forward to disengagement from its no-longer-useful incomes policy. But given the lingering presence of the price controls, the Arab oil embargo and the OPEC price hikes of late 1973 and early 1974 quickly led in many areas to shortages that were rationed mainly by the customers' waiting in the infamous gas lines. The inconvenience and uncertainty were more than the American public could bear. There immediately arose, in William Simon's words, "collective hysteria. . . . The political heat was on both Congress and the executive to solve the problem overnight."<sup>45</sup>

To deal with the crisis the President by executive order created the Federal Energy Office. On December 4, 1973, he named Simon, then Deputy Secretary of the Treasury, to head the FEO, which by statute later became the Federal Energy Administration and later still the Department of Energy. Overnight, Simon became the "energy czar," one of the most newsworthy people in America. Nixon authorized him "to decide everything and to decide it rapidly." The President equated the energy crisis to a wartime situation and likened Simon's job to that of Albert Speer, Hitler's

artificial scarcities

Minister of Arms and Munitions during World War II. Finding the government's energy allocation procedures tangled and ineffective, Simon and his assistants worked frantically for months to channel existing supplies to the areas with the most desperate shortages. Although eventually some improvements were made and the gas lines shortened and began to disappear by the spring of 1974, the whole arrangement remained fundamentally defective. Simon concluded: "There is nothing like becoming an economic planner oneself to learn what is desperately, stupidly wrong with such a system."<sup>46</sup> It got no better as Congress passed ever more complicated energy legislation in the mid-1970s (see Table 10.1). Inevitably another crisis struck; early in 1979 the gas lines reappeared. The Energy Department's erratic efforts to fix the problem just made it worse.<sup>47</sup> Only with Ronald Reagan's election and the scrapping of all oil price controls was the mess permitted to clean itself up through market processes. Even then, however, a complex system of price controls for natural gas lingered into the mid-1980s, a political dragon too fearful for even Sir Ronald to slay.

Notwithstanding the gas lines of 1979, the Carter years were relatively calm: no great wars, no burning cities, no masses of angry protesters in the streets. The economy grew apace, at least until 1980. The most serious economic problem of the Carter administration was one largely of its own making, the accelerating inflation that eventually reached double-digit rates not seen in the United States since the price controls lapsed after World War II. The administration tried to deflect responsibility and divert attention from the problem by embracing a weak incomes policy late in 1978, the wage-price guidelines that some corporations considered mandatory de facto even though nonexistent de jure. More significantly Carter appointed Paul Volcker to head the Fed in 1979, and thereafter a more restrictive if more erratic monetary policy was conducted. All things considered, the Reagan administration inherited an economy that was, despite the troublesome inflation and an assortment of other problems, in only moderately bad shape.

David Stockman, a congressman later to serve as Reagan's budget director, took a more excited view of the economy. After the 1980 election Stockman, in collaboration with his congressional colleague Jack Kemp, wrote a memorandum entitled "Avoiding a GOP Economic Dunkirk," which he presented to the President-elect and his chief advisers (and leaked to the press and other strategic parties).<sup>48</sup> After cataloging the "multiple challenges and threats lying in ambush," including an impending "credit crunch," a "double-dip recession," and a "federal budget and credit hemorrhage," Stockman proposed that the new administration act quickly, decisively, and dramatically to allay the impending risks and get the economy back on a prosperous track. His specific policy objectives included cuts in federal spending and taxing, further deregulation, and support for a stead-

Reagan - got rid of oil price controls  
 ... MANT

fastly disinflationary monetary policy—nothing revolutionary or even especially radical, as every element had a clear precedent in the later phase of the Carter administration.

The remarkable aspect of the plan was how Stockman proposed that the new administration go about seeking the designated objectives. In a section of his memorandum entitled "Emergency Economic Stabilization and Recovery Program," he proposed that the new President immediately declare a national economic emergency and inform Congress and the nation that economic conditions were much worse than generally appreciated. "He should request that Congress organize quickly and clear the decks for exclusive action during the next hundred days on an Emergency Economic Stabilization and Recovery Program he would soon announce. The administration should spend the next two to three weeks in fevered consultation with Hill congressional leaders and interested private parties on the details of the package."<sup>49</sup> Declaration of national emergency, fevered consultation, a hundred days of legislation! Half a century after Roosevelt's New Deal the wheel had come full circle: now the conservatives would take the country by storm.

Calmer spirits prevailed. After all, it was not 1933, and there was little chance that even the Great Communicator could persuade people that it was. Though the substance of Stockman's proposal served as an influential blueprint for the administration's policy initiatives in 1981, the President decided against a declaration of national emergency. The Reaganauts did succeed in cutting income tax rates (but bracket creep and increased Social Security taxes offset much of the effect of the cuts); they carried out some additional deregulation in the communications, transportation, and financial services industries; and they supported with only occasional carping the Fed's more restrictive monetary policy, which diminished the rate of inflation much faster than anyone had thought possible, though it triggered a severe recession along the way. But much of Stockman's grandiose scheme, especially the broad cuts in federal spending and the extensive deregulation, never achieved enactment, and before long the young budget director grew sick at heart. "I have a new theory," he confided to a journalist: "There are no real conservatives in Congress." Indeed, after the first few hectic months, when the administration wielded the preponderance of power, politics as usual began to reassert itself. Offended constituencies rallied their troops, who dug in for a long battle or counterattacked. As always in politics there were winners and losers, but "what had changed, fundamentally, was the list of winning clients, not the nature of the game."<sup>50</sup>

So the heralded Reagan Revolution fizzled.<sup>51</sup> In part it failed because the administration never had a strong commitment to fundamental change in the first place. Witness the unyielding support for the massive transfer payments, benefitting mainly the middle class, under the Social Security system; the

EMERGENCY ECON. STAB + RECO. PROG.  
 NOPE REAGAN SAID NOPE

continued subsidies to, bailouts of, and protection from competition for farmers, timber companies, auto, steel, textile, footwear, and apparel producers, shipping companies, commercial banks, and countless others; the pervasive interference in international trade through quotas and so-called orderly marketing agreements negotiated with foreign governments. Virtually the entire hodgepodge, described by Stockman as a "coast-to-coast patchwork of dependencies, shelters, protections, and redistributions that the nation's politicians had brokered over the decades," remained intact. Political expediency reigned as supreme as ever. But even had the Reagan partisans genuinely desired to return to a free-market regime, their methods did not augur well for such a reaction. They focused not on institutional change but on altering the budget numbers, on getting income-tax rates down—particularly at the top bracket—and, with much less enthusiasm, on reducing governmental spending. Number juggling is not the stuff of revolution. Ultimately, as Stein has observed, the likelihood of a conservative revolution was slight because "even conservative governments when in office do not want to limit their own powers."<sup>52</sup> Conservative politicians, in short, are still politicians. And in a political system devoid of basic constitutional and ideological restraints on the scope of governmental authority, any species of politician may run amok.<sup>53</sup>

### CONCLUSIONS

The mixed economy that has prevailed in the United States since World War II, a uniquely American form of participatory fascism, has lent itself to a substantial expansion of the scope of governmental authority over economic decision-making. Given capitalist color by the form of private property rights, the system has denied the substance of any such rights whenever governmental authorities have found it expedient to do so. No individual economic right whatever, not even the right to life, has been immune from official derogation or disallowance; besides interfering in countless economic transactions, the government has sent tens of thousands of men to their deaths bound in involuntary servitude as conscripts in the military adventures embarked upon by ruling elites. The potential for government to set aside private rights has now been plenary for over forty years, even if governments have yet to exercise the potential fully. Real reaction never materialized. Eisenhower's business-dominated administration largely accommodated itself to the legacies of the New Deal and the garrison state. Though the greatest postwar wave of new governmental powers welled forth in the 1960s under the collectivist auspices of Johnson's Great Society, the Nixon government—those "conservative men with liberal ideas"—hardly stemmed the tide. The

crises, real and spurious, of the turbulent decade after 1964 fomented an unprecedented variety of influential interest groups, many of which pressed successfully for novel governmental measures on their behalf. Reagan's "conservative revolution" barely dented the enormous apparatus of governmental control. (Anyone who doubts this conclusion should look again at the appendix to Chapter 2.)

Since 1945, liberals and conservatives, Democrats and Republicans have come into and out of power as the oscillations of a pendulum, but regardless of the political swings the fixed point has remained a fundamental abrogation of private economic rights. Constantly vulnerable to unsettling governmental intervention—whether wage-price controls, energy controls, labor-market controls, environmental controls, international trade controls, or any number of other intrusions into once-private economic affairs—the postwar economy has staggered forward. All shades of politicians have preferred the powers available to them in a mixed economy to the conceivable alternatives. Without the powerful ideological and constitutional restraints that operated for over a century after the birth of the United States—restraints destroyed during the national emergencies of 1916-1945—modern governmental authorities may drink deeply and often from the heady wellsprings of political power and social control.

*fundamental abrogation of  
economic rights*

## CHAPTER ELEVEN

# Retrospect and Prospect

That which hath been is now; and that which is to be hath already been; and God requireth that which is past.

ECCLIESIASTES 3:15

During the past century, most markedly between World War I and the mid-1970s, the United States developed a Big Government. One's understanding of why it developed hinges on how one conceives of it.

For every characterization, there is a different theory of its development. If Big Government is a device for repairing the "market failures" associated with monopoly power, externalities, and public goods, then its development reflects the "modernization" of the society's technical and socioeconomic structure, including such changes as urbanization, industrialization, and market concentration. If Big Government is a "safety net" to keep the helpless from starving or falling into destitution, then other economic and social changes—increased personal mobility and diminished family loyalties, perhaps—have given rise to it. Those who conceive of Big Government as essentially a coercive redistributor of wealth, responsive only to the strongest political factions, view its development in one light, while those who conceive of it as a vehicle for realizing ideological ideals or responding to national emergencies understand its history in other ways. Although none of these theories tells the whole story, each offers a useful insight.

By itself, however, each fails to depict the *process* whereby the United States developed its Big Government. No single standard explanation can account for the timing of the extension of governmental authority over economic decision-making. (The Crisis Hypothesis, which comes closest to explaining the timing of the growth of government in the twentieth century, fails to explain why crisis did not engender Big Government in the nineteenth century.) Obviously one can deepen his appreciation of the process by drawing on all the available explanations simultaneously, though that is easier to propose than to do. But even when one accepts a multicausal point of view, something is still missing. The problem with the standard explanations is not

Process of Big Govt

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primarily their logic, though some are remarkably naive about the underlying political process. The problem is a sin of omission. None of the standard theories recognizes the extent to which the development of Big Government was a matter not of logic, however complicated and multidimensional, but of history.

## RETROSPECT

To contrast a historical process with the logical linkages portrayed by the standard theories is not to assert that an illogical or irrational sequence of events generated Big Government. Instead, it is to recognize that real political and socioeconomic dynamics are "messier," more open to exogenous influences or shocks and less determinate in their outcomes than the theorists suppose. Critical events may turn on nothing more substantial than the whim of a President or the ideology of a single Supreme Court justice. In politics, important "accidents" do happen. Unanticipated consequences abound. There is no way to substitute pure theory for a knowledge of history. One must know what happens, whether it be systematic or accidental, because whatever happens alters the likelihoods of particular further developments. Historical development is a path-dependent process: where the political economy is likely to go depends on where it has been. Every "experiment," as Sumner said, enters into the life of the society and never can be removed.

Those who built the Big Government worked within an (evolving) institutional and ideological context. What they could do—even what they wanted to do—was shaped by this context. Grover Cleveland and his governmental associates could not have created a National Recovery Administration or an Agricultural Adjustment Administration; nor would they have wanted to. But Franklin Roosevelt and his governmental associates, with the wartime mobilization programs as precedents, readily established the NRA and the AAA. As another example, consider that during the Korean War extensive economic controls were quickly put in place with hardly a murmur of dissent. The ease with which the controls were imposed makes immediate sense once one appreciates what had been done along similar lines during World War II.

If the institutional and ideological context, shaped by the actual course of events, always determined how the future was most likely to unfold, it did so in part because beliefs mattered. Ideologies—telling their adherents what was going on, whether it was good or bad, what ought to be done about it, and how one could maintain his identity by solidary action with like-minded comrades—helped to determine the amount and kind of political action. Not that people failed to seek what was "in their interest"; but ideologies established what one's interest was and how one might legitimately seek it. Those

not logic, history

Every experiment enters & can't be removed

who could bring about ideological change or, alternatively, shore up the ideological status quo, operated at the most fundamental sociopolitical level. Accordingly, vast efforts were exerted in ideological attack and defense. At stake was the political agenda: what questions could be decided; how the alternatives would be formulated. Elites who could manipulate the dominant ideology had already predetermined much of the outcome of the political process.

But such manipulation, notwithstanding the immense resources committed to it, did not operate in isolation. Also at work were events themselves, hence, learning from experience. Clearly, ideological changes and politico-economic changes interacted. No conceivable efforts could have prevented the Great Depression from deeply discrediting the ideas that had sustained the status quo ante. Perhaps the depression need not have discredited "capitalism" as such—the blame might have been pinned on the Fed or other inept governmental agencies—but widespread acceptance of a procapitalistic interpretation would have required more acuity from the masses than we can expect. To take another example, consider that the world wars were almost certain to leave a legacy of ideological validation of the command-and-control devices used in the mobilization programs. Post hoc, ergo propter hoc: we won; therefore the government's collectivist war policies must have been necessary and proper. How could anyone have prevented that interpretation from becoming accepted? National emergencies, and the ways they were dealt with, simply lent themselves to certain ideological changes. The world wars and the Great Depression, along with the governmental policies adopted to deal with them, virtually assured an accelerated abandonment of the free-market ideology and a corresponding acceptance of collectivist alternatives.

Events abroad continually reinforced the dialectic of politico-economic and ideological change within the United States. From the late nineteenth to the mid-twentieth century—whether one considers income taxation, central banking, nationalized retirement and health insurance, public housing, military conscription, or any number of other statist measures—the western European countries, particularly Great Britain, were always a step or two ahead of the United States, setting influential examples that appealed especially to America's most progressive ideologues. Why, Americans would be "backward," hardly civilized, to resist the adoption of such enlightened programs. During World War I the British experts bore considerable responsibility for the form taken by the mobilization program in the United States; "British experience" was the constant watchword. During and after World War II the British did much to shape American programs for postwar international monetary institutions, including heavy participation in the International Monetary Fund and the World Bank as well as the American-

financed European Recovery Program, precursor of the subsequent foreign aid program. Of course Keynesianism, the main influence on U.S. macro-economic policy for a quarter-century after 1945, may have been the most powerful ideological import of all. The United States, in short, never experienced politico-economic and ideological dynamics in a closed system. Both imported ideas and events abroad did much to shape domestic developments; and the general thrust of the foreign influences was to push the Americans further toward collectivism.

After the ideological transformation that took place during the Progressive Era, each genuine crisis has been the occasion for another ratchet toward Bigger Government. The Progressive ideological imperative that government must "do something," must take responsibility for resolving any perceived crisis, insures new actions. The actions have unavoidable costs, which governments have an incentive to conceal by substituting coercive command-and-control devices for pecuniary fiscal-and-market means of carrying out their chosen policies. Military conscription, wage-price controls, assignment of official priorities and physical allocation of selected commodities, countless economic and social regulations, import quotas and export controls—all confirm the hypothesis. Knowing how much a crisis facilitates Bigger Government, special interests always use such propitious occasions to seek whatever governmental assistance they think will promote their own ends. Once undertaken, governmental programs are hard to terminate. Interests become vested, bureaucracies entrenched, constituencies solidified. More fundamentally, each time the government expands its effective authority over economic decision-making, it sets in motion a variety of economic, institutional, and ideological adjustments whose common denominator is a diminished resistance to Bigger Government. Among the most significant of such adjustments is the Supreme Court's consistent refusal to protect individual rights from invasion by governmental officials during national emergencies. Precedents established during extraordinary times tilt the constitutional balance even during ensuing normal times.

That this institutional-ideological ratchet operated during the world wars and the Great Depression there can be little doubt. More debatable is the permanent legacy of the Great Society-Vietnam War episode. Perhaps we are still too close to this one to assess it accurately. Certainly there has been a reaction to some of its perceived excesses; a few programs, such as the oil price controls, have even been abolished. Yet the bulk of it remains intact. And the most significant elements—Medicare, Medicaid, environmental and occupational safety regulations, consumer-protection and antidiscrimination laws, and the political forces to sustain all these programs—seem solidly established. The ideology that dominated the late sixties and early seventies is

hard to terminate  
 -diminished resistance to Big Govt  
 SC-Precedents - tilt during war/emerg.  
 ← explain capitalism

presently in retreat, but far from defeated. Whatever else the so-called Reagan Revolution may have done, it certainly did not bring about an ideological revolution.

### PROSPECT

In speaking of the future one must be brief. No one knows, no one can know, the future. The possibilities range from better to worse to none at all. Everyone appreciates that human society as it now exists, and perhaps human life itself, could disappear in the fires of nuclear destruction and its unthinkable aftermath.

But assuming that our luck holds and our society survives, we do know something—at least abstractly—about the future. We know that other great crises will come. Whether they will be occasioned by foreign wars, economic collapse, or rampant terrorism, no one can predict with assurance. Yet in one form or another, great crises will surely come again, as they have from time to time throughout all human history. When they do, governments almost certainly will gain new powers over economic and social affairs. Everything that I have argued and documented in the preceding chapters points toward this conclusion. For those who cherish individual liberty and a free society, the prospect is deeply disheartening.

Can such an outcome be avoided? I think not, but I hope I am wrong. Americans have been brought to their present inauspicious circumstances by, above all else, changes in the prevailing ideology. If ideologies are not mere superstructure, if ideas can gain sway through rational consideration in the light of historical evidence and moral persuasion, then there remains a hope, however slight, that the American people may rediscover the worth of individual rights, limited government, and a free society under a true rule of law.

Reagan - no ideological revolution

Future -