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# Shrinking Leviathan

## *Can the Interaction Between Interests and Ideology Slice Both Ways?*

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J. R. CLARK AND DWIGHT R. LEE

Optimism is difficult to come by when considering the possibility of halting the growth of government, much less reversing it. Public-choice economics identifies several reasons why political arrangements allow organized groups to advance their private interests by demanding government growth that harms the public interest. Moreover, excessive government also springs from what are widely seen as “other-regarding” features of human nature, which are driven by ideology and morality. For more than one hundred years, noble concerns have persuaded well-meaning people to favor more government to promote the public interest, and others have exploited those concerns to grab political privileges at public expense. Concentrating here on the history of government growth in the United States since the 1890s, we argue that private interests and political ideology have reinforced each other to become potent forces for government expansion. This history seems to provide little reason for optimism for those who believe, as we do, that the social gains from reducing the size and scope of government would far exceed the costs.

Yet our purpose in this article is to argue that the history of government expansion provides reasons for optimism that the expansion can be reversed. We consider

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the possibility that the growth of government fostered by private interest and political ideology may be altering political incentives and the prevailing political ideology in ways that will shrink Leviathan. Relevant to this possibility are considerations that have been forces for past government growth.

One consideration is found in Frédéric Bastiat's statement that "[t]he state is the great fictitious entity by which everyone seeks to live at the expense of everyone else" (1995, 144). Movement in the direction of Bastiat's state can find interests and ideology joining as forces for government growth, but as this state is approached, the opposite can occur, with interests and ideology shifting in favor of smaller government. Once ideological support for smaller government begins to grow, an ideological network effect may come into play, increasing the popularity of the ideology—just as the network effect in the opposite direction has increased the popularity of the ideology favoring larger government. The political impact of the ideology favoring Leviathan was magnified by the mathematics of voting, but the same mathematics will magnify the political impact of a shift in ideology in favor of shrinking Leviathan.

## U.S. Government Growth

Government spending in the United States grew little, if at all, during the nineteenth century as a percentage of national income. The federal government spent about 3 percent of national income in 1900, and state and local governments spent about 6 percent. Most of the federal government's spending went for national defense and a few public goods. State and local government expenditures were devoted primarily to such things as police protection, court systems, and other local goods and services that had at least a plausible claim to being public goods. Today, the federal government spends (counting Social Security payments) approximately 30 percent of national income, which is roughly twice what the state and local governments together spend. Most government spending now goes for transfers from one group to another, not for public goods. In comparison with the cost of government in the nineteenth century, the current cost of government includes a great deal more that does not show up in government budgets: a significant amount of the cost of government today results from government regulations and controls that impose tremendous expense and inefficiency on the private sector. These costs manifest themselves in the form of higher prices and reduced productivity that few people trace back to government.

The size of government and the scope of its activities were relatively small in the nineteenth century for many reasons, but surely the most important factor was the prevailing political ideology. In the nineteenth century, the primary constraint on government was the limited degree to which the public condoned government involvement in private affairs, a limitation strengthened by the wide range of matters considered private. A telling illustration of this constraint on government is that

although President Grover Cleveland vetoed legislation appropriating \$10,000 in federal funds to distribute seed corn to drought-stricken Texas farmers in 1887, he was nevertheless reelected; his two terms as president were separated by Benjamin Harrison's term, but he received more popular votes in the election of 1888 than Harrison did (see Higgs 1987, 83–85). This political success did not occur because Texas farmers were less anxious for more money in 1887 than they or others are today, but because of the prevailing ideology regarding the federal government's proper (limited) role.

The ideological constraint on government growth that prevented Cleveland's veto from being political suicide was already under attack, however, during his second term in office, from 1893 to 1897. During the Progressive Era, the belief that government had the ability and the responsibility to solve an increasing number of problems began to spread, and more problems came to be seen as "social" problems. As government began to expand to deal with a few of these problems, which often involved provision of government protections and transfers to particular groups, additional groups saw an opportunity to make their own claims for government assistance. What had been considered ordinary problems and inconveniences to be dealt with primarily through private action were soon elevated to crises that demanded government action. Although previous government expansions to deal with real crises had largely been reversed after the crises had passed, the pattern became one of expansions that were never completely reversed between the time that one crisis ended and the time that another began.<sup>1</sup> Furthermore, moral hazards created by government attempts to protect people against crises (and problems in general) increased their frequency and severity, which escalated the demands for yet more government assistance and provided political justifications for providing that assistance.

The shift in political ideology favoring a more expansive role for government provided greater scope for private interests to organize to seek government privileges, protections, and transfers. In the next section, we consider how this shift in the prevailing political ideology interacted with voting and organized political interest groups to fuel government growth.

## **The Mathematics of Voting, Cheap Morality, and Government Growth**

The assumption (we would say insight) that forms the foundation of public-choice analysis is that people are no less motivated by self-interest when making political decisions than they are when making market decisions. This assumption does not imply, however, that people behave the same in the political process and in the market

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1. Higgs provides a detailed historical account of this transition (1987, 106–22).

process. They do not because the incentives differ in the two domains. People typically must pay with their own money for what they get in markets. Demand is less constrained in the political process, where people can secure personal benefits for which others must pay. This difference is clearly the primary reason for excessive government growth.

Some defenders of political action have dismissed the view that government growth is excessive by arguing that people, in making political decisions, are motivated by a sense of community and by shared concerns that extend beyond their narrow private interests.<sup>2</sup> They support their argument with studies showing that people commonly vote for politicians and policies on the basis of what they believe is best for the general public even when it is against their own personal interest to do so.<sup>3</sup> However, this position is consistent with the public-choice perspective based on the dominance of private interests, and in fact it helps to explain why organized interest groups have succeeded in eliciting public support in their efforts to benefit at public expense by expanding the size of government.

The explanation is based on a fundamental difference between market choices and voting choices. The choices made by buyers are far more decisive than those made by voters. People get what they choose in markets, and they get it because they choose it. When making a choice in the voting booth, each person gets what the majority votes for, regardless of the choice he makes. Hence, people have a stronger incentive to give more thought to the consequences of getting what they buy than to the consequences of getting what they vote for. A person's voting decisions, unlike his market decisions, are so unlikely to affect what he receives that the cost of voting for something that is not in his personal interest is effectively zero.

For example, assume a voter is considering a vote on a policy (or for a politician who supports the policy) that he believes will accomplish some noble purpose, such as reducing pollution by developing green energy. Assume further that if the policy receives a majority vote, the present value of his taxes will increase by \$1,000. It might seem that even if the voter feels he should do his part to protect the environment, he will be reluctant to vote for the policy because of the high costs of doing so. However, the minuscule probability that his vote will decide the election outcome means that the expected cost of voting for the policy is also minuscule. Assuming that the probability is 1 in 50,000, the voter's expected cost of voting for the policy is two cents (\$1,000 times 1/50,000).<sup>4</sup> If the voter gains a feeling of moral satisfaction worth more than two cents from voting to protect the environment, it pays him to vote yes.

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2. For example, according to Steven Kelman, "[t]here is the elementary fact that political decisions apply to an entire community. That they do so encourages people to think about others when taking a stand. This is in contrast to making personal decisions, when people think mainly of themselves" (1987, 22).

3. See Kelman 1987, 255–57, and Caplan 2007, 148–51. Bryan Caplan, however, is sympathetic and a contributor to public-choice analysis.

4. In any state or federal election, the probability that a single vote will decide the election is much less than 1 in 50,000. See Brennan and Lomasky 1993 for a discussion of how the probability of an election's

Therefore, voting decisions can be very sensitive to appeals for moral responsibility and concern for the public interest. When politicians and special-interest groups are seeking support for policies they favor, their rhetoric will emphasize those policies' broad social benefits rather than any narrow personal benefits.<sup>5</sup> Favored policies will supposedly achieve such noble objectives as reducing poverty, assisting the elderly, caring for the sick, increasing employment, strengthening national defense, improving educational opportunities, and protecting U.S. jobs. Such claims present an opportunity for people to benefit from a bargain by voting—in other words, they can feel good about their compassion and concern for others but pay almost no personal cost.

Taking advantage of this opportunity, however, depends on believing two things: (1) that casting a vote in favor of costly government policies is a significant personal sacrifice and (2) that the political claims being made about these policies are true. For evidence that belief (1) is common, try convincing someone you have just met that voting for expensive government programs with noble objectives is costless because her individual vote has no effect on the election's outcomes. We have been naive enough to make this attempt on occasion, but we have succeeded only in convincing people that they had better things to do than continuing the conversation. Regarding belief (2), we can testify to the impressive resistance people have mounted to our explanations—which we based on concepts such as opportunity cost, comparative advantage, and marginalism—that the government policies they favor do more harm than good. Most people find far more moral uplift in accepting political claims about the virtue of government proposals and in voting for these proposals in the sanctimonious belief that doing so is an act of personal sacrifice and social sensitivity.

The lack of interest that voters have in following up on their votes by investigating whether the policies they voted for actually accomplish the noble objectives originally outlined is reinforced by the high cost of conducting such an investigation and of doing anything about their findings if the policies are ascertained to be ineffective. This condition, however, does not apply to groups with a concentrated interest in a policy and the ability to organize for political action. These groups have the connections and know-how to use moral rhetoric and rent seeking to build public and political support for legislation they favor. They also have the ability to influence how legislation is written before it is enacted and how it is rewritten, implemented, and administered afterward. Unlike the average citizen's vote in an election, an organized group's "vote" (that is, its lobbying) continues after the election and is

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being decided by one vote depends on the number of voters and how close the election is expected to be. The assumption behind these probabilities is that people are voting directly on the policy rather than for a politician who claims to support the policy. In the latter case, the probability that one vote will determine the policy's enactment is even smaller.

5. In contrast, when businesses promote their products, they emphasize the products' personal benefits. Of course, businesses often make claims about their social responsibility and their environmentally friendly products, but they are aware that no matter how impressive their reputation for "social responsibility," they have to provide personal benefits to their customers to stay in business.



likely to influence significantly a political outcome of far greater concern to its members than achieving a feeling of moral virtue. So group members' casting their "vote" against their narrow interest would be personally costly.<sup>6</sup> The voters' belief that they are voting for a noble objective commonly rests on little more than their desire for a cheap feeling of moral superiority and on the misleading rhetoric that narrowly focused groups use to generate support for policies that permit them to capture private advantages at public expense.

The rhetoric may emphasize the public interest and noble goals, but the underlying reality is self-interest. Voters receive a cheap sense of moral virtue, organized groups secure benefits paid for largely by others, and politicians keep their perks, privileges, and power. The common element here is the government's ability to disguise, diffuse, and delay the cost of appealing to the voters' moral pretense, while serving the private interests of politicians and their special-interest clients.<sup>7</sup>

### **Private Interest, Ideology, and Government Growth**

As Robert Higgs has pointed out, "Historical development is a path-dependent process: Where the political economy is likely to go depends on where it has been" (1987, 259). Once government grows, for any reason, private interests and the prevailing political ideology are altered in ways that affect the future path of government growth. In this section, we argue, as does Higgs, that the government's growth causes endogenous changes that make it easier for additional growth to occur and more difficult for the growth that has already occurred to be reversed. We begin by considering how private interests can create a ratchet effect in the government's growth and then turn our attention to how ideology can do the same.

Most government growth in recent decades has resulted from government's growing transfer of wealth from the general taxpayer to particular groups. As taxpayers, people would like to reduce the transfers, but as recipients they want to avoid reductions. The recipients have greater private interests in exerting their influence in this contest. Recipient groups are often relatively small, so the benefit per capita of those who receive a particular transfer greatly exceeds the cost per capita of those who pay for it. Also, the cost of organizing a small group to lobby against reducing a political transfer is less than the cost of organizing a large group to lobby for a reduction.

Of course, some government transfers, such as Social Security and Medicare, are received by or promised to almost the entire population. Although the number

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6. Members of such organized groups may still feel virtuous by convincing themselves that what is good for them is good for society.

7. This explanation fits the "cost-concealment" hypothesis that Higgs employs as a partial explanation of the autonomy that government authorities use to benefit themselves by expanding the government's size and role in response to crises beyond the amounts that taxpayers would tolerate if the costs were evident (1987, 62–67).

of those who pay for these programs at any time exceeds the number of recipients, both groups are sufficiently large that organizing for direct political action is difficult. Nevertheless, recipients typically have a stronger motivation to notice political moves to reduce the transfers than do those who pay for the transfers, and recipients can easily register their objection to any reduction by voting as a group.<sup>8</sup>

Government transfers create a sense of entitlement and dependency, and because people occupy a stronger position to have their transfers increased than to reduce others' transfers, we may reasonably conclude that government growth and dependency on government are mutually reinforcing. This conclusion is illustrated by the striking growth in dependency on government since 1962, as measured by an index of such dependency presented in a recent study. According to William Beach and Patrick Tyrrell (2010), their index of dependency on government, with a value of 100 in the base year 1980, had a value of 19 in 1962 and 272 in 2009.<sup>9</sup> This dependency has surely been self-reinforcing as people have increasingly observed others benefiting at their expense through government programs and have concluded from this observation that the only way to avoid the "sucker's payoff" from the prisoner's dilemma in which they are trapped is by increasing the benefits they receive from government programs in which they are already enrolled or by getting benefits from other programs. As the number of people receiving government largess increases, so does the justification of including on fairness grounds those who do not receive these benefits.

Contrary to what many seem to believe, government transfers can and often do increase dependency even though they fail to increase the recipients' well-being. Government transfers do not fall from the sky as manna from heaven; recipients have to compete for them in a variety of ways, all of which reduce their net benefits. The most obvious form of such competition involves the rent-seeking costs of convincing politicians that they have an interest in enacting and continuing a particular transfer program. Once this task has been done, becoming eligible for the transfers often requires ownership of certain types of resources—for example, farm land suitable for growing subsidized crops. Such acquisitions increase the competition and the market prices for the qualifying resources. Those who owned the resources before the program's enactment benefit from the price appreciation, but subsequent qualification for the transfers requires paying a price for the requisite resources that reflects the present value of the transfers. Thus, many recipients of such transfers end up getting no more than a normal return on their investment—a return no greater than they

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8. Current beneficiaries of Social Security and Medicare are more likely to vote than are those who pay for the benefits because older people are more likely to vote than younger ones. Also, when people are sympathetic to the government's helping those seen as deserving, they are likely to vote in favor of the help because, as we have seen, doing so costs effectively nothing.

9. Lowell Gallaway, Richard Vedder, and Robert Lawson examine a factor in this dependency by considering the connection between labor-force participation and government relief payments. One of their conclusions is that "[t]he greater the level of public aid payments, relative to wage rates, the lower will be labor force participation" (1991, 57).



could have received on alternative investments without the transfer. Other transfers depend on not earning more than a specified income and are reduced as the recipient approaches that income, with the reduction sometimes exceeding the income increase. The result is that people easily end up no better off and are often worse off when they substitute government transfers for the training and effort that would have increased their earned income.

The temporary gains from government transfers are the first step in what Gordon Tullock (1975) identifies as a “transitional gains trap.” The recipients may no longer receive a net benefit from a transfer greater than they would have received if it had never been made available. This fact does not mean, however, that the transfer ceases to have strong political support. Eliminating a transfer imposes significant losses on recipients because it does nothing to return the costs they have incurred to qualify for it. Experiments by psychologists and behavioral economists (see Kahneman and Tversky 1979; Kahneman, Knetsch, and Thaler 1990) suggest that people are more sensitive to losses than to gains, suffering about twice as much from a loss as they benefit from a gain of the same magnitude. Therefore, the political process may be trapped into continuing a transfer program that has done nothing to make people better off because the program’s recipients resist its elimination more vigorously than they sought it in the first place.

Our discussion of government’s tendency to grow and of the difficulty of reversing this growth has so far emphasized narrowly defined private interests. Although economists see an advantage in assuming the dominance of such private interests in explaining much economic activity, they surely recognize that people find satisfaction by embracing ideologies that give them guidance on a wide range of concerns that go beyond their own material well-being. No discussion of the growth of government can be complete without considering ideology. Government growth and ideologies favorable to such growth and government growth interact in mutually reinforcing ways.

An ideology favorable to government growth obviously fosters such growth. That government growth fosters an ideology favorable to further growth is less obvious, though plausible, and depends in part on interests. In the vanguard of ideological movements, one typically finds social elites who, because of their status as opinion leaders, influence others’ views. Moreover, elites typically have the most to lose in or gain from a crisis and are in the best position to avoid losses or capture gains from a government response to the crisis because they or those who represent their interests can influence this response. Many certainly did benefit from government expansion during wars, which until the early 1930s were the only crises that prompted government expansion. During the Great Depression, the prevailing ideology began to view economic downturns as crises that demand a government response. By 1932, federal government spending had quickly increased by more than 50 percent as a percentage of national income. This increase added to the benefits that those in influential positions could realize from government activity,

not to mention from expansions in the scope of such activity, and thus perceived narrow self-interest further nudged the dominant ideology toward the acceptance of government activities that most people had previously opposed.

The shift in ideology allowed most of the increase in government to take the form of transfer payments and controls over business decisions rather than more spending for goods and services. These transfers and controls were justified as necessary solutions to the economic downturn. Although the overall effect of the expanded government action was to retard economic recovery, the new programs were politically popular with a public that was desperate for the government to do something.<sup>10</sup> By far the largest transfer program begun in the 1930s resulted from the Social Security Act of 1935. The Social Security program's popularity clearly expanded the public's acceptance of an expanded role for government. It promised a large percentage of the population a retirement income that would be financed by a Ponzi scheme in which the program's current beneficiaries (those already retired) would be funded by the current contributions of future beneficiaries (those still working), who would be conscripted into the program. Once such a program begins, existing beneficiaries and those soon to become beneficiaries have a strong interest in keeping it going.

With U.S. entry into World War II and the economy still in depression, the government expanded even more, and war expenditures constituted the bulk of the federal budget. Despite the common view that the war brought the economy out of the Great Depression, Higgs (1992) has shown that although unemployment decreased during the war and people were making more money than before, the value of their consumption was at best stagnant, and during the period from 1942 through 1945 it was most likely lower than it had been in 1941. Despite the continuation of depressed living conditions, however, the Allied success in the war convinced more people that government planning under the direction of public-spirited experts can accomplish a wide range of difficult tasks.<sup>11</sup> The public's belief, which had first come to the fore during the Progressive Era, that "fundamental social, political, and economic problems [are] susceptible to expert management, even solution" (Higgs 1987, 115) was strengthened. Moreover, because the public had become conditioned to high taxes and ubiquitous government regulations

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10. Government controls over business in this period took the form of creating business and labor cartels and directly destroying agricultural products—policies that were supposed to boost the economy by increasing purchasing power by keeping prices and wages artificially high. The effect was to reduce purchasing power by reducing the quantity of goods and services available to purchase. Because of the decrease in the money supply of almost 33 percent in the early 1930s, a decrease in prices was most needed to reverse the economic downturn, a decrease that would have occurred in response to uninhibited market forces.

11. Friedrich Hayek wrote *The Road to Serfdom* to make a general case against government planning. One of the arguments he confronted (made by the English socialist Harold Laski) was "that measures of government control needed for mobilizing the national resources in war are no less necessary for securing their best use in peace, and must therefore be maintained after final victory is won" (Hayek 2007, 208 n. 53).

during the war, government could become far more active in economic affairs after the war by imposing what were then seen as relatively mild burdens. Finally, the feeling became more general that a larger government with a wider range of responsibilities was inevitable. Given that feeling, some people in influential quarters must have decided that the wisest course was to accept this inevitability and to use the increase in government power to further their own advantages. The prevailing ideology clearly shifted farther in the direction of support for greater political activism.

After World War II, progressive ideology's popularity continued to increase with the assistance of an ideological network effect in which the value an individual realizes from accepting an ideology is positively related to how many others accept it.<sup>12</sup> Such a network effect can be explained by a human characteristic that, like many things, has both benefits and costs. That characteristic is social conformity—the tendency almost all of us have to accept behaviors and beliefs common to those within our social orbit. Social conformity's benefit is that it disposes people to adhere to norms and rules that allow cooperation within large groups—for example, the rules associated with private-property rights permit successful cooperation by means of voluntary exchange. On the other side of the social conformity coin is social conflict between groups that embrace different ideologies. People are more prone to become emotionally attached to bizarre and pernicious beliefs simply because large numbers of others in their group have done so.

Thus, with respect to government, different ideologies compete with each other, but, broadly speaking, these ideologies may be grouped into two broad categories: one favoring more reliance on government direction of our affairs and one favoring more reliance on private direction. The balance between the two has shifted, but as Higgs points out, there is no need “to settle a priori where the balance lies. Historical research can determine which of the opposing forces has weighed more heavily in the American experience” (1987, 72). The historical chapters of Higgs's *Crisis and Leviathan* show that from the late nineteenth century to the present the prevailing ideology in the United States has supported an expanding government with control over an ever wider range of activities. Because this persistent expansion represents a shift from the first century of U.S. experience, the influences of private interests and ideology on government growth clearly can cut both ways. Just as these interacting influences help to explain the growth of government since the late nineteenth century, they may reverse the direction of their influence in the future, thereby reducing the size and scope of government.

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12. The growth of such a network has obvious limits, which prevent one political ideology from eliminating all competing ideologies. Speaking more precisely, we may say that the larger the number of others holding an ideological belief in a group with which you strongly identify, the more valuable it is for you to have the same belief. This relationship explains why members of certain academic disciplines are overwhelmingly politically liberal (in the U.S. meaning of that term) and why most college and university faculties are generally liberal, regardless of their discipline.

## The Possibility of Shrinking Leviathan

If we had to bet on whether total government spending in the United States will be reduced significantly in the next twenty years (say, to 30 percent of gross domestic product, which is less than the percentage that prevailed before the great recession of 2007–2009), we would put our money on “no.” We do not believe that the probability of substantially deflating leviathan is very great. However, we do think that it is greater than zero. In this section, we consider some reasons for believing that the interaction between private interests and political ideology may become a force for reducing the government’s size and scope.

The negative-sum waste of government transfers is easily ignored when most government spending goes for genuine public goods that provide general benefits, and the transfers are few. Government’s net benefits will probably be positive (at least in total), despite the inevitable waste of government provision of anything and the costs that the few transfers impose. Even as the number of transfer recipients and the transfers’ costs begin to grow, the natural impulse is for people to concentrate on the benefits they realize from their programs and to ignore the costs they bear to finance others’ programs. This focus on benefits has clearly started to shift toward attention to costs, however, as Bastiat’s description of the state has become increasingly applicable to the United States. The federal government really has become the means by which virtually everyone is, in one way or another, seeking to live at the expense of everyone else.<sup>13</sup> As an increasing number of people begin to realize that they are paying more for others’ benefits than they are receiving from their own benefits, resentment of the political process that puts them into such a destructive prisoner’s dilemma mounts, as does a healthy skepticism of the government’s ability to do more good than harm.

The “Bastiat effect” of excessive government spending will eventually be seen as fiscal pollution and, like environmental pollution, may create a cascade of hostility that leads to substantial spending restrictions. When significant numbers of people realized that environmental pollution had reached levels at which the benefits they received by polluting were less than the costs they were suffering because of others’ pollution, the public demanded government actions to restrict everyone’s pollution.

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13. Brink Lindsey (2007, 291) lists a very small sample of the associations that are trying to live, at least in part, at the expense of others, including the National Paint Varnish and Lacquer Association; the Possum Growers and Breeders Association; the American Association of Sex Educators, Counselors, and Therapists; the Bow Tie Manufacturers Association; the Association of Metropolitan Sewerage Association; and the Frozen Pizza Institute. A recent report (at <http://www.opensecrets.org/lobby/incdec.php>) lists industries and broad interests, such as environmental concerns, that lobby the U.S. Congress. Although the report contains eighty-nine categories, it does not include one of the largest categories of lobbyists, which is government agencies (local, state, and federal) that lobby Congress for more taxpayer money for their programs, using taxpayers’ money to do so. As James Payne also points out, lobbyists overwhelmingly favor more government spending. His research shows that the number of those who appear before congressional committees to argue in favor of more spending dwarfs the number of those who appear to argue against more spending. In one hearing he attended, the ratio of pro-spending witnesses to antispending witnesses was 145 to 1 (1991, 13, table 1.1).

More people may come to realize that government spending has reached a point at which the benefits they are receiving from that spending are less than the costs they are paying for the benefits that others are receiving. The two situations differ, of course. Most important, in the case of environmental pollution, government was called on to control others, whereas in the case of fiscal pollution, government is being called on to control itself. Yet interests were not the only variables that changed in response to clearly excessive environmental pollution. Ideology shifted, too, reaching religious intensities and spreading too widely for politicians to ignore. The ideology of limited government is similarly experiencing a resurgence in response to clearly excessive spending, and this ideological change may also expand and reach religious intensities.<sup>14</sup> If such an ideological shift does occur and sustain itself (the ideology of limited government was sustained for approximately one hundred years in the United States), it will have significant political and economic consequences.

The experience with government programs over the past sixty years is hardly conducive to the maintenance of an ideology that favors continued reliance of government as the source of social improvement. This experience has exposed the excessive optimism contained in the belief that the exercise of government power, guided by expert advice, is an effective way to deal with a wide range of social problems. The dependency that has been created by numerous antipoverty programs has demonstrated clearly that such programs, instead of increasing people's ability to become productive members of society, have done the opposite. By almost any measure, the performance of public schools at the K–12 level has declined as spending per student has increased. Amtrak's service and on-time record have become a joke, but a very expensive one, in view of the operation's direct federal subsidy of more than \$1 billion a year. This subsidy, however, is insignificant in comparison with the direct federal subsidies to farmers, not to speak of the indirect costs caused by higher food prices and the environmental destruction from such projects as water diversion to allow cotton farming in deserts. Moreover, the federal government is largely responsible for increased health-care costs because of its direct subsidies and its tax policy that encourages high-deductible health insurance, which has greatly distorted the market for medical services by reducing the market discipline that arises from the necessity of spending one's own money to acquire services.

More government control over health-care decisions has commonly been justified by the claim that increased spending and regulation will control costs by increasing efficiency and by reducing illness through an increase in the availability of preventative care. Politicians still make such claims, but doing so with a straight face is becoming difficult. Medicare cost \$3 billion in 1966, and in 1967 the House Ways and Means Committee estimated that it would cost only about \$12 billion

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14. See Robert Nelson's (2010) interesting discussion of what he sees as the religious nature of environmentalists and economists' competing policy struggles.

(in constant dollars) in 1990. The actual cost in 1990 was \$98 billion.<sup>15</sup> In 2009, Medicare cost more than \$502 billion.<sup>16</sup> Early projections on the cost of Medicaid and the actual cost show a similar pattern of underestimated cost, and both programs are expected to run out of money before 2020 without infusions from general fund revenues.

We are not arguing that the Bastiat effect of a proliferation of government programs and most programs' costly failure to provide the promised solutions to social problems will cause a relentless shift in the prevailing ideology. Any such ideological change will surely wax and wane. Nevertheless, we believe it is reasonable to suppose that a shift is occurring in favor of reductions in the government's size and scope. Even if the general trend of that shift is gradual at first, it may pick up momentum and exert a more sudden and significant effect than anticipated, for the two reasons previously discussed as factors in the growth of government—ideological network effects and the indecisiveness of voting.

As more people embrace a smaller-government ideology, others will gain more by embracing the same ideology. Within what may be viewed as a network group (a group whose members identify with each other, such as members of the same profession, religion, or academic discipline), the shift may be slow at first, then pick up speed, and if a tipping point is reached, this ideology may quickly become the group's dominant ideology. Of course, some groups will remain largely unaffected by the ideological shift in favor of smaller government, and other groups will experience an increase in the percentage of their members who embrace the now more popular ideology but will not reach a tipping point at which this ideology becomes the group's dominant ideology. The intensity of support for the ideology will vary across individuals and groups. For most individuals and groups with only a casual interest in political issues, the shift will typically be from a mild ideological preference for more government to a mild ideological support for less. The important point is that once an ideological shift toward smaller government begins, for whatever reason, the network effect will exert pressure that fosters its continuation.<sup>17</sup>

Because of ideology, people may prefer a smaller government even though on strictly financial grounds they would prefer a larger government. However, because of the indecisiveness of a single vote, when a person's ideological preference and his financial interest conflict in the voting booth, a very small ideological preference may overwhelm a very large financial interest. Consider a government worker who favors smaller government and is choosing between two presidential candidates: candidate

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15. See <http://www.washingtontimes.com/news/2009/nov/18/health-programs-have-history-of-cost-overruns/>.

16. See [http://www.cms.gov/NationalHealthExpendData/02\\_NationalHealthAccountsHistorical.asp#TopOfPage](http://www.cms.gov/NationalHealthExpendData/02_NationalHealthAccountsHistorical.asp#TopOfPage) and then click on "National Health Expenditures by type of service and source of funds, CY 1960-2009 (ZIP, 42 KB)."

17. This pressure is obviously symmetric with respect to the direction of the ideological shift. Moreover, it may be more than offset by other factors that we are not considering here.



A, who promises to expand government by increasing the pay of government workers, and candidate B, who promises to reduce government by laying off government workers and freezing their pay. Assume that the present value of the greater pay the voter will receive if A wins the election is \$1,000, but the probability that his vote will decide the election's outcome is 1 in 100,000.<sup>18</sup> The expected value of the financial gain from voting for A is only one penny ( $\$1,000/100,000$ ). In contrast, the ideological satisfaction from expressing himself in favor of smaller government is worth more than a penny and thus outweighs the financial advantage of voting for A rather than B. In this example, the voter's financial interest in the outcome of an election must be 100,000 times more valuable than his ideological interest in order for the financial consideration to decide how he votes.

Of course, voter preferences are only one factor in determining the path of government growth. As Higgs argues, politicians have significant autonomy to enact policies consistent with their own interests (1987, 63). They are certainly in a position to continue benefiting from government growth beyond the point at which most of their constituents perceive the Bastiat effect as harmful. Nevertheless, if the Bastiat effect helps to cause a noticeable change in the prevailing ideology, that change will significantly affect the broad outlines of government policies, such as the expansion or contraction of government size. As Higgs argues convincingly, shifts in the prevailing ideology can change the long-term trends of government's size and scope. Indeed, the basic reason a crisis empowers politicians to expand government's size and power is that it shifts, at least temporarily, the public's ideological preference for government to do something—anything that gives the appearance of allaying the crisis.

Although a shift to a small-government ideology is unlikely to prevent crises from causing spurts in government growth, that growth is more likely to be significantly reversed after the crisis has passed, as it was by and large for approximately the first one hundred years of U.S. history. Furthermore, if the ideology that prevailed until the end of the nineteenth century were restored, the number of events and conditions that qualify as crises demanding rapid government responses would be diminished. The political reaction to the federal government's spending and regulating during the recent great recession is clearly not compelling evidence that we are returning to the political ideology that guided the drafting of the U.S. Constitution. Yet cautious optimism may be justified. An ideological change that is a harbinger of a significant reduction in the government's size and scope may be under way not only in the United States, but in other countries as well.

For example, in a recent study Aberto Alesina, Dorian Carloni, and Giampaolo Lecce (2010) looked at nineteen Organization for Economic Cooperation and Development countries that quickly reduced large budget deficits (meaning that the deficit to gross national product percentage was cut by more than 1.5 percentage points) during the period from 1975 to 2008. Despite a common belief that incumbent

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18. The probability that a presidential election will be decided by one vote is much less than 1 in 100,000.

governments are punished more when they effect deficit reductions more by spending cuts rather than by tax increases, the opposite effect was found, as measured by the probability that incumbent governments retained control when the next election occurred within two years of the deficit reduction. Electoral defeat is more likely when deficit reduction is effected more by tax increases than by spending reduction, and the reductions are more durable when achieved by spending reductions. In other words, voters prefer that improvements in fiscal responsibility be achieved by reducing the size of government than by increasing taxes.

Another study shows that a politician's chances of reelection do not improve when he maintains spending on benefits for his constituents. In an empirical study of congressional elections in the United States, Paul Feldman and James Jondrow conclude: "[W]e found no evidence that obtaining local federal spending for his district or protecting against spending cutbacks is a useful way for a congressman to pursue reelection" (1984, 155, quoted in Payne 1991, 119). This study does not suggest that congressional representatives have a positive incentive to reduce spending. It does suggest, however, that they have a fair degree of autonomy to make spending decisions on the basis of their own ideology, as Higgs argues. Moreover, that ideology is highly likely to track closely their constituents' prevailing ideology.

Interests are important factors in determining the size of government as well as the pace and direction of its growth. As important as interests are, however, the prevailing ideology may overwhelm their effect on government growth, especially in the ballot box. Moreover, the government growth that is fueled by an ideology favorable to that growth may foster ideological changes that bring the growth to a halt and reverse it. Such a course of events is not only possible but may be triggered by a spurt in the growth and intrusiveness of government that makes the trend appear to be moving sharply in the other direction. Perhaps it really is darkest before the dawn.

## Conclusion

We do not wish to leave the impression that our arguments indicate great confidence on our part that government growth will soon be brought to a halt and then significantly reversed. Nevertheless, we do not rule out the possibility that Leviathan's size and scope may be reduced to an extent that does not seem possible today. Many will no doubt view even our restrained optimism as worthy of Samuel Johnson's comment about "the triumph of hope over experience." Fair enough. Yet we believe Alfred Marshall also had an important insight when he wrote, "[W]ithout hope there is no enterprise" (2009, 164n.). We can think of few enterprises more important than protecting human liberty while promoting prosperity and opportunity. This objective can be attained only by reversing the government's growth and restoring government to its limited but important role—providing a few basic public goods and enforcing the rules people need in order to pursue their personal objectives in productive cooperation with one another.

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