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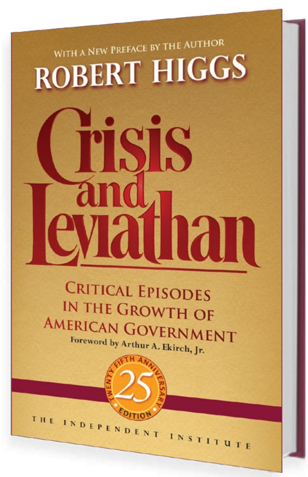

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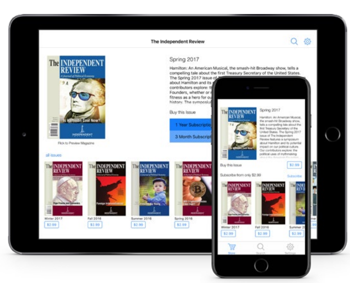

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Etceteras . . .

Escaping Leviathan?

In the terminology made famous by Albert Hirschman, people who are fed up with government have two options: exit and voice. Political scientists and public choice analysts have concentrated heavily on the latter, especially on the use of electoral means of transmitting the citizens' "voice" to the government. Scholars have been slow to appreciate that elections are, and always have been, largely a sham—a mere ceremony intended to make people believe they have some control over their fate even as they are mercilessly bullied, bamboozled, and fleeced by their rulers. But whatever the efficacy of political voice as a means of avoiding oppression by government, scholars have traditionally paid much less attention to the alternative option, exit.

During the past decade, however, a growing number of analysts have begun to repair that neglect. Indeed, increasingly, the argument one hears is not that the voters will elect representatives who will "get government off their backs," but that the people will, as it were, just walk away from oppressive governments, thereby compelling the oppressors to lighten the burdens placed on their remaining subjects. As the information revolution has proceeded apace, especially as the scope and activity of the Internet have expanded, the argument has become not so much about people's physically leaving the jurisdiction as about their electronically withdrawing their (taxable) commercial transactions and financial holdings. The logic, many have assumed, applies equally to any sort of exit.

Montesquieu and Smith's Version

The gist of the argument goes back at least to the time of the Baron de Montesquieu, who, recognizing the ability of the merchants to move their financial capital away from jurisdictions with high confiscatory risks, wrote in *De L'Espris des Lois* (1748) that "only good government brings prosperity [to the prince]" (quoted in Stefan Sinn, "The Taming of Leviathan: Competition among Governments," *Constitutional Political Economy* 3 [Spring–Summer 1992]: 190).

Not long afterward, in *The Wealth of Nations* (New York: Modern Library,

[1776] 1937), Adam Smith presented a characteristically clear statement:

> The proprietor of stock is properly a citizen of the world, and is not necessarily attached to any particular country. He would be apt to abandon the country in which he was exposed to a vexatious inquisition, in order to be assessed to a burdensome tax, and would remove his stock to some other country where he could either carry on his business, or enjoy his fortune more at his ease. . . . A tax which tended to drive away stock from any particular country, would so far tend to dry up every source of revenue, both *to the sovereign* and to the society. (800; emphasis added)

Like Montesquieu, Smith seems to have believed that at least some rulers would have enough sense to realize that impoverishing their realms was not in their own interest, and therefore would respond to the removal of mobile resources by lightening the burdens they laid on the owners of such resources.

McKenzie and Lee's Version

Among the more notable contributors to the recent resurgence of this venerable argument are Richard B. McKenzie and Dwight R. Lee (*Quicksilver Capital: How the Rapid Movement of Wealth Has Changed the World* [New York: Free Press, 1991]). As the authors summarize their central argument:

> The increased mobility of capital, coupled with the growing economic integration of national economies, has dramatically expanded the scope and intensity of competitive markets. This growth in business competitiveness has necessarily forced governments into a competitive struggle for the world's human and physical capital base. As a consequence, governments have lost much of the monopoly power that undergirded their growth in earlier decades. World governments have had to compete against one another by seeking more efficient policies in order to lure and retain the physical and human capital that is now so crucial to modern production processes and to the tax bases on which governments depend.
>
> In general, governments have been forced to lower tax rates, deregulate industries, and privatize services in order that the productive facilities within their borders can remain competitive on a world scale. Governments at all levels—local, state, and national—have lost the vestiges of unchecked economic sovereignty. (xi)

Although the argument surely has its charms, it has serious shortcomings as well (see Robert Higgs, "Leviathan at Bay?" *Liberty* 5 [November 1991]: 64–70). Most important, it exaggerates the magnitude of the effects of the ostensible competitive pressures.

Seldon's Version

Now, near the end of the 1990s, the argument has surfaced once again, in Arthur Seldon's monograph, *The Dilemma of Democracy: The Political Economics of Over-Government* (London: Institute of Economic Affairs, 1998). In Seldon's view,

> There are enough escapes from over-government for the people to be able to end its long tolerance of over a century" (26). . . . If a North Atlantic Union is not formed the political powers of the nation states of Europe will be escaped by the resort to trading by electronic money, barter or the multiplying new devices that ease the rejection of oppressive national laws and invasive taxes. (98)

Thus, Seldon is sanguine about the prospect for freedom. "The question for the future is increasingly not 'What *should* government do now?' but increasingly 'What *can* government do?' " (26).

Seldon concedes that "national governments, perhaps in league with other governments, will attempt international regulations" to thwart the escape of their victims (97). A plethora of tax treaties and the ongoing international "harmonization" of regulations are examples that come readily to mind. These sorts of international "cooperation" amount to cartelization by which national governments seek to suppress policy competition among themselves, the better to exploit the resident owners of mobile resources (Sinn, "Taming of Leviathan, 188–91; Manfred E. Streit, "Competition among Systems, Harmonization and Integration," *Journal des Economistes et des Etudes Humaines* 8 [June–September 1998]: 249–51). Nonetheless, Seldon expresses confidence that "science and the human spirit will remain two or three decisive steps ahead of the slower-moving machinery of international politics" (97). Well, one can wish.

Big Government on the Ropes?

In all its recent manifestations, this line of argument has contained a large element of wishful thinking. "Before long," writes Seldon, "there will be increasing public understanding that the expansion in the state over the decades was unnecessary" (104). Don't hold your breath. The evidence of the public opinion surveys, for example, suggests that the bulk of the American public is incapable of contemplating life without big government. To be sure, most Americans express agreement with the abstract idea that government is now too big and too intrusive; but ask them about a *specific* government program and they overwhelmingly support it and even its expansion (see, for example, Karlyn Bowman, "At War with Washington?" *American Enterprise,* November–December 1997, p. 93). Europeans, having recently elected socialist governments throughout the Continent, present an even more hopeless case. In Brussels, the Eurocrats build their Tower of Regulatory Babel ever higher.

Even if the public did not clamor for bigger government, the normal operation of contemporary special-interest politics—the only kind of politics that consistently packs a punch nowadays—would ensure that it was foisted on them anyhow. Experience in modern representative democracies shows that once a government program has been instituted, it is well-nigh impossible to root it out, no matter how destructive it is in the aggregate or how unpopular it is with the general public (see Milton Friedman and Rose Friedman, *The Tyranny of the Status Quo* [San Diego: Harcourt Brace Jovanovich, 1984], 41–51).

Skeptics will have no difficulty in raising various objections to the argument that "exit" is taming Leviathan. For an American, the most obvious objection rests on the raw reality of the relentless growth of government. Each year the more than eighty thousand governmental entities in the United States spend vastly more money, take in vastly more tax dollars, and promulgate thousands of new regulations. In these circumstances, it is an odd mentality that imagines the government is struggling to survive. The logic of the argument for the containment of government growth by exit-related forces is sound, but its quantitative sufficiency must be doubted. So far, at least in the United States, the pressures eventuating in the growth of government have manifestly overwhelmed all countervailing forces. Though the future may be different, currently observable trends give us little reason for optimism.

Black Markets

Seldon considers some fascinating data pertaining to illegal market activity, traditionally called "the black market" but dubbed by Seldon "the parallel economy" to remove the implied moral shadow. Drawing on estimates made by the *Economist* and by Friedrich Schneider, Seldon presents data that indicate parallel economies running from a range of 5–10 percent of GDP in Japan, the United States, Austria, and Switzerland, to 10–20 percent in Canada, Britain, France, and Germany, to more than 20 percent in Belgium, Spain, and Italy (Seldon, *Dilemma of Democracy,* 79, 82). Although, by their very nature, such estimates must be viewed as subject to a wide range of error, their orders of magnitude accord, I dare say, with what would seem plausible to an experienced traveler or international business person. (Somewhat different estimates appear the graphs of Simon Johnson, Daniel Kaufmann, and Pablo Zoido-Lobatón, "Regulatory Discretion and the Unofficial Economy," *American Economic Review* 88 [May 1998]: 390–91.)

By including the parallel economy under the rubric of "escapes from over-government," Seldon seems to view the participants in that economy as having successfully "voted with their feet" against the existing regime. The parallel economy, he notes, "produces no taxes on a wide and accelerating range of productive activity" (76). Here, however, he goes too far. It is true that *some* participants in black markets escape taxation, but by no means all do so. The distinction is between escaping the payment of *official* taxes, which black marketers do by definition, and escaping the demands of state officials altogether, which some black-market participants do but others do not. Anyone who reads the newspapers will have seen reports of government officials so unfortunate as to have been exposed taking payoffs from the participants in illegal or tax-evasive economic activities. Obviously, for example, in many countries government officials, even at the highest levels, operate in close cooperation with illicit drug traffickers and reap handsome rewards for doing so. The workaday nips taken out of merchants and others by local police and politicians are a staple in many societies—in Mexico, for example, *la mordida* (literally, the bite) is a way of life. Just because those exactions go unrecorded in the official government accounts does not mean that government officials have failed to wrest wealth from the populace. Black markets may be a fine thing, as far as they go, but their operation does not constitute strong evidence of escape from over-government.

Nor does their recent growth in the wealthier countries, which Seldon notes and projects to continue in the future, necessarily signify that governments are suffering from a withering exploitative arm. In general, black markets appear when government prevents people from doing what they prefer to do—for example, when it prevents them from buying a commodity without paying an excise tax or from exchanging a commodity banned by the government or restricted to certain transactors, such as licensed dealers. The more the government intrudes into the marketplace, the greater is the incentive for people to resort to the black market. (In the Heritage Foundation's annual index of economic freedom rankings, the black-market scores are, as a rule, much higher for countries with relatively little overall economic freedom. See also the similar findings reported by Johnson, Kaufmann, and Zoido-Lobatón, "Regulatory Discretion," 388–91.) Therefore, growing participation in black markets may signal only that the government is becoming more oppressive in its taxing and regulating, and thereby creating an incentive for more people to resort to illegal transacting. Possibly, however, as the government becomes more oppressive, it does succeed in catching more victims in its enlarged official web. That some people escape, wholly or partially, does not necessarily indicate that on balance the government has fallen flat in its additional grasping.

A Never-Ending Struggle

As long as governments have existed, some people have been voting with their feet against the established regimes. As economic, ideological, and technological changes have occurred, the balance has shifted many times, sometimes becoming more favorable to the escapees, sometimes more favorable to the regime. Recent increases in the mobility of financial capital and information, resulting from technological advances in information processing and communications, have raised the expectations of many observers that a new age of freedom is about to dawn, that soon governments will be unable to extract rents from their subjects at the old rate, certainly unable to increase the rate of exploitation. But governments are not, as the saying goes, rolling over and playing dead in the face of these developments. Everywhere they are striving to solidify their control over people and resources. Which side will win in the near term remains open to conjecture. But whether the near-term winner turns out to be the oppressor or the oppressed, we can be certain that the struggle will continue.

ROBERT HIGGS