Etceteras . . .

Lies, Damn Lies, and Conventional Measures of the Growth of Government

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Many of us who believe that governments continue to grow relentlessly, at least in the economically advanced countries, have been criticized by analysts who claim that in fact the growth of government has petered out or slowed substantially. The latter group perceives us to be needlessly alarmed and faults us for a failure to acknowledge the decisive turn of events associated with the so-called Reagan and Thatcher revolutions of the 1980s. Not to worry, they exhort us; the statists are on the run, and a brave new world of market-oriented liberalism shimmers on the horizon.

My thesis here is that these seemingly level-headed realists are the ones who have failed to perceive correctly the ongoing growth of government.[1] A major reason for their failure is their reliance on certain conventional measures of the size and growth of government. Some of these measures have a built-in tendency to exhibit deceleration even when a more compelling representation displays continuing steady growth. Often the conventional measures miss the growth of government because it has been diverted into channels beyond the scope of their measurement. To some extent, governments have been growing in important but unmeasured or poorly measured ways all along, and they continue to grow in these ways, perhaps more menacingly than ever before. Off-budget spending, for example, is a well-known resort of political scoundrels, but it is only one example among many of how governments employ hard-to-measure means to achieve their usual ends, especially when tax revolts, formal spending limits, or borrowing limitations frustrate their chronic desire to spend at a greater rate.

Government's Share of Gross Domestic Product

The most common measure of the size of government is the amount of government spending relative to gross domestic product (GDP). In a recent monograph on the

1. For my earlier defenses of this thesis, some of which deal with matters not touched on here, see Higgs 1983; 1987, esp. 20–34; 1991a, esp. 5–8; and 1991b, esp. 66–68.

growth of government, for example, Vito Tanzi and Ludger Schuknecht present much of their data in the form of government-spending variables relative to GDP. A major theme of the book is: "Government spending [measured in this way] increased most rapidly until about 1980. Since the early 1980s, it has been growing more slowly and in some instances has even declined" (2000, 3).

Now, the first thing to notice is that a sure-fire way to make nearly any economic magnitude appear small is to divide it by GDP, because the latter, which purports to be the total value at market prices of all final goods and services produced within a country in a year, is always an enormous dollar (or euro or peso or other currency unit) amount. Government spending of $2,855,200,000,000, as in the United States in fiscal year 2001, seems to be an astronomical amount, but just divide it by the value of GDP and, voilà, it is a mere 28 percent—surely nothing to be alarmed about, especially in comparison with corresponding figures for many European countries that exceed 50 percent.[2]

The next thing to notice is that because government spending for currently produced final goods and services is itself a component of GDP, the ratio of the former to the latter is immediately compromised. Any addition to such government spending increases the denominator as well as the numerator of the ratio. Suppose that in year one the government spends $100 dollars for currently produced final goods and services, and the GDP in that year is $500. Now suppose that in year two the government spends twice as much—that is, it increases its purchase amount by 100 percent—but nothing else changes. In year two, the government's share of GDP will be 33.33 percent (or $200/$600), as compared to 20 percent in year one. An analyst focusing on the government's spending share concludes, then, that government has grown not by 100 percent, as it plainly has by construction, but only by 66.66 percent (that is, [(33.33/20) – 1] • 100). The greater the government's initial share is, the greater is the bias in moving from its absolute spending to the share concept to measure its growth. If government had begun with spending of $100 out of a GDP of $200, then doubled its purchase amount, other things being unchanged, it would have increased its spending share from 50 percent to 66.66 percent—a mere 33.33 percent growth.

Granted, many economically advanced countries have maintained a fairly steady government "exhaustive" share of GDP during the past couple decades (Tanzi and Schuknecht 2000, 25), but this steadiness merely attests that the government's purchases of currently produced final goods and services have grown fully as fast as the sum of nongovernmental purchases of such goods and services during that period of substantial economic expansion, not that the government has become quiescent or stuck in the mud. In the United States, for example, the total government share of

2. U.S. ratio computed from figures reported in U.S Office of Management and Budget 2002, 292–93; ratios for various European countries from Tanzi and Schuknecht 2000, 6–7.

GDP was 22.1 percent in 1975 and 17.6 percent in 1999.[3] Lest one think that government had run out of steam during that quarter-century, however, one ought to notice that government increased its purchases of currently produced final goods and services from $361.1 billion in 1975 to $1,634.4 billion in 1999—which is to say, it increased the annual rate of such spending by $1,273.3 billion during that period (U.S. Council of Economic Advisers 2001, 274–75). To be sure, inflation accounts for some of that increase, but even in constant (1996) dollars, the increase was from $942.5 billion to $1,536.1 billion (U.S. Council of Economic Advisors 2001, 277), or 63 percent—hardly a retrenchment. Population growth cannot justify the increased spending because the U.S. population grew by just 26 percent during the period (U.S. Council of Economic Advisors 2001, 315).

Of course, the really gigantic increases in government spending have most recently taken the form of transfers (including subsidies), which are not components of GDP and therefore do not give rise to exactly the same numerator-denominator bias that arises when government increases its purchases of currently produced final goods and services ("exhaustive" spending). Transfer spending also, however, is commonly placed for purposes of analysis in relation to GDP, which then serves as a sort of "normalizer" or standard of comparison, and whenever this ratio is used, some of the same problems identified earlier arise again. Why, one might ask, should government's transfer spending be placed in a ratio to GDP rather than, say, in a ratio to population or some other base? And if the ratio to GDP remains constant, why, one might ask, should such constancy prevail? That is, why should government's transfer spending increase whenever the economy's output of final goods and services increases? Indeed, such constancy would seem to betoken a kind of relative growth of government in its own right, inasmuch as people in a more productive economy presumably can get by more readily without government assistance; hence, as a rule, the ratio of transfers to GDP might be expected to fall in a growing economy rather than rise or even remain constant.

However this matter might be viewed, in reality the ratio has risen enormously in all the economically advanced countries during the past several decades, and it now stands at more than 20 percent on average for a group of seventeen important industrial countries studied by Tanzi and Schuknecht, up from less than 10 percent as recently as 1960 (2000, 31).[4] Increasingly, transfer spending is becoming recognized as the Godzilla that threatens to consume New York, Tokyo, Berlin, and nearly every other city on the planet. A few countries, such as Chile, have taken effective measures to deal with this looming threat to government fiscal viability, but so far

3. More recently, in 2003, the ratio was 18.7 percent. Calculated from data displayed in table 1.1.5, Gross Domestic Product, at http://www.bea.doc.gov/bea/dn/nipaweb/TableView.asp.

4. The group includes Australia, Austria, Belgium, Canada, France, Germany, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

most politicians in most countries have kept their heads planted firmly in the sand, ignoring everything beyond the next election, while the government's transfer spending has grown ever more bloated, and the severity of the adjustments that will have to be made when the day of reckoning can no longer be postponed has grown ever greater.

Government's Share of Employment

Government employment as a percentage of total employment has often served as an index of the size of government. This measure, too, has a built-in bias toward suggesting that the rate at which government is growing is decelerating over time even when government increases its share of employment by, say, one percentage point every year. Thus, for example, when government's employment share increases from 2 percent to 4 percent, the government grows by 100 percent, but when the share increases from 20 percent to 22 percent, gobbling up the same incremental proportion of total employment, the government grows by just 10 percent.

In the group of seventeen advanced countries analyzed recently by Tanzi and Schuknecht, the government's average employment share increased from 5.2 percent in 1937 to 12.3 percent in 1960 to 18.4 percent in 1994 (2000, 26). The rate of increase of this ratio has declined during the past two decades in most countries, but one ought not to make too much of that deceleration. In the United States, increases in the amount of "contracting out" of government functions have led to a replacement of formal government employees by a growing "shadow" army of many millions of seemingly private employees—grantees, contractors, and consultants—but the latter are doing what they are doing only because the government arranges and pays for it to be done (Blumenthal 1979; Hanrahan 1983; Light 1999a, 1999b). According to Paul Light's estimates, the U.S. federal workforce is *not* the fewer than 2 million persons officially reported (as of 1996), but nearly 17 million persons—"and the count does not even include the full-time equivalent employment of the people who work on a part-time or temporary basis for Uncle Sam—for example, the 884,000 members of the military reserves," although it does include some 4.7 million *federally funded* workers already counted in the all-governments total as employees of state and local governments (1999a, 1).

Moreover, governments increasingly have established regulations that in effect require bona fide private parties to work for the government. Tanzi and Schuknecht themselves take note of such "quasi-fiscal policies," which they describe aptly as regulations that "become alternatives to taxing and spending" (2000, 203). In this recognition, they follow in a long line of analysts stretching back at least to Richard A. Posner in his capacity as the author of the 1971 article "Taxation by Regulation."

The relevant class of regulations, though, is much wider than it is usually recognized to be in the standard literature of economics and public choice. To be sure, all sorts of economic, environmental, health and safety, and social regulations continue to spew out of Washington and Brussels, among many other government centers. In addition, however, the U.S. government especially requires ever more uncompensated information collection and reporting by its subjects in order to slake the Surveillance State's insatiable craving for the most minute details of everyone's conduct (Bennett and Johnson 1979; Twight 1999). These Big Brotherish demands are justified by the despicable slogan that only those with something to hide will object, but in truth this vile rain falls on the righteous and the wicked alike—and one would have to be pretty dimwitted to expect the latter to report truthfully even if officially required to do so.

According to a recent summary of U.S. federal regulation by Clyde Wayne Crews Jr.,

- The 2001 *Federal Register* contained 64,431 pages. . . .
- In 2001, 4,132 final rules were issued by agencies. . . . .
- Of the 4,509 regulations now in the works, 149 are "economically significant" rules that will have at least $100 million in economic impact. Those rules will impose at least $14.9 billion yearly in future off-budget costs. . . . .
- The costs of meeting the demands of off-budget social regulations were as high as $229 billion according to the Office of Management and Budget. A more broadly constructed competing estimate that includes economic regulatory costs and paperwork costs pegs regulatory expenditures at $854 billion in 2001, or 46 percent of all FY01 [fiscal year 2001] outlays. (2002, 1–2)

The foregoing summary, shocking as it is, describes the regulatory burden being imposed at only the federal level of government. The state and local governments, as well as various international bodies, simultaneously continue to pour out endless streams of their own regulations, all of which entail resource costs and sacrifices of citizens' liberties.

Because the public has less awareness of the burdens imposed by these regulations, many of which remain obscure and indirect in their operation and effects, governments encounter even less resistance to their ongoing imposition of regulatory burdens than they encounter in their quest to collect greater revenue from explicit taxes laid on incomes, sales transactions, and property values. So far it seems that there is no natural limit to the number of regulations governments can and will impose. Hence, we are fast approaching a condition in which everything that is not forbidden is required, even as Americans, acting for all the world like faux-patriotic zombies, continue to reassure themselves incessantly that "it's a free country."[5]

5. For a refreshing recent dissent from this counterfactual conceit, see Greenhut 2003.

For present purposes, the point is that people occupied with regulatory compliance are not truly privately employed. Instead, they are in effect stealth government servants, working not for their own ends but doing the bidding of their political masters. In the present Western world, then, nearly everybody is actually a government employee, but rather than getting a government paycheck for our efforts, we are required to pay the government for the privilege of our own serfdom and to bear the risk of prosecution and imprisonment should our unpaid work on the government's behalf prove unsatisfactory to our "employer."

All That and More

Astronomical taxes and expenditures; regulations distended beyond human comprehension; gigantic borrowing and lending; countless prohibitions and subsidies; innumerable loan guarantees; multitudes of fines, fees, and charges; mountains of surplus commodities distributed like manna; precious private property seized at the whim of the forfeiture police; foreign wars without end; internal-security measures that treat all human beings going about their daily lives as criminal suspects—all that and more, much more, ever more constitute the glorious realm of government in today's economically advanced countries (you know, the ones that are color-coded as "free" on the maps prepared by research institutes better left nameless on this occasion). Each day the galling chains around us are pulled tighter. Yet until the last breath of liberty is squeezed out of us, we can rely on "hardheaded" scholars to trot out their anemic and biased measures of the growth of government and to announce calmly that we have no valid cause for alarm. My advice: if you value your life, liberty, and property, do not employ one of these experts as your night watchman.

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