

Is 9/11 a Crisis to be followed by a Leviathan?

Susan Dudley and Bruce Yandle*

Introduction

A year after the September 11, 2001 attacks on the World Trade Center and the Pentagon, our nation, and our government, have changed. The attacks cut the nation to the quick and sent shock waves around the world. In response, signs of patriotism and enthusiasm for government action rivaled those of World War II. Where before 9/11, the national political debate focused on excess revenues and how much to return to the people, post-9/11 politics was about home security, war, and how quickly government could move to meet the national emergency.

Writing last October about the nation's new commitment to war and domestic security, *New York Times* reporter Richard Stevenson interviewed Robert Higgs, author of a seminal 1987 book, *Crisis and Leviathan: Critical Episodes in the Growth of American Government*. Higgs' rigorously developed economic history of the United States showed how major national crises triggered expansions of federal government agencies that inevitably, it seemed, remained long after the crises had past. Commenting on 9/11 and the theme of his book, Higgs indicated "We are rushing very quickly to throw overboard announced positions about government assistance to private enterprise about surveillance, about security measures of various kinds that intrude on our liberties. In that respect, this episode mirrors the great national emergencies of our past." (Stevenson 2001) But as legal scholar Jonathan Macey (2000) wrote:

[D]esperation creates windows of opportunity for entrepreneurial politicians and special interest groups, because such desperation induces people to abandon cynicism and embrace the fantasy that the government will generate solutions to their problems... [P]eople become desperate for government-driven solutions during crises. (295-296)

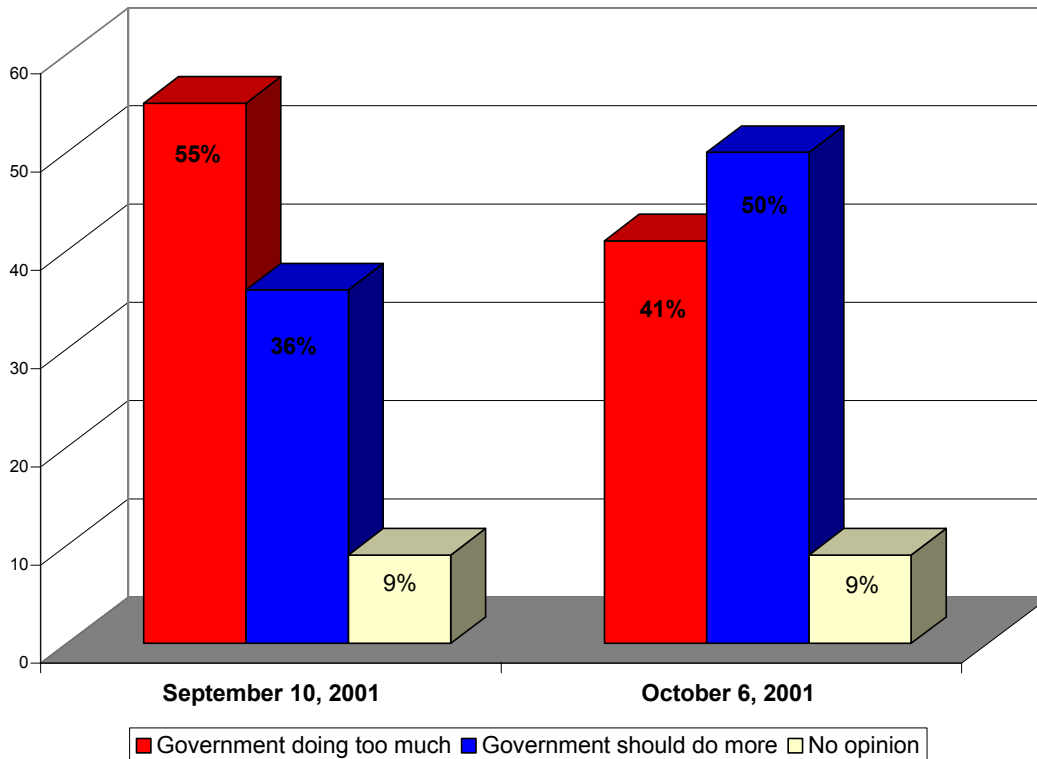
Crisis and Leviathan is indeed the theme of this essay. Inspired by the scale of post-9/11 actions taken by government and the fact that this national crisis is the first to emerge since Higgs' book, we seek to do three things. First, we will describe the mood change that affected public opinion about government. If Higgs' thesis is to hold, the will of the body politic must somehow be supportive of crisis response. As Macey put it, even cynical people must be moved to believe that government can provide meaningful solutions. We will show the degree to which support was forthcoming, as indicated by polls. We then examine some data on government size and levels of activity to identify evidence of the Higgs' ratchet theory. We note that some of this was reported in other ways by Higgs in his original work. Finally, we focus on regulation and identify activities that seem to suggest that a new kind of ratchet is forming. Based on the data, we speculate about the current episode.

* The authors are respectively Senior Research Fellow, Mercatus Center at George Mason University, and Professor of Economics Emeritus, Clemson University and PERC Senior Associate.

When the Will of the People Changes

A Gallup poll conducted one day before the 9/11 attacks asked Americans whether the government is trying to do too many things that should be left to individuals and businesses, or whether it should do more to solve the country's problems. As shown in Figure 1, fifty-five percent thought the government was doing too much, compared to 36 percent who thought it should do more. When the same poll was repeated a few weeks after the attacks, the tide had turned; only 41 percent thought the government was doing too much, while 50 percent believed the government should do more to solve the country's problems.

Figure 1: Is the government trying to do too many things that should be left to individuals



and businesses or should it do more to solve our country's problems?

Gallup, "Trust in Government Increases Sharply In Wake of Terrorist Attacks," Poll Analyses, October 12, 2001. <http://www.gallup.com> Respondents were asked: "Some people think the government is trying to do too many things that should be left to individuals and businesses. Others think that government should do more to solve our country's problems. Which comes closer to your own view?"

Other polls reported similar high levels of trust in government to "do what's right" following September 11th. Figure 2 shows the results of another post 9/11 Gallup poll that revealed the highest level of trust in the government since the 1960s, with the positive belief in government moving sharply to the north after 9/11.

Figure 2: How much of the time do you think you can trust government in Washington to do what is right?



Gallup. Respondents were asked: “How much of the time do you think you can trust government in Washington to do what is right -- just about always, most of the time, or only some of the time?”

The movement observed here may or may not imply an ideology change of the sort Higgs emphasizes when explaining why government expands with a crisis. (Higgs 1987, 57-58) We know of no way, *ex ante*, to identify such important changes. The question to be answered relates to durability of the change. As Higgs puts it, for the change to endure, “the events of the crisis [must have] created new understandings of and new attitudes toward governmental action.” (Higgs 1987, 59) Whether or not ideological change has occurred, the passage of antiterrorist legislation and establishing of a new cabinet level Department of Homeland Security certainly suggest that politicians recognized and heeded the call for action. We believe the Department of Homeland Security will be a part of the U.S. government for decades to come.

When Government Acts

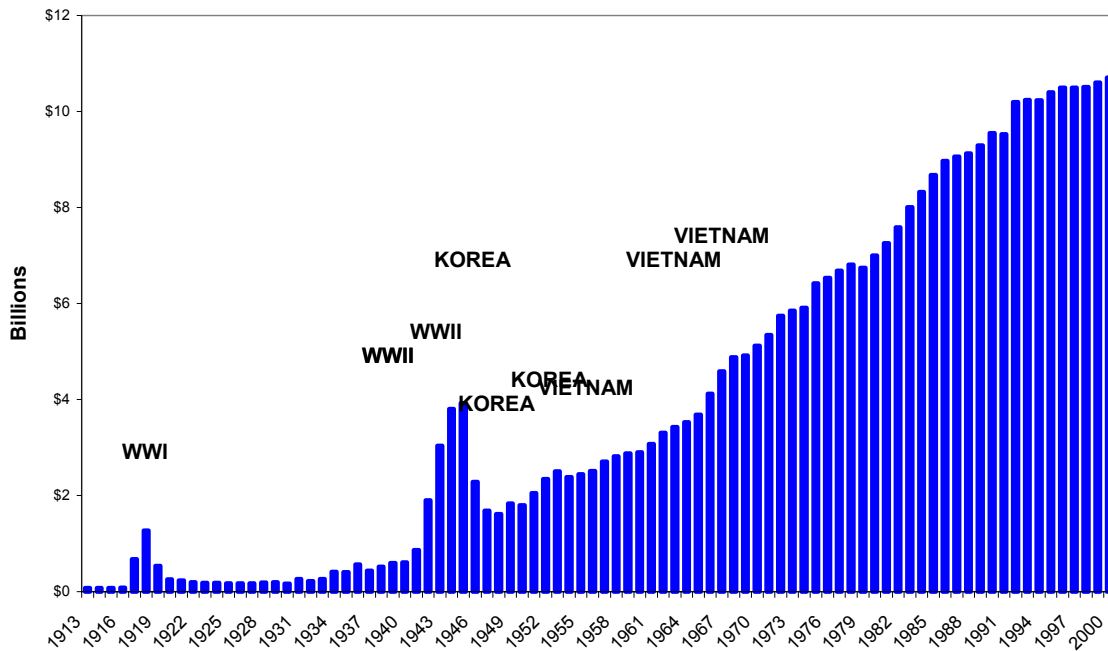
In a civics lesson sense, the federal government relies on three principal mechanisms when diverting resources from the private sector to use in achieving government-mandated goals. The government can tax and spend to meet its goals, conscript resources and use them, or leave resources in private hands and regulate their use. The costs and opportunities to redistribute wealth associated with these different mechanisms vary, as does the transparency of those costs. We will first look historically at each mechanism to examine the extent to which federal government involvement grew during times of war, and the extent to which that role was relinquished at the conclusion of the crisis. We then examine current federal government activity.

Taxation

Taxation is the most transparent mechanism for diverting private resources to public use, assuming the observer can fathom the U.S. tax code and predict how the IRS will interpret it. At a macro level, tax revenues are measured precisely, tracked through the federal budget, and are subject to Congressional oversight and public scrutiny. The federal income tax was first imposed during the Civil War, but the income tax as we know it was introduced as the nation prepared for World War I, and has continued to grow since then. Then, during World War II, income tax rates not only increased, but were automatically deducted from pay checks. That wartime expedient remained after the conclusion of the war, leaving American businesses impressed into tax collection duties, and obscuring for many Americans the real fiscal burden imposed by their government.

Figure 3, which tracks real federal expenditures from 1913 through 2001, shows the sharp increase in federal expenditures during the two world wars, the ratcheting up following each war, and the subsequent shift in the slope or rate of growth of expenditures in the post-war periods. We note that a small but perceptible shift is seen in association with the Korean and Vietnam wars, but the simultaneous growth of government for other reasons obscures the Vietnam effect.

Figure 3: Federal budget expenditures 1913-2000 (real \$billion)



Bureau of Economic Analysis, *National Income and Product Accounts Tables*, Table 3.2. Federal Government Current Receipts and Expenditures, Last Revised December 21, 2001.

Since September 11, the projected U.S. budget surplus has disappeared, and there is even talk of tax increases. Perhaps more telling, President Bush's 2003 budget suggests that the administration seeks to emulate President Franklin Roosevelt's handling of the World War II effort:

As war approached, he husbanded the resources of the nation and concentrated them upon the nation's supreme priority: victory. In fact, President Roosevelt's 1944

Budget noted that expenditures not related to the war effort were reduced by more than 20 percent between 1939 and 1942.

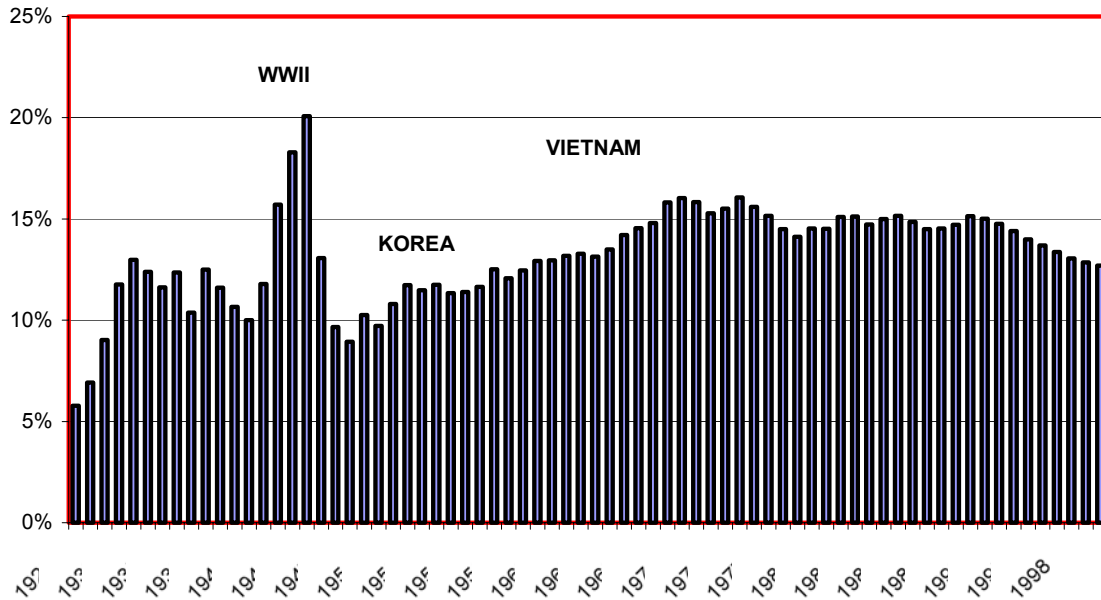
President Roosevelt's vision preserved freedom, and prepared the way for almost a quarter-century of robust economic growth in the United States and throughout the world. We can show ourselves worthy of that accomplishment by following that example. (*Budget of the United States Government, Fiscal Year 2003*. "Securing America's Future," p. 13)

Conscription

In the United States, where property rights and individual liberties are treasured and constitutionally protected, the systematic commandeering of resources or conscription of labor has only been tolerated during periods of war. The military draft during the two World Wars, and again during the cold war through the Vietnam War, are the most obvious examples of government conscription. During the World Wars, the federal government built factories, took over others, and commandeered railroads to secure supplies for defense efforts. Most of these commandeered resources were returned to private hands at the conclusion of hostilities, but with residual regulatory controls that hadn't existed before the war. The railroads, for example, were returned to their owners in 1920, but the powers of the Interstate Commerce Commission were expanded to include complete control over rates, securities offerings, mergers, and construction, as well as use and abandonment of rail facilities.

While the full opportunity costs of conscription are not readily accounted for, these costs are at least somewhat visible. Figure 4 illustrates this with data showing government share of national income, and federal share of employment. Here, we see increases in share during World War II, the Korean conflict, and the Vietnam War. We note that the federal income share begins to fall in the early 1990s. If our interpretation of Higgs is correct, we should see that decline ending.

Figure 4: Government Share of National Income 1929-2001



Bureau of Economic Analysis, *National Income and Product Accounts Tables*, Table 6.1A. National Income Without Capital Consumption Adjustment by Industry Group, Last Revised July 28, 2000. Note that what the government pays for conscripted labor is, by definition, less than market rates, so that the increase in income from government sources (the numerator) will be less than the decrease in income from private sources (the denominator). This suggests that this proxy understates the degree of shift from private labor to conscripted labor.

Since 9/11, airport security is the most visible case of federal assumption of a private activity. The November 2001 aviation security legislation effectively nationalized airport security, putting federal employees in charge of airport security screening for the next three years at least. The President’s budget request for fiscal year 2002 included \$1.3 billion for the new Transportation Security Administration established to administer airport security. For fiscal year 2003, the budget for the new agency jumped to \$4.8 billion, with full-time staff of over 41,000. (*Budget of the United States Government*, FY 2003) Like the resources commandeered during previous wars, airport security may be returned to private hands after three years, but only upon the request of individual airports, and only with increased federal regulatory scrutiny.

Regulation

The ratchet effect is also evident in regulatory activity. During times of crisis, the executive branch expands to implement legislation and regulation. New and existing cabinet-level departments and agencies mobilize to meet the mandate of the time. A strict interpretation of the Crisis and Leviathan theory suggests employment levels will not fully adjust to the pre-crisis path when normal times return. We note two considerations that may encourage employment adjustment. First, technological change and contracting out can lead to fewer executive branch employees being able to produce even more Leviathan output. Second, producing regulation is somewhat like planting corn. There is a time to plant, and a time to “lay by” and let the plants mature. Employment levels vary during these periods.

Figure 5 reports executive branch employment for the years 1936 through 2001. Again, we have marked the major crisis periods. Here, we see the sharp employment increases associated with wars. The ratchet effect is also apparent through most of the series. We call attention to the post-1990 employment decline, which may reflect the above-noted considerations. Once again, there appears to be evidence of the ratchet effect.

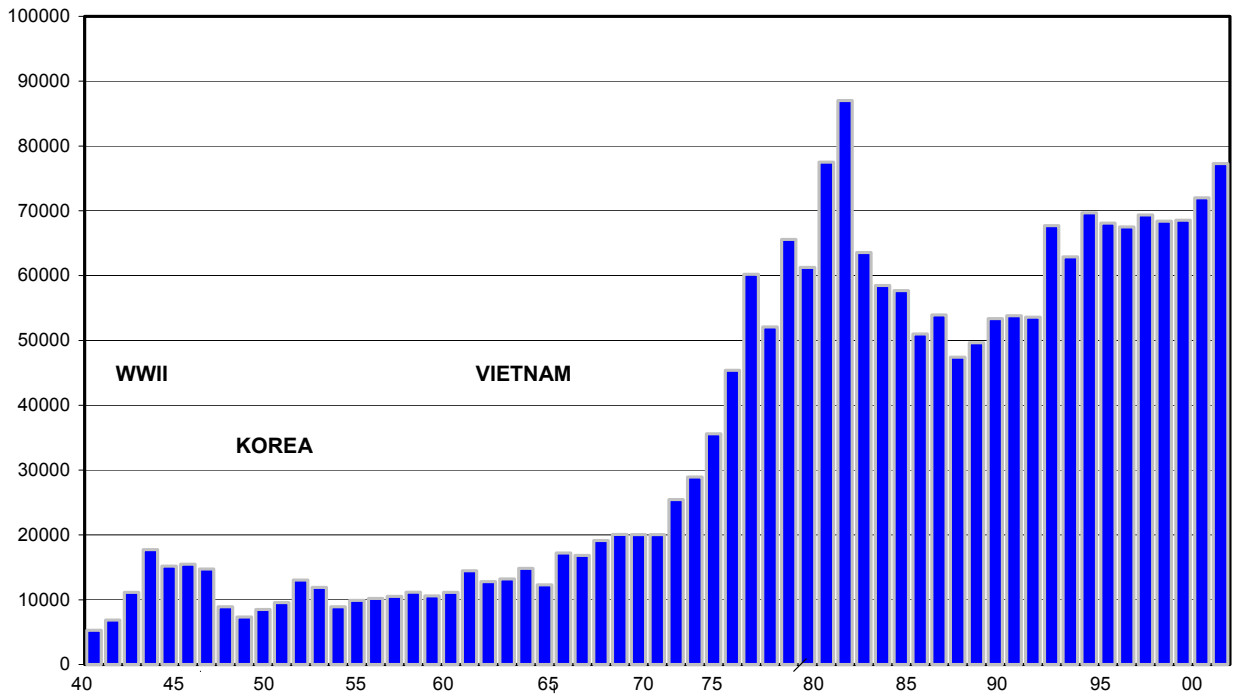
Figure 5: Executive Branch Employment 1939-2001



U.S. Department of Commerce, as reported by Economy.com (www.economy.com), March 10, 2002.

A somewhat more direct measure of regulatory activity is found in the *Federal Register*, which has served as a daily compendium of federal rules and notices since 1936. Figure 6 illustrates how pages in the *Federal Register* have increased during national wars. Moreover, the rate of growth in *Federal Register* pages does not return to pre-war rates, but rather appears to escalate after periods of crisis. We also note that unlike executive branch employment, there appears to be no technology drift that increases the efficiency of *Federal Register* pages.

Figure 6: Federal Register pages, 1940-2001



Count of annual pages maintained by the authors.

We recognize that the count of *Federal Register* pages is an imperfect proxy and therefore cannot tell us whether different types of regulatory activity are more prevalent during and after war periods. Since 9/11, we have witnessed an increase in some activities and a decrease in others, as national priorities shift. Environmental issues are less in the news, and proposals for prescription drug coverage or a patients’ bill of rights have taken a back seat to issues related to national security. On the other hand, some federal functions that would probably not have been tolerated before September 11th have been enacted with little dissent. For example, pursuant to the USA PATRIOT Act, the Treasury Department has issued a series of rules aimed at deterring the financing of terrorist acts, including a rule permitting information gathering by financial institutions and the federal government. These are very similar to a “know-your-customer” proposal that the FDIC withdrew two years earlier in the wake of unprecedented negative public comment.

The Office of Management and Budget, in its *Draft Report to Congress on the Costs and Benefits of Regulation*, identifies “41 significant federal regulations issued in response to the terrorist attacks.” (Office of Management and Budget, *Draft Report to Congress on the Costs and Benefits of Regulation*, 67 Fed. Reg. 15015, March 28, 2002) It classified the rules into two categories, those that improve and strengthen national security, and those that direct relief to the individuals affected by the attacks. The report notes that the Department of Transportation and the Federal Aviation Administration issued over a dozen rules related to transportation security and airline compensation.

Insight into what future regulatory activity to expect as a result of September 11 may be found in the fiscal budgets for fiscal years 2002 and 2003, which include the costs of administering federal regulatory activities. Increases or decreases in the budgets devoted to regulatory agencies may presage increases or decreases in regulatory activity. According to a forthcoming report, President

George W. Bush's budget for 2003 projects expenditures on regulatory activities to be \$24.0 billion in fiscal year 2003. This reflects a more than 10 percent real increase over fiscal year 2001 expenditures, but a real decline of almost 4 percent between 2002 and 2003. (Dudley & Warren, 2003) The number of employees at federal agencies directed to regulatory issues is expected to increase over 11 percent between fiscal years 2001 and 2003.

History suggests that we are more likely to see "economic regulations" during periods of war than "social regulations." The takeover and operation of railroads, formation of rationing mechanisms, and price controls are examples of economic regulations that directly restrict private firm and consumer activity. "Social regulations," on the other hand, are more about actions that promote environmental quality, or the health and safety of consumers and workers. (Miller and Yandle, 1979)

The budget for economic regulatory activities is estimated to be \$4.6 billion in 2002 and \$4.9 billion in 2003. These reflect real increases of 4.7 percent between 2001 and 2002 and 4.3 percent between 2002 and 2003. Federal spending on administering social regulation is projected to reach \$19.1 billion in fiscal year 2003. This reflects a sharp increase (17.4 percent in real terms) between fiscal years 2001 and 2002, but a real 5.6 percent decline in 2003.

The largest projected percentage budget increase since September 11 occurs in agencies that regulate the transportation sector, where 2003 expenditures represent a real increase of almost 38 percent over the FY 2001 budget. The Nuclear Regulatory Commission also saw budget increases, but agencies regulating the environment and job safety generally saw declines in their budgets over the same period.

Unlike economic regulations, the greatest increases in social regulations have historically occurred during times of peace and prosperity, rather than in response to wars. The sharpest increase in social regulatory activity occurred during the post-Vietnam period of the 1970s. This may reflect the fact that social regulations are luxuries in which only a wealthy citizenry is willing to indulge, a behavior observed in a growing body of environmental literature. (Yandle, Vijayaraghavan and Bhattarai, 2002)

Final Thoughts

9/11 has set in motion a series of massive government actions that seek to provide for the nation's defense and civil order. Recognizing a national spirit that parallels the mood following Pearl Harbor, national politicians have been quick to respond to the pending emergencies. Much like the pattern Higgs describes in *Crisis and Leviathan*, the nation has suffered a massive blow, responded emotionally, and political priorities have changed. New government machinery has been designed and installed, and older programs have been expanded. If a ratchet-like Leviathan response is emerging, we are now in the early stages.

Unlike past ratchet-like responses that led to a larger federal establishment and expenditures, the new ratchet, we believe, will be built only partly of larger employment levels and increased expenditures of tax money. Regulation will form the other, and perhaps most significant, part. Thus, if we are to search for evidence of the Leviathan response, we must focus closely on the regulatory establishment.

America, from its founding, has been characterized by a skepticism of government. It remains to be seen whether that skepticism will be preserved through these troubled times. As the imminent threat from terrorism fades, elected officials may feel pressure to increase the role of government in domestic as well as national defense issues. Only then will we be able to tell if the 9/11 crisis has generated yet another Leviathan response.

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