

# Why Does Freedom Wax and Wane?

Some Research Questions in Social Change and Big Government

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Tyler Cowen



3434 Washington Blvd., 4th Floor, Arlington, Virginia 22201  
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## ABSTRACT

The 20th century has seen some of the greatest restrictions on liberty of any period in human history, as well as significant liberalizations and improvements. These questions do not always hold a central place in mainstream academic discourse, but there are scholars who seek to explain how and why these changes have occurred. This paper attempts to make this research accessible to a broader audience. It presents relevant research on social change and concludes that Western societies are not headed off the proverbial economic cliff. Even though governments may be larger and more bureaucratic than before, they largely continue to support freedom because failure to do so could destroy the entire system. Moreover, market-oriented economies have demonstrated a lasting ability to out-compete alternatives, such as communism. Technological changes and advancements hold a promise for greater freedom and prosperity across the world.

*JEL* codes: B25, B59, D72, H10, H60, K10, L51, O57, P11, P16, Q58

Keywords: classical liberalism, constitution, corporations, deregulation, economic development, environmental regulation, free market, globalization, liberty, mass media, New Zealand miracle, public choice, rational irrationality, social change, Thatcher revolution, Tullock paradox, Westminster system

## AUTHOR'S NOTE

Mercatus first put this piece out in 2000. We all thought it was worthwhile to revisit these issues, given the uncertain course of liberty in today's world. I don't these days agree with everything in this piece, so think of it as a time-slice of my opinions and survey methods from back then. In any case, I hope it is still of interest. Some verb tenses and discussions related to time have been changed in minor ways, to avoid sounding strange or incongruous, but otherwise I have left the content as it was.

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## PREFACE

**T**he 20th century has seen some of the greatest restrictions on liberty of any period in human history and also some of the most significant liberalizations, some of those extending into the early part of the 21st century. As scholars, we wish to understand how and why these changes have occurred. As human beings, we can use this understanding to make the world a better place.

Unfortunately, these questions do not always hold a central place in mainstream academic discourse. Nonetheless some researchers are investigating these topics, especially at my home university of George Mason in Virginia. In this essay, I seek to make this research accessible to a broader audience, including decision makers, journalists, the nonprofit sector (e.g., think tanks and foundations), and other academics wishing to look beyond their immediate field of specialization. I therefore present some relevant research on social change and explain how it fits into a larger picture, examining what we already know and offering some conjectures as to what we should be trying to figure out.

Please note that an original version of this essay was published as a working paper in 2000. I have since made some minor edits to avoid anachronisms, but I have not otherwise tried to alter the core arguments. And I have updated some references as unpublished work has since been published. But still I have not considered the massive stream of materials that has appeared since 2000, even though now some of the citations have publication years past 2000.

Throughout the essay, I also discuss work being done by individuals affiliated—either currently or previously—with George Mason University. I focus on these works in part because I am more acquainted with them than with many other writings. But I also hope to present George Mason University as a central locus for research and thought on social change. This work is one reason why George Mason is such an exciting intellectual environment.

## I. INTRODUCTION

Why do societies become more or less free over time? What accounts for the successes and failures of deregulatory movements? Why have some countries succeeded in reforming their economies whereas others have not? Why are some social movements, such as environmentalism, successful whereas others fail? What forces shape public opinion?

For the purposes of this essay, I define social change in terms of broad, systemic trends that affect liberty and prosperity. Why communism fell, why New Zealand reformed its economy in the 1980s, and why the environmental movement succeeded are all topics of direct relevance to this notion of social change. In the history of ideas, social change has been a primary concern of such writers as Montesquieu, Adam Smith, Hegel, Alexis de Tocqueville, and Karl Marx. In economics, social change is most closely related to the fields of public choice and constitutional economics.

I leave aside broader questions of culture, including some of my own work on commercial culture, celebrity culture, and cultural globalization, as well as the literature on the evolution of moral behavior and cognition. These issues are extremely important for social change, but I hope to consider them separately in future work.

I will consider and briefly survey five central areas for social change: why government grows, why market-oriented reforms occur in some countries rather than others, how procedural reforms affect government growth, how public opinion is shaped, and what is the role of the media in social change. Broadly construed, I see these five questions in social change research as having the clearest links to liberty and prosperity in the Western democracies. I offer some concluding remarks on whether we should be optimistic or pessimistic about social change in today's world.

## II. THE PARADOX OF GOVERNMENT GROWTH

The growth of government is one of the most striking trends of the 20th century. Around the world, governments today are much larger than they have been in times past, either as a percentage of gross domestic product (GDP) or in absolute terms. This increase in the size of the public sector has influenced all of our lives greatly, for better or worse. Yet the determinants of government growth remain poorly understood. In particular, we do not understand why government has become so much larger in the 20th century than in previous eras.

Gordon Tullock has referred to the “paradox of government growth.”<sup>1</sup> In his explication of the paradox, Tullock pointed out a simple fact. Before the 1930s or so, government was a very small percentage of GDP in most Western countries, typically no more than 5 percent. In most cases this state of affairs had persisted for well over a century. The 20th century, however, saw the growth of government to 40 or 50 percent of GDP.

Public choice theory has been very effective in generating theories as to why government grows and why that growth is inevitable. Special interest groups, voter ignorance, and the pressures of war are all cited in this context. Those theories, however, fail to explain the historical pattern more generally. Until the 20th century, governments were not growing very rapidly. Yet standard public choice theories of government growth do not contain enough institutional differentiation to account for little or no government growth in one period and rapid government growth in another period. The evidence suggests that those theories are incomplete and that the real causes of government growth lie in forces that are more contingent and more historical than public choice theories imply. At the same time, the explanation of government growth should not be too contingent or too historical, because every Western economy has experienced broadly similar trends. Some structural shift occurred in the late 19th and early 20th centuries and has since been common to the Western capitalist democracies.<sup>2</sup>

A number of partial explanations have been suggested for the Tullock paradox. One line of inquiry focuses on ideology and the shift in the intellectual climate. According to this claim, the philosophy of classical liberalism declined in the mid to late 19th century. This may be attributed to the rise of socialist doctrine, internal contradictions in the classical liberal position, or perhaps the

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1. Gordon Tullock, “Government Growth” (unpublished manuscript, George Mason University, 1994).

2. Thomas E. Borcherding provides a useful survey of the evidence and literature on government expenditure: “The Causes of Government Growth: A Survey of the U.S. Evidence,” *Journal of Public Economics* 28 (1985): 359–82. Patrick D. Larkey, Chandler Stolp, and Mark Winer survey the literature on government growth and also consider noneconomic perspectives: “Why Does Government Grow?,” in *Public Sector Performance: A Conceptual Turning Point*, ed. Trudi C. Miller (Baltimore: Johns Hopkins University Press, 1984), 65–101. See also James T. Bennett and Manuel H. Johnson, *The Political Economy of Federal Government Growth: 1959–1978* (College Station, TX: Texas A&M University, 1980). For a public finance perspective, see Richard E. Wagner and Warren E. Weber, “Wagner’s Law, Fiscal Institutions, and the Growth of Government,” *National Tax Journal* 1 (1977): 59–67. On social security expenditures, see Roger Congleton and William Shughart, “The Growth of Social Security Expenditures, Electoral Push or Political Pull?” *Economic Inquiry* 28 (1990): 109–32. For a more general survey of some of the relevant literature, see Roger Congleton, “The Politics of Government Growth,” in *Elgar Companion to Public Choice*, eds. William F. Shughart and Laura Razzolini (Cheltenham, UK: Edward Elgar Publishers, 2000).

rise of a professional intellectual class. Friedrich A. Hayek, in his essay “The Intellectuals and Socialism,” suggests that intellectuals’ ideas were the driving force behind the political transformation, although he offers no clear reason as to why classical liberal doctrine declined.<sup>3</sup>

Whereas the ideology hypothesis has merit, it is unlikely to provide a final answer to the Tullock paradox. Ideology is to some extent determined by broader social conditions. Ideologies changed, in part, because intellectuals perceived reasons to promote larger government rather than classical liberalism. It remains necessary to identify the change in social conditions that drove this trend. This does not suggest that all or most intellectuals cynically court power, as many changed their minds sincerely, because of some change in objective conditions. Furthermore, some change in objective conditions caused socialist ideas to win larger audiences at the expense of classical liberalism.

Some authors attribute the rapid government growth of the 20th century to war and international conflict. Robert Higgs, in his book *Crisis and Leviathan*, argues for this view in detail.<sup>4</sup> He postulates a ratchet effect. State activity invariably expands in wartime. Taxes increase, resources are conscripted, and economic controls are implemented. When the war is over, some of these extensions of state power remain in place. The 20th century, of course, has seen the two largest and most extreme wars in history, the two world wars.

The war hypothesis nonetheless fails to convince. There is no doubt that government grows during wartime and that a ratchet effect is present. But the ratchet effect becomes much stronger in the 20th century. Furthermore, most forms of government growth probably would have occurred without war. The example of Sweden is instructive. Sweden avoided both world wars but nonetheless has one of the largest governments—relative to the size of its economy—in the West. The war hypothesis also does not explain the chronology of observed

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3. F. A. Hayek, *The Intellectuals and Socialism* (Menlo Park, CA: Institute for Humane Studies, 1971 [1949]). W. J. Greenleaf offers a comprehensive history of the decline of classical liberal doctrine in *Great Britain: The British Political Tradition* (New York: Methuen, 1983). For the United States, the best source is Arthur A. Ekirch, *Decline of American Liberalism* (New York: Longmans and Green, 1955). On the influence of Keynesianism, see James M. Buchanan and Richard E. Wagner, *Democracy in Deficit* (New York: Academic Press, 1977). Daniel B. Klein and Theodore Balaker are currently writing a history of “intellectual migrants,” individuals who switched from one ideology to another: “The Ideological Migration of Intellectuals: Is There a Pattern?” (unpublished manuscript, 2000, Department of Economics, Santa Clara University). David Levy considers the transformation of liberal thought on racism and asks why liberalism split from its heritage of classical economics on the issue of race: “How the Dismal Science Got Its Name: Classical Economics and the Ur-Text of Racial Politics” (unpublished manuscript, 2000, George Mason University).

4. Robert Higgs, *Crisis and Leviathan: Critical Episodes in the Growth of American Government* (New York: Oxford University Press, 1987).

growth. Many Western countries had taken important steps toward larger government before the First World War. Finally, even if the war hypothesis explains the genesis of government growth, it does not explain why large government persists, given that voters can choose their politicians and, indirectly, their economic policy.

A third answer to the Tullock paradox attributes government growth to the expansion of the voter franchise. In the early 19th century, voting rights typically were restricted to a small percentage of the population, typically wealthy male landowners. In many European countries, of course, there were no voting rights at all and no democracy. By the 1920s, this state of affairs had changed. Almost all of Western Europe was democratic. Men had voting rights in all the democratic countries, without regard for income or property qualifications. Women had the franchise in many of the democracies and would shortly win it in others.

Under this hypothesis, widespread voting rights drove the move to larger government. The small governments of the early 19th century are portrayed as the tools of ruling elites. But once the franchise was extended, the new voters demanded welfare state programs, which to this day account for the bulk of government expenditure. Sam Peltzman offers the related hypothesis that the demand for government tends to be large to the extent that voters are relatively homogeneous and equal in income, which he sees as broadening the political base for widespread redistribution.<sup>5</sup> Peter Lindert argues that the young and the old drive the demand for government spending, while middle-aged groups typically oppose spending increases.<sup>6</sup> Dani Rodrik suggests that the demand for government is highest where risk is highest, such as in small, open economies.<sup>7</sup>

The story of franchise extension is one of the most convincing attempts to address the Tullock paradox. But Tullock himself does not find this explanation convincing, largely because it fails to explain the cross-sectional variation in the data. The dates at which countries extend their franchise do not correlate in any simple way with the time their governments start growing. Furthermore, nondemocratic regimes, such as Franco's Spain, illustrate patterns of government growth similar to those of democracies. Nor do referenda—which make decision-making more democratic—seem to have a

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5. Sam Peltzman, "The Growth of Government," *Journal of Law and Economics* 23, no. 2 (1980): 209–87.

6. Peter H. Lindert, "What Limits Social Spending?," *Explorations in Economic History* 33 (1996), 1–34.

7. Dani Rodrik, "Why Do More Open Economies Have Bigger Governments?" *Journal of Political Economy* 106 (1998): 997–1032. On these issues, see also Dennis C. Mueller and Thomas Stratmann, "The Economic Effects of Democratic Participation" (unpublished working paper, 2000, George Mason University).

“Politicians court opinion polls almost to the exclusion of all other considerations. Voters may tolerate a larger government simply because they feel they can control that government along various margins and with regard to various details.”

dramatic effect on the size of government, although they do alter the mix of policies.

Some evidence, however, does support the hypothesis that the franchise matters. Thomas Husted and Lawrence Kenny, looking at data from state governments, find that the elimination of poll taxes and literacy tests leads to higher turnout and higher welfare spending.<sup>8</sup> John Lott and Lawrence Kenny find that women’s suffrage had some role in promoting greater government expenditures.<sup>9</sup>

A fourth potential explanation of the Tullock paradox focuses on the production technology for large government. Governments might have been small in previous eras simply because the technologies for supporting large government did not exist. Large institutional structures of any kind require a certain degree of communication, organization, and coordination. The less advanced the technology in a given society, the harder it is to maintain large institutional structures. In other words, big government might have always been in the cards for whatever demand-side reasons, but only the 20th century has been able to sustain it on the supply side.

Prior to the American railroads, which arose in the middle of the 19th century, private business corporations were not typically very large. The costs of control and large-scale organization were simply too high. The railroads needed to overcome these problems, however, given the magnitude of the production and coordination tasks they faced. Following the railroads, a variety of large corporations arose in steel, oil, and automobiles, to name a few examples. Alfred Chandler has chronicled the rise of such corporations in his book *The Visible Hand*.<sup>10</sup> The rise of these corporations coincided roughly with the rise

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8. Thomas A. Husted and Lawrence W. Kenny, “The Effect of the Expansion of the Voting Franchise on the Size of Government,” *Journal of Political Economy* 105 (1997): 54–82.

9. John R. Lott and Lawrence W. Kenny, “Did Women’s Suffrage Change the Size and Scope of Government?,” *Journal of Political Economy* 107, no. 6 (1999), 1163–98.

10. Alfred D. Chandler, *The Visible Hand: The Managerial Revolution in American Business* (Cambridge, MA: Belknap Press, 1977).



of big government, which suggests the two may have common roots. Poorer countries still have smaller governments as a share of GDP (if not in terms of their efficiency costs) than do richer countries.

The relevant changes in supply-side technology may involve the railroad, electricity, the telegraph, techniques of scientific management and bureaucracy, and the greater efficiency of steam engines. Leonard Dudley places great stress on the radio and on electronic means of communication, which became widespread in the 1920s.<sup>11</sup> In his view, these technologies enabled fascism and greater communication between political leaders and the citizenry, which may have led to larger government through programs such as the New Deal.

Nonetheless, a number of puzzles remain. The world of antiquity sustained a number of large and sometimes very oppressive empires. Whereas they may have been smaller, in percentage terms, than modern governments, they probably were larger than the governments of the mid-19th century. This suggests that technology alone is not the relevant binding constraint on the size of government. Furthermore, for any particular technology we might postulate, it is unclear how exactly that technology drives or enables big government.

Improved voter ability to monitor government may be another reason why government is larger today. Most elections are fair today (in the Western democracies), and there are strong national news media. Politicians court opinion polls almost to the exclusion of all other considerations. Voters may tolerate a larger government simply because they feel they can control that government along various margins and with regard to various details. Conversely, earlier governments might have been truly terrible if they had tried to perform all the functions of today's governments. Voters, implicitly realizing this fact, may have wanted to keep the earlier governments on an especially short leash, which they did by keeping those governments very small.

### III. WHICH COUNTRIES HAVE REFORMED?

The 1980s and 1990s saw some of the most significant moves toward freer markets in this century. Perhaps most notably, communism fell, and most of the former communist countries now have significantly more economic and

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11. Leonard M. Dudley, *The Word and the Sword: How Technologies of Information and Violence Have Shaped Our World* (Cambridge, MA: Basil Blackwell, 1991).

political freedom than before.<sup>12</sup> Most of Latin America and Asia have moved toward greater reliance on the market and on democratic decision-making procedures. Many European countries have sought to cut back or restructure their welfare states. The European Union has brought significantly greater economic competition as well. The Thatcher Revolution swept away many harmful interventions in the United Kingdom. The Reagan Revolution in the United States led to less change but nonetheless reflected a significant shift in the ideological climate.

In 1984, Karen Vaughn wrote a well-received paper for the Mont Pelerin Society entitled “Can Democratic Society Reform Itself?”<sup>13</sup> The question she posed remains open, but in the meantime we have more evidence. Charles K. Rowley also has focused on the question of whether democracy is efficient and to what extent democracy is consistent with the protection of property rights.<sup>14</sup>

New Zealand arguably is the Western democracy that has seen the most reform. We therefore can review the New Zealand experience and look for clues as to what makes reform possible.

New Zealand started the postwar era as one of the richest countries in the West but subsequently frittered away its advantages. By the end of the 1970s, New Zealand was one of the poorest of the developed democracies. The country had engaged in a massive program of public spending, labor market regulation, protectionism, and social welfare legislation. The country was arguably the most socialistic and most interventionist of the Western democracies. Furthermore, the New Zealand interventions were especially ill conceived, particularly the “Big Think” programs of the Muldoon administration, centralized labor market regulation, an absence of fiscal responsibility, and ongoing double-digit rates of price inflation. In addition, New Zealand was hit by a severe negative shock when the United Kingdom joined the Common Market in 1972, eliminating New

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12. On the causes of the fall of communism, see Peter J. Boettke, *Why Perestroika Failed: The Politics and Economics of Socialist Transformation* (New York: Routledge, 1993). I do not have the expertise to survey this admittedly vital question.

13. Karen I. Vaughn, “Can Democratic Society Reform Itself?,” in *The Market Process*, eds. Peter J. Boettke and David L. Prychitko (Cheltenham, UK: Edward Elgar, 1994 [1984]).

14. For examples of his many writings on this topic, see Charles K. Rowley, “The Political Economy of the Public Sector,” in *Perspectives on Political Economy*, ed. R. B. Jones (London: Frances Pinter, 1983); Charles K. Rowley and Michelle A. Vachris, “The Virginia School of Political Economy,” in *Beyond Neoclassical Economics: Heterodox Approaches to Economic Theory*, ed. Fred Foldvary (Cheltenham, UK: Edward Elgar Press, 1996), 61–82; and Charles K. Rowley and Robert D. Tollison, “Peacock and Wiseman on the Growth of Public Expenditure,” *Public Choice* 78, no. 3 (1994): 125–28.

Zealand's privileged access to UK agricultural markets.<sup>15</sup>

New Zealand turned its economy around with two waves of reforms, starting with the Labour Party government of 1984. Roger Douglas, the finance minister, was the inspiration for and the leader of the first wave of reform. Douglas had read Hayek, Friedman, and other market-oriented thinkers, and he realized that the New Zealand economy required radical change. Moving rapidly, the government first deregulated the financial markets, floated the exchange rate, and removed controls on wages, prices, interest rates, and foreign exchange. The government also undertook reform of state-owned enterprises, with an eye toward their eventual privatization. Top marginal income tax rates were halved and the tax rates were made flatter. Note that the Labour Party had historically been a left-wing party.

The first wave of reforms ended in 1987 when Douglas fell out of favor in the Lange government and New Zealand entered a severe recession. The second wave of reform started with the National Party government of 1990, which finished the restructuring of the New Zealand economy begun by the Labour Party. Most importantly, the National Party deregulated labor markets through the Employment Contracts Act of 1991, which placed labor markets on a contractual basis, in opposition to the older system of centralized collective bargaining. The National governments also instituted the zero inflation contract with the New Zealand central bank, continued deregulation, completed the virtual elimination of tariffs, and continued economic privatization, most notably through the sale of New Zealand Telecom. The National governments also instituted a general campaign to bring accountability to government and to eliminate unnecessary government jobs and departments.<sup>16</sup>

The New Zealand reforms were significant. While transfer payments and government healthcare have remained largely untouched, New Zealand went from being one of the most interventionist of the Western democracies to being the least interventionist, all in the span of no more than a decade. Numerous other economies moved in a market-oriented direction in these years, but none did so more than New Zealand.

A variety of hypotheses explain why New Zealand implemented such far-reaching reforms. One hypothesis is based on the fact that New Zealand found itself in a deeper economic mess than did other countries. New Zealand

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15. The best reference on New Zealand reforms is Lewis Evans, Arthur Grimes, Bryce Wilkinson, and David Teece, "Economic Reform in New Zealand 1985–95: The Pursuit of Efficiency," *Journal of Economic Literature* 34 (1996): 1856–1902.

16. A leading figure in the National government reforms was Maurice P. McTigue, who is currently a distinguished visiting scholar at the Mercatus Center at George Mason University.

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interventionist policies were especially harmful, and their results were compounded by the negative real shocks that hit the New Zealand economy during the same time frame. Interventionism therefore may have lost more legitimacy, and relatively radical reforms were needed to keep New Zealand among the tier of first-world economies.

A second hypothesis cites the special features of the New Zealand system of government, especially as it existed at that time, as a reason for the radical nature of the reforms. New Zealand government has no division of powers, as the executive and legislative branches are fused into one. There is no effective judicial review of government decision making and no written constitution in the American sense. Parliament also has a relatively high degree of control over the bureaucracy, especially compared to larger countries. Federalism is extremely weak, since the small size of the country allows the national government to perform most functions. Parliament is relatively small, which can create significant power for a cohesive Cabinet. A whip system strongly encourages Parliament members to vote the party line. Whereas backbencher revolts are common, the party leadership has a strong first-mover advantage in proposing legislation and setting policy. In all of these regards, the New Zealand system of government was a relatively undemocratic one. A relatively small number of individuals, if they could control Cabinet, could then shape the economic policy of New Zealand more than would be possible in the United States or in Western Europe.<sup>17</sup>

In these regards, New Zealand attenuated the constraints on government relative to other systems such as the United States (I will leave aside the controversial question of how much this changed with later reforms, including the institution of proportional representation). In other regards, however, the New Zealand system subjects government to an extreme form of external democratic control.

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17. Since that time, the New Zealanders have introduced proportional representation in an attempt to constrain their government with more checks and balances. The switch in electoral systems, however, is not generally considered a success among New Zealanders.

New Zealand is a relatively small country, much of the population is concentrated in a few major cities (Auckland, Christchurch, and Wellington), and the country is relatively homogeneous, despite substantial Maori and Polynesian minorities. The country is well educated and well informed. Voter participation rates are high and electoral cycles are short. In the interim, a government may fall at any time through a parliamentary vote of no confidence. The possibility of a vote of no confidence keeps governments in line with public opinion, even when the threat is not exercised. In essence, an implicit election is held every day, since Parliament would not go along with any government that fell too far out of favor. Furthermore, since there is no division of powers, Parliament, and Cabinet in particular, are held accountable for all policy. If something goes wrong, the citizenry is never in doubt as to who is to blame, unlike in the United States or other mixed systems.

The New Zealand system of that time can be thought of as allowing Cabinet extreme latitude in the short run but imposing severe constraints in the medium run. Cabinet can initiate reforms and put them into practice with an effectiveness that the American system could never replicate. At the same time, if those reforms do not work, a New Zealand government will be punished with a swiftness and harshness that is foreign to the American system. There is a hair-trigger property to the New Zealand system that makes for potential instability but also enables beneficial reform.<sup>18</sup>

Note that the Thatcher Revolution in England went much further, in terms of real reforms, than did the Reagan Revolution in the United States. Thatcher was able to fundamentally transform the British economy, in part, because it was simply more interventionist than the US economy to begin with, thus allowing greater latitude for change. But the changes of the Thatcher regime were also possible because of the British parliamentary system. New Zealand, of course, had drawn its Westminster system of government from Great Britain. As in New Zealand, the British system of government has fewer checks and balances than does the American government. Thus Thatcher was able to push through more change than Reagan, though the lack of checks and balances also meant that the British economy had become more socialized in the first place.

The New Zealand reforms have enjoyed a mixed popularity with the voters. In the initial stages of the reforms, the voters did not demand more economic freedom. Rather, they demanded that something be done to reverse economic

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18. Penelope Brook-Cowen, Tyler Cowen, and Alexander Tabarrok analyze the New Zealand system in detail and explain how it is geared to support certain kinds of beneficial reform in *An Analysis of Proposals for Constitutional Change in New Zealand* (Wellington: New Zealand Business Roundtable, 1992).

decline and gave politicians some amount of license to change the system. This created a wedge for the market-oriented ideas of Douglas and the Labour government. The New Zealand reformers knew, however, that they had to create some fairly immediate gains if the reforms were to stand any chance of being maintained and extended.

Later on, many of the reforms became unpopular. After the New Zealand stock market crashed in 1987, the New Zealand economy performed poorly. Unemployment rates were high, the stock market fell, and real interest rates reached very high levels. Many voters blamed the bad economic times on the reforms and on the reformers. For that reason, the reforms fell out of favor and were discontinued for a while. The previous reforms, however, were not reversed. They had been implemented in such a way that their reversal would have occasioned obvious and direct economic catastrophe. It would not have been possible, for instance, to re-peg the exchange rate or reinstitute capital controls, once they had been removed. The small, open nature of the New Zealand economy made various liberalizing moves especially difficult to reverse once they had been implemented. The New Zealand system therefore gives a government considerable latitude to institute irreversible changes, if that government is willing to accept electoral judgment down the line.

As noted above, the reforms started up again when the 1990 National Party government was voted in to replace the Labour government. The National Party had a significant market-oriented faction (being traditionally the conservative party), and many party members saw the need for reform. Furthermore, a window of opportunity was opened, as there was a new three-year term, and voters did not blame the National Party for the problems of the late 1980s. Additional reforms were in any case necessary, given the objective economic conditions. New Zealand still had too many state-owned enterprises, a poor framework for monetary policy, and highly regulated labor markets, among other problems. For all these reasons, the National Party staked its reputation on continuing the reforms, despite difficult economic times. Whatever risks they may have run, there was a general feeling that no other strategy would have worked in any case.

Finally, the economy came around in the early 1990s. Voters accepted the necessity for the reforms, albeit somewhat grudgingly. By 1993, New Zealand was enjoying a full-fledged boom. Since that time, most of the reforms have held, although there has been some minor backsliding. New Zealanders also voted to eliminate their first-past-the-post system of government, which they partially blamed for the perceived dictatorial nature of some of the reforms. That vote has been interpreted as an expressive statement of discontent with

the reforms and how they were implemented. In other words, New Zealanders wished to vote against the reforms in some fashion without actually eliminating or reversing them.

If we examine reforms in noncommunist autocracies, those of Augusto Pinochet's Chile were probably the most successful. The Pinochet regime started in 1973 when a military coup overthrew the elected government of Allende. The Pinochet government then ruled undemocratically until Pinochet stepped down in 1990 after losing a 1988 plebiscite on his rule. Since that time, Chile has been a democratic nation.

The Pinochet government ushered in many significant reforms. Nearly 3,000 price controls were lifted and over 4,000 firms were privatized, including large ones such as airlines and the telephone company. Relative free trade replaced protectionism and monetary responsibility replaced periodic hyperinflation. The Chilean economy was reoriented toward productive entrepreneurship rather than rent-seeking through government favors. The agriculture and technology sectors boomed, and Chile moved away from its previous dependence on copper exports. The social security system was partially privatized and converted into individual retirement accounts managed by the private sector (savings remain compulsory, however).<sup>19</sup> Over the course of a dozen years, Chile moved from having an extremely weak economy to being the economic envy of Latin America and indeed much of the world. The economy grew at an average rate of about 7 percent for over a decade. Many other developing countries, for better or worse, started to proclaim that they "need a Pinochet." The Chilean example served as a focal point that encouraged (largely successful) reform efforts in other Latin American countries, most notably Peru and Colombia.

As in New Zealand, the Chilean reforms were not in all regards an immediate success. The Chilean restructuring led to high unemployment and considerable hardship. As in the former communist economies, the reformers underestimated the number of years that would be required for readjustment. Misguided interventions are costly precisely because they misallocate resources, implying that beneficial reforms will be extremely disruptive in the short run. Chile also made the mistake of pegging its currency to the American

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19. Javier Martinez and Alvaro Diaz, *Chile: The Great Transformation* (Washington, DC: Brookings Institution, 1992), chapter 2. The authors provide a good overview of the Chilean reforms. See also Barry P. Bosworth, Rudiger Dornbusch, and Raul Laban, *The Chilean Economy: Policy Lessons and Challenges* (Washington, DC: Brookings Institution, 1994). James R. Whelan provides many useful details, despite his "apologies" for the worst aspects of the Pinochet regime: *Out of Ashes: Life, Death and Transfiguration of Democracy in Chile, 1833–1988* (Washington, DC: Regnery Gateway, 1989).

dollar at the wrong time, which led to an economic catastrophe in 1982–1983 when the dollar rose sharply in value. Until the mid-1980s, it was not obvious to Chileans that the Pinochet reforms would succeed.

The Chilean reforms were strongly informed by market-oriented ideas from the United States. Pinochet wished to make Chile a great country and a strong power, and he saw economic liberalization as a means to this end. He relied on American-educated advisors, many of whom were market-oriented economists. Many of these individuals had studied at the University of Chicago with Milton Friedman and Arnold Harberger, among others. These advisors came up with the bulk of the reform proposals, and Pinochet was willing to push them through. In addition to the Chicago economists, it has been noted that “[the writings of] Friedrich Hayek, . . . James Buchanan and Gordon Tullock . . . played an active and vital part in the dissemination of neo-liberalism in Chile.”<sup>20</sup>

The opposition to market-oriented reforms that existed under Pinochet is difficult to gauge, given the political oppression practiced at the time. The use of oppression is itself telling, although it is difficult to estimate how much oppression was needed to support an oppressive political dictatorship and how much because market-oriented economic policies would otherwise have been resisted. According to many left-wing accounts, market-oriented reforms succeeded only because the political environment had eliminated many traditional democratic checks and balances. David Hojman, in contrast, stresses how the reforms were consistent with the historic power of various Chilean interest groups.<sup>21</sup> Javier Martinez and Alvaro Diaz go further and argue that the inflexible nature of the Pinochet dictatorship actually endangered rather than supported the reform process.<sup>22</sup> Andres Velasco sees the previous economic collapse as having created a vacuum without strong interest groups, thus giving the Pinochet regime extreme latitude to institute reforms.<sup>23</sup> Under another account, the Chilean reforms succeeded because of the relative strength of rule of law in that country and a history of low corruption at lower levels of the bureaucracy.

The Pinochet reforms did, in the long run, prove popular with voters. Once the Pinochet government was replaced with democracy, even the left-wing

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20. Marcelo Pollack, *The New Right in Chile 1973–97* (New York: St. Martin’s Press, 1999), 21. See also Juan Gabriel Valdes, *Pinochet’s Economists: The Chicago School in Chile* (Cambridge, UK: Cambridge University Press, 1995).

21. David E. Hojman, *Chile: The Political Economy of Development and Democracy in the 1990s* (Pittsburgh: University of Pittsburgh Press, 1993), chapter 1.

22. Martinez and Diaz, *Chile: The Great Transformation*, 3.

23. Andres Velasco, “The State and Economic Policy: Chile 1952–92,” in *The Chilean Economy: Policy Lessons and Challenges*, eds. Barry P. Bosworth, Rudiger Dornbusch, and Raul Laban (Washington, DC: Brookings Institution, 1994), 379–429.



parties supported the market-oriented reforms. Those reforms have not been reversed, although in very recent times there are significant signs of undoing the educational reforms and perhaps moving other policies in a more egalitarian direction. In any case, democracy might not have produced market-oriented reforms in Chile in the first place. The Pinochet forces would not have won a free election, and indeed they failed in the election that brought Allende to power. The reforms also might not have survived the difficult years in the early 1980s had democracy been in place.

Alberto Fujimori in Peru also implemented Pinochet-like reforms in an essentially nondemocratic manner. Fujimori was elected, but then he quickly rewrote the constitution to limit free speech and ensure his continued rule. His rule was for a while popular, *ex post*, but, as in Chile, it is an open question what a more democratic environment would have produced, and later Fujimori was disgraced for his corrupt behavior. Argentina is the primary Latin American example where significant market reforms were introduced in a democratic system with free elections. In the 1990s, Argentina reversed a 50-year economic decline, moving to a regime of controlled inflation, a stable currency, fiscal responsibility, and rapid economic growth. Yet these good outcomes did not stick, and Argentina ended up later with another major financial crisis. The country has returned to its earlier legacy of bad policy and economic decline. These episodes, however, await further study.<sup>24</sup>

In Asia, the economically freest countries have not generally been democratic. If we examine the index of economic freedom, Hong Kong is typically among the freest areas in the world, if not the freest. Even the takeover of Hong Kong by the Communist Chinese has not completely overturned this fact, although Hong Kong is becoming less free with time. Hong Kong, of course, is not a democracy nor had it been in the period under consideration. Hong Kong owes its market-oriented policies to the enlightened British rule. In particular, the individuals responsible for the Hong Kong territory made a very deliberate decision to allow the colony to develop in a (mostly) market-oriented direction, while providing a British version of the rule of law. No other country has had this unique combination of systems. Had Hong Kong been a democracy,

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24. Javier Corraltes provides one treatment and analysis of the Argentina experience: "Why Argentines Followed Cavallo: A Technopol between Democracy and Economic Reform," in *Technopolis: Freeing Politics and Markets in Latin America in the 1990s*, ed. Jorge I. Domínguez (University Park, PA: The Pennsylvania State University Press, 1997), 49–93. For a more general survey of the political economy of reform in a variety of countries, see John Williamson, ed., *The Political Economy of Policy Reform* (Washington, DC: Institute for International Economics, 1994) and Dani Rodrik, "Understanding Economic Policy Reform," *Journal of Economic Literature* 34, no. 1 (1996).

“In no case were reforms brought on by popular demand for market-oriented ideas per se. Yet in Chile and especially in New Zealand, the public was open to the idea that some form of radical change was necessary, given the extant crisis.”

its citizenry probably would have voted for more intervention. Indeed, right before the Chinese takeover, the democratic pressures in Hong Kong were for more government in the economy, not less. The British rule of law, of course, was the direct result of foreign intervention, which also would not have survived a democratic test.<sup>25</sup>

Singapore also ranks high on the index of economic freedom. Singapore, of course, owes its economic policy to a particularly enlightened autocracy, primarily under the guise of the People’s Action Party. Singapore does run honestly counted elections, but there are restrictions on political speech and political entry. In general, the country is not considered a standard democracy.

We can draw some very rough generalizations from the examples of successful reforms. First, in each case, a small number of critical decision makers were conversant with market-oriented ideas on a highly intellectual level. The writings of Hayek and Friedman appear to have been particularly important for the reforms of the 1980s. This intellectual background can be thought of as a precondition for reform.

Second, in no case were reforms brought on by popular demand for market-oriented ideas per se. Yet in Chile and especially in New Zealand, the public was open to the idea that some form of radical change was necessary, given the extant crises. In Hong Kong and Singapore, there was sufficient social consensus to support leadership and a desire to earn money through business and investment, but again no general attachment to market ideas as an ideology. This suggests that public toleration is more important than deep public involvement with market-oriented ideas.

Third, in each case traditional democratic constraints were to some extent attenuated for one reason or another. New Zealand was the most democratic of the radical reformers, but their system involved extreme short-term

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25. On the government of Hong Kong before the Chinese takeover, see Norman Miners, *The Government and Politics of Hong Kong* (New York: Oxford University Press, 1995).

latitude for politicians to implement changes. Comparable latitude is harder to imagine under a system with more checks and balances.

It is the democratic constraints that make market-oriented reforms so difficult to achieve in other democratic contexts, such as the United States or much of Western Europe. In the case of the Reagan administration, for instance, many of Reagan's advisors and appointees had deep familiarity with market-oriented ideas. Also, the public had thrown out the Carter administration and was ready for a change of some sort. Nonetheless, most of the Reagan market-oriented initiatives were aborted. Regulatory reform was a failure. There was one large tax cut, but it was followed by a larger tax increase. The public decisively rejected some of the "environmental" ideas of Reagan appointees such as James Watt. For the most part, Reagan did not make a dent in the "big government" that he had campaigned against.

The clearest account of the Reagan years comes perhaps in David Stockman's memoirs. Stockman had run the Office of Management and Budget and at first was considered a whiz kid who would pare down big government. He failed in this endeavor, and in his memoir he later expressed the following realization: "The truth to be remembered is that history in a democracy does not live to be rewritten and rerouted; it just lives for another day, finding its way into the future along the trajectory of its well-worn and palpable past."<sup>26</sup> The American system of government, in particular, is designed to prevent radical change.

The above evidence does *not* suggest that relatively nondemocratic forms of government are superior to more democratic forms. In fact, I explicitly favor more democratic systems, despite thinking that market-oriented reforms have been desirable in the cases discussed above. Nondemocratic systems of government have accounted not only for some beneficial reforms, but also for many of the worst problems in the first place. In New Zealand, economic policy was so poor in the first place precisely because of the lack of checks and balances on the government. Many earlier dictatorships had damaged Chile, rather than enriching it. The nondemocratic Chinese Communist state may yet wreak great havoc on Hong Kong. And so on.

The relatively nondemocratic systems seem to account for extreme outliers of all kinds, including the most successful attempts at reform.<sup>27</sup>

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26. David A. Stockman, *The Triumph of Politics: The Inside Story behind the Reagan Revolution* (New York: Avon Books, 1987), 427.

27. Gordon Tullock argues that much of the economic freedom in America came about by accident rather than design: "Accidental Freedom" (unpublished manuscript, 1989, George Mason University).

#### IV. HOW PROCEDURAL REFORMS AFFECT GOVERNMENT

Many individuals have suggested procedural or constitutional reform could lead to freer economies for the United States and Europe. If American political institutions render market-oriented reforms too difficult to achieve, then perhaps those institutions should be changed. Nonetheless, the available evidence suggests that unambiguously beneficial procedural changes are difficult to come by.

Given the instability of the Westminster parliamentary system, as discussed above, it is unlikely that the United States would be better off moving in that direction. While the weakening of checks and balances would increase the chance of a very good outcome, it also would increase the chance of a very bad outcome. Furthermore, the widely perceived legitimacy of the US Constitution suggests that such a change would involve disastrous transition costs. The American social consensus in favor of the Constitution could not easily be reconstructed from some alternative set of political institutions.

Term limits are a more modest procedural reform that received attention in the 1990s. Indeed, more than 20 states passed term limit laws for their members of Congress, although the US Supreme Court later struck down legislation of this kind. The idea behind term limits was to limit the power of incumbents and professional politicians and return to the earlier idea of the citizen-legislator. Proponents claimed that term limits would make legislators more responsive and less monopolistic and bring fresh blood into politics.

The available evidence, however, does not suggest that term limits would favor market-oriented reforms. First, more democratic systems do not necessarily favor beneficial reforms, given the discussion in the previous section of this paper. Second, turnover rates were much higher in the 19th century, four to six times higher than today, but the composition of Congress was remarkably similar. Lawyers made up 60 percent of the House of Representatives in the 19th century, more than they do today.<sup>28</sup> Third, term limits would shift the political balance of power without necessarily producing better outcomes. Term limits would strengthen the president, political parties, the bureaucracy, and arguably the media, at the expense of Congress. The net effects of term limits involve mechanisms that are very complex and difficult to predict. Nor does the empirical evidence make a strong case for term limits. John Lott and W. Robert Reed have shown that politicians in their last term in office do not

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28. Alexander Tabarrok, "A Survey, Critique, and New Defense of Term Limits," *Cato Journal* 14, no. 2 (1994): 333-50.

behave very differently from other politicians,<sup>29</sup> which suggests that term limits would not matter much.

The line-item veto gives the executive, whether a governor or a president, the power to selectively veto items in a budget. Some individuals believe that this device offers potential for checking excess or pork barrel spending. The line-item veto also makes it harder for the legislature to logroll, as any trade of votes can effectively be voided ex post, which may limit spending as well. The standard treatment of the line-item veto<sup>30</sup> suggests that it is a poor tool for limiting spending. According to this account, states that use the line-item veto do not have systematically less spending than states that do not. In more recent times, however, Mark Crain has reexamined this evidence, using superior statistical techniques and finds that the line-item veto does have a real ability to constrain spending.<sup>31</sup>

James Buchanan has been one of the leading advocates of balanced budget proposals and constitutional spending limits.<sup>32</sup> A balanced budget proposal would require the government to cover its expenditures with taxes each fiscal period. It could allow an “out” if a sufficiently high percentage of the legislature is willing to vote that a crisis exists. The “out” provision may be needed for major wars or perhaps a severe depression. Expenditure limits would cap government spending at some absolute level or at some percentage of GDP.

It is difficult to estimate how effective these provisions would be in practice. The United States came closest to such policies with the Gramm-Rudman-Hollings Act of 1985. Although not enacted at the constitutional level, the act did specify that balanced budget targets were to be drawn up and then met within five years. Following the passage of the act, Congress and the executive branch engaged in intense gamesmanship. Various categories of government spending were redefined as off-budget and the deadlines were postponed. Eventually the targets were ignored altogether and the act ceased to have any meaning. The high deficit continued and neither Congress nor the executive branch was willing to accept responsibility for that deficit.

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29. John R. Lott and W. Robert Reed, “Shirking and Sorting in a Political Market with Finite-Lived Politicians,” *Public Choice* 61 (1989): 75–96.

30. Douglas Holtz-Eakin, “The Line Item Veto and Public Sector Budgets: Evidence from the States,” *Journal of Public Economics* 36 (1988): 269–92.

31. Mark Crain, “Volatile States: A Mean-Variance Analysis of American Political Economy” (unpublished manuscript, 2000, George Mason University).

32. James M. Buchanan, “Why Does Government Grow?” in *Budgets and Bureaucrats: The Sources of Government Growth*, ed. Thomas E. Borcherting (Durham, NC: Duke University Press, 1977), 3–18.

“Purely procedural reforms do not make these underlying causes go away, and they cannot bring about changes that would otherwise find little or no support. Instead, procedural reforms tend to shift the pressures into a different arena.”

Rudman himself later repudiated the legislation that he had sponsored.<sup>33</sup>

This experience illustrates some of the difficulties with procedural reforms. Undesirable outcomes, such as excess deficits, often have deep structural roots in voter demands, partial voter ignorance, and pressure from special interests. Purely procedural reforms do not make these underlying causes go away, and they cannot bring about changes that would otherwise find little or no support. Instead, procedural reforms tend to shift the pressures into a different arena. Usually the final result is the same, but in the meantime political pressures end up trampling on the procedural reform to achieve the relevant end, such as high levels of government spending.

Elevating fiscal constraints to the constitutional level could either improve or worsen the basic problem. On the one hand, political pressure groups might find it harder to trample on the Constitution, given the special status of that document, and the procedural reform might stick to some extent. On the other hand, any trampling that took place could weaken the Constitution significantly. In essence, putting an unpopular and unenforceable provision in the Constitution could lower the stature of the document without achieving the desired end of expenditure limitation. Arguably various states' rights provisions had exactly this effect during the earlier years of the civil rights movement. The provisions were overridden and the Constitution lost stature in the process. Furthermore, American history has shown that the courts simply will not enforce many unpopular provisions of the Constitution, again diluting the overall power of the document. When was the last time, for instance, that the Supreme Court struck down an economic regulation on the grounds of unconstitutionality? The extent to which constitutions

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33. On this experience, see Sue Begg, Tyler Cowen, and Bryce Wilkinson, *Submission to the Finance and Expenditure Committee of the House of Representatives on the Fiscal Responsibility Bill*, prepared for the New Zealand Business Roundtable (New Zealand, February 28, 1994), 61–62.

matter at all remains an open question.<sup>34</sup>

The New Zealand experience, in a variety of contexts, illustrates the strengths and limits of procedural reforms. New Zealand procedural reforms typically have focused on accountability, transparency, and clear public information. This represents a recognition that procedural reforms will not succeed unless they also shift the balance of public sentiment and alter the fundamental terms of agreement between politicians and voters. In the area of monetary policy, for instance, New Zealand did not, as is commonly believed, mandate a 0–2 percent rate of price inflation. Rather, New Zealand’s Reserve Bank Act required the government to announce inflation targets and then accept responsibility if those targets are not met. In effect, the problem of inflation was redefined in terms of public relations. Inability to achieve inflation in the 0–2 percent range is now perceived by the public as something weak or incompetent in most cases. The actual constraint on government, in legal and procedural terms, is a weak one, but it has succeeded in restructuring the broader political equilibrium. The Reserve Bank Act is commonly regarded as a significant success. The New Zealand government also passed a Fiscal Responsibility Act in the 1990s, which required the government to set out its fiscal targets and assume responsibility for any other deficit that resulted; this was modeled explicitly after the anti-inflation policy. The Fiscal Responsibility Act also appears to have been successful, although it came later and at a time when the underlying fiscal problems had partially been resolved already.<sup>35</sup>

Much attention has been directed at regulatory reform, although with mixed results. Many regulations, such as the requirement for unleaded gasoline, bring significant benefits and, in fact, can be understood as enforcing property rights (individuals have a right to protect their air from invasive pollutants). But many regulations, most likely the overwhelming majority, have costs that exceed their benefits. If the regulatory process took greater heed of economic costs, Americans could be both wealthier and freer. The regulatory

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34. Daniel Sutter has several interesting papers on this question. He examines, for instance, whether a “constitutional bargain” is likely to bring about a better resolution than dealing with the relevant issues on a one-by-one basis. Daniel Sutter, “Constitutional Politics within the Interest-Group Model,” *Constitutional Political Economy* 6 (1995): 127–37; Daniel Sutter, “Constitutions and the Growth of Government,” *Journal of Economic Behavior and Organization* 34 (1998): 129–42. For a further analysis of constitutional solutions to fiscal problems, see Begg, Cowen, and Wilkinson, *Submission to the Finance and Expenditure Committee*; James M. Buchanan and Roger D. Congleton *Politics by Principle, Not Interest: Towards Nondiscriminatory Democracy* (Cambridge, UK: Cambridge University Press, 1998) consider some pluses and minuses of constitutional solutions more generally.

35. Concerning the Fiscal Responsibility Act, see Begg, Cowen, and Wilkinson, *Submission to the Finance and Expenditure Committee*.

situation in many other countries is considerably more onerous, although reliable estimates are difficult to come by.

Achieving beneficial regulatory reform, however, is more easily said than done. The experience of the Reagan administration illustrates some relevant difficulties. In the first month of his presidency, Reagan issued Executive Order 12291, which called for all regulatory agencies to submit proposed major regulations to the Office of Information and Regulatory Affairs (OIRA), which is part of the Office of Management and Budget, reporting to the president, rather than to Congress. OIRA was then bound to submit all proposed regulations to a cost-benefit test and recommend rejection for those that failed that test; OIRA, however, could not actually veto the regulation. Major regulatory initiatives were defined as those exceeding \$100 million in cost.<sup>36</sup>

Note that Reagan did not build up much support with the broader public; rather he relied on an executive order. Not surprisingly, opinion polls documented that public support for government regulation increased, rather than decreased, over Reagan's terms.<sup>37</sup> Most of the victories won by OIRA were one-time in nature and concentrated on a few highly visible issues. For the most part, the Reagan regulatory reforms did not portend any permanent decline in the regulatory burden. In the later years of Reagan's tenure, the administration gave up the fight altogether, and the Bush administration took positive steps to increase the number of regulations. Clinton later issued an executive order supporting Reagan's initial order, but again this action was accompanied by numerous pro-regulatory policies. Experience has made it clear that agencies frequently ignore the OIRA requirement or simply classify their proposed regulations as not falling under the cost-benefit purview. Furthermore, the cost-benefit study can be "cooked," if need be, through manipulation of the data and the basic method.

American deregulatory successes typically have come in "big bangs," rather than through the gradual paring back of regulations through procedural reform. Airline deregulation, for instance, arrived with the support of

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36. Barry D. Friedman provides the best historical overview of the Reagan experience with regulatory reform: *Regulation in the Reagan-Bush Era: The Eruption of Presidential Influence* (Pittsburgh: University of Pittsburgh Press, 1995). See also George C. Eads and Michael Fix, *Relief or Reform? Reagan's Regulatory Dilemma* (Washington, DC: The Urban Institute Press, 1984); Richard Harris and Sidney M. Milkis, *The Politics of Regulatory Change: A Tale of Two Agencies* (New York: Oxford University Press, 1989); and Marshall G. Goodman and Margaret T. Wrightson, *Managing Regulatory Reform: The Reagan Strategy and Its Impact* (New York: Praeger, 1987). Wendy Gramm, currently a distinguished research fellow at the Mercatus Center at George Mason University, was involved in this process.

37. Friedman, *Regulation in the Reagan-Bush Era*, 155.



the president, Congress, a fair contingent of the regulators, and some of the airlines themselves. The campaign had significant media support, driven by evidence that unregulated intrastate flights were much cheaper than regulated interstate flights. Most of the relevant parties subscribed to the notion that airline deregulation was an idea whose time had come. Furthermore, airline deregulation was a pro-consumer measure in an era of consumer-oriented legislation. Similarly, the New Zealand and Chilean deregulations arrived in big-bang-style clusters rather than in gradual procedural improvements. In each case, numerous regulations were swept away in relatively short periods of time. Before and after those periods, however, there was no noticeable change in the regulatory climate.

If most improvements come in clustered big bangs, we must reevaluate how we judge strategies for social change. An appropriate strategy should prepare a society to exploit an opportunity for a big bang, in case the opportunity comes along. In most times, however, it will appear that nothing is happening and that no major successes are being reaped. In other words, perhaps we should evaluate strategies for social change by their potential at the extreme, rather than by their average or median effects.

The success of regulatory reform is often sector specific. It appears easier to deregulate airlines, for instance, than to deregulate taxicabs. If airlines are allowed to fix prices through force of law, as had been the case in the United States, they will tend to compete away the excess profit margins. Airlines will make the seats more comfortable, increase the quality of the food, make route offerings more convenient, and so on, as we saw happen under regulation. After a while, the price fixing no longer brings significant excess profits. Airlines then benefit less from regulation and will invest fewer resources in fighting deregulation. Taxicab regulation, in contrast, never ceases to offer significant benefits to the taxi drivers, at least if regulation is based on a medallion system. The medallion is a capital asset, often of great value. Most forms of deregulation would make the asset worth nothing, and

“American deregulatory successes typically have come in ‘big bangs,’ rather than through the gradual paring back of regulations through procedural reform.”

therefore taxi drivers remain opposed to the change. Regulation, in the form of minimum prices, is self-unraveling in a way that a medallion-based system is not.<sup>38</sup>

Finally, some procedural reforms suggest bringing greater accountability to government through results-based management. In New Zealand, this technique was used to great effect to pare back unnecessary government jobs, decrease waste, and improve the quality of the remaining government services. During the second wave of reform under the National Party, the New Zealand government required its agencies to specify targets of achievement and report on whether those targets were being achieved. This surprisingly simple procedure generated new information and shifted political coalitions. Government agencies had to increase their performance or face budget cuts. The power of special interest groups to defend those agencies was now limited, at least if the agency had failed to meet a reasonable set of prespecified quantitative goals.

The United States has attempted to implement similar procedures with the Government Performance and Results Act of 1993, which passed with bipartisan support. The Results Act requires regulatory agencies to set specific targets for achievement and report back on whether they have met those targets. To date, however, the Results Act has generated little cooperation from the agencies, and the implementation of the act's requirements was postponed in the first place. Some initial reports have now been issued, but the Clinton administration has treated the progress reports as a nonevent.

It remains to be seen whether the Results Act will prove an effective tool for improving the quality of government policy. On the critical side, Paul Light of the Brookings Institution argues that reforms such as the Results Act are unlikely to improve the American system of government.<sup>39</sup> He sees "reinventing government" as usually adding another layer of bureaucracy and in fact

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38. For a survey of this line of argument, see Sam Peltzman, "The Economic Theory of Regulation after a Decade of Deregulation" (Brookings Papers: Microeconomics, 1989, 1-41). Some individuals have suggested deregulating by offering each driver an additional medallion for free, which that driver is then free to sell to another driver. This useful idea may weaken the opposition to taxicab deregulation, although in the limiting case of free medallions, taxi drivers still lose the total value of their capital investment. On the role of special interests in politics more generally, see Randall Kroszner and Thomas Stratmann, "Competition among Political Pressure Groups and the Organization of Congress: Theory and Evidence from Financial Service Political Action Committees," *American Economic Review* 88 (December 1998) and Thomas Stratmann, "The Market for Congressional Votes: Is Timing Everything?" *Journal of Law and Economics* 85 (April 1998). Robert Tollison has devoted much of his career to this topic; for one sample publication of dozens, see Robert D. Tollison and R. E. McCormick, *Politicians, Legislation, and the Economy: An Inquiry into the Interest-Group Theory of Government* (Boston: Martinus Nijhoff, 1981).

39. Paul Charles Light, *Monitoring Government* (Washington, DC: Brookings Institution, 1993).

decreasing, rather than increasing, accountability. And of course since that time very little useful has come from the legislation.

## V. SHAPING PUBLIC OPINION

Given the central role of public opinion in shaping economic policy, it is natural that scholars should turn their attention to the determinants of public opinion. Of all the work surveyed, this is perhaps the hardest area to investigate, despite its great importance. We have no well-formed theory of the dynamics of public opinion comparable to the theories we have for economics. Public opinion involves the disciplines of psychology, cognitive science, sociology, political science, and economics, among others. Furthermore, the literature on public opinion is vast and not susceptible to an easy survey.<sup>40</sup>

I do, however, wish to point out some recent work by Bryan Caplan that is of interest. Caplan has developed a theory of rational irrationality to help explain the content of public opinion in a democracy. He also is studying which individual characteristics tend to predict informed opinion and which characteristics tend to be associated with uninformed opinion.<sup>41</sup>

The theory of rational irrationality starts by emphasizing the irrational component of human opinion and human decision-making. This irrational component tends to disappear in areas where the costs of individual irrationality are high. To give a simple example, few individuals drive the wrong way on one-way streets on a regular basis. The private costs of this kind of irrationality are high. If individuals hold irrational beliefs in the realm of politics, however, they suffer no direct penalty. An individual is not typically worse off if he or she believes that protectionism increases the rate of economic growth and creates new jobs. Therefore, when individuals are looking for areas in which to “consume” irrationally, politics is one area they tend to choose. Political failure therefore is rooted deeply in human nature, rather than being a matter of poor information alone.

Note how Caplan’s approach differs from economists’ (e.g., Anthony Downs) usual emphasis on ignorance. It is well known that voters may be rationally ignorant given the small chance that they will affect the final outcome.

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40. For a few better works on public opinion, see David O. Sears and Carolyn L. Funk, “Self-Interest in Americans’ Political Opinions,” in *Beyond Self-Interest*, ed. Jane J. Mansbridge (Chicago: University of Chicago Press, 1990), 147–70; William G. Mayer, *The Changing American Mind: How and Why American Public Opinion Changed between 1960 and 1988* (Ann Arbor, MI: University of Michigan Press, 1992); and Benjamin I. Page and Robert Y. Shapiro, *The Rational Public: Fifty Years of Trends in Americans’ Policy Preferences* (Chicago: University of Chicago Press, 1992).

41. Bryan Caplan, *The Myth of the Rational Voter: Why Democracies Choose Bad Policies* (Princeton, NJ: Princeton University Press, 2008).

The ignorance approach suggests that it would be relatively easy to educate voters by sending them free information. Furthermore, mere informational errors are likely to be random and scattered (normally distributed in the language of statistics) rather than systematic. The irrationality approach, in contrast, explains why individuals often ignore free information or even react with hostility when they hear opposing viewpoints. The irrationality approach also accounts for why the least informed individuals also tend to be most certain of their opinions.

Caplan's work on public opinion is part of a larger vision of explaining American democracy. Some public choice theorists resort to interest group pressures to explain inefficient government policies. Other scholars (e.g., Donald Wittman) argue that democracy gives voters "what they want," and that therefore democracy is efficient. Caplan's work suggests that neither perspective is fully correct. As Wittman suggests, democracy, to a considerable extent, gives voters what they want. Nonetheless, Caplan argues that voters want something irrational. Given this perspective, the question is not why government works so poorly. Rather, it is amazing that democratic government works as well as it does, once we consider the raw material of citizen opinion that it has to work with.<sup>42</sup>

Caplan's work shows a number of particular findings. Education is the best predictor of whether an individual will hold views in accordance with the opinions of professional economists. Income is a surprisingly poor predictor of "rationality" in this sense. In addition, the rate of change of one's income is a better predictor of rationality than the absolute level of one's income. Individuals with falling incomes are more likely to be irrational than poor individuals, all other things being equal. Indicators of rationality also cut across standard liberal/conservative lines, including political party membership. The evidence also indicates that men are more likely to think like economists and to be economic optimists, relative to women.

Additional survey evidence indicates where ordinary citizens are most and least likely to correctly understand purely descriptive features of the economy. The divergence between ordinary opinion and expert opinion is greatest when the question concerns foreigners, such as when people think that foreign aid is a high percentage of the total federal budget when in fact it is a very low percentage. This antiforeign bias also shows up on trade issues. The bias decreases unambiguously among well-educated individuals. These results suggest that when individuals misjudge policy questions, they are doing so for

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42. For an alternative perspective on Wittman, see Charles K. Rowley, "Donald Wittman's *The Myth of Democratic Failure*: A Review Essay," *Public Choice* 99 (1997): 15–26.

partly emotional reasons, rather than because of a simple lack of information.

It remains to be seen whether Caplan's research suggests fundamentally pessimistic conclusions or whether it opens a door toward improving the working of democratic society. The wide variance of observed public opinion suggests that the degree and extent of irrationality are not inalterably fixed. The extent of public irrationality also varies greatly across societies. Exactly how the degree of public irrationality might be improved, however, remains an open question. Caplan's research does suggest that information-based education, taken alone, is unlikely to suffice. For improvement to occur, individuals need to find some private benefit in public displays of their political rationality. Alternatively, it may be possible for irrationally held views in fact to support good policies rather than bad ones. Most US citizens support the American Constitution, for instance, though it is unclear whether they do so for the "correct" reasons or simply out of blind patriotism or perhaps status quo bias.

To make further progress on these questions, it may be necessary to consider which kinds of irrationality people find attractive and why. Consistent with standard economic practice, Caplan takes the demand for irrationality as given and does not attempt to probe its deeper roots. He focuses on changes in the cost of being irrational for the individual without examining where the content of that irrationality comes from. Further investigation could examine the social functions of irrationality and how the corresponding demand for that irrationality shifts with objective conditions. Most likely, this approach will have to take greater heed of cognitive science and perhaps evolutionary biology (my colleague Robin Hanson is working along this latter tack) than has been the case to date.

“Caplan argues that voters want something irrational. . . . It is amazing that democratic government works as well as it does, once we consider the raw material of citizen opinion that it has to work with.”

## VI. WHICH SOCIAL MOVEMENTS ARE SUCCESSFUL?

A significant question for social change is which ideological movements are successful and why. In the last several decades, we have seen a variety of movements reshape American society, including the civil rights movement, the feminist or women's liberation movement, and the environmental movement, to name a few. We also find many intermediate movements that have won some successes but have not taken the world by storm, such as the animal rights movement. In the category of failed movements we could place the campaign to ban abortion, numerous religious movements, and the Henry George "single tax" movement. Some movements, such as school vouchers, may yet succeed on a widespread basis.

The extant literature gives few guidelines for understanding why some movements have succeeded while others have failed. There are numerous case studies of particular movements, but few attempt to draw more general lessons. Most of the case studies are not informed by any systematic theory and thus are of limited value.

In the economics literature, the primary contribution has been Mancur Olson's *The Logic of Collective Action*.<sup>43</sup> Despite the path-breaking nature of Olson's work, his major hypothesis is inadequate to explain the experience of the last 30 years. Olson postulated that successful lobbies, movements, and interest groups were most likely to succeed when the beneficiaries were small in number and thus able to organize easily. Groups and lobbies with larger numbers face a free-rider problem, because all group members benefit from the lobbying of any single member.

Whereas Olson has pinpointed one relevant factor in determining the success of lobbies, it may not be the most important factor in recent decades. Olson's theory, for instance, cannot easily explain the mass participation in the civil rights and environmental movements. Individuals have been willing to join these movements and donate their time and energy even though the effect of their labors will be spread across many millions of fellow citizens. In many cases, individuals appear to *prefer* joining mass movements, as they enjoy doing something in common with other people. A political movement may be based on a snowball or bandwagon effect, where many people join once they perceive it will be successful.

These shortcomings of Olson's theory are now widely recognized, but no one has replaced it with an approach of greater power or generality. It does not suffice to cite altruism as a motive for mass participation, since altruism

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43. Mancur Olson, *The Logic of Collective Action* (Cambridge, MA: Harvard University Press, 1965).

would not explain the *kind* of political participation or why many of these same participants do not give much money to charity. Some commentators have suggested that television has allowed mass movements to organize more easily and to develop common images and symbols. Individuals might join mass movements to project a certain kind of image to others, and television allows the mass movement to be associated with a commonly accepted image. Alternatively, some individuals have interpreted the environmental movement as actually the product of upper-middle-class elites, although I do not find this portrayal illuminating, given the widespread support for environmental ideals. A variety of other contributions, surveyed in Mark Petracca's edited volume on interest groups and political movements, move beyond the economic approach and focus on psychological, cognitive, and sociological factors.<sup>44</sup>

The history of the environmental movement shows the difficulty of trying to apply simple stories. In 1960, before the publication of Rachel Carson's *Silent Spring*, the environmental movement barely existed, even though at that time many environmental problems were more serious than today. Now a clear majority of the American people consider themselves environmentalists. Dozens of environmental lobbies and pressure groups exist, many of them highly influential and large in size. The Sierra Club and Greenpeace are household words and environmentalism has proven to be a consistently popular issue with voters. Every wealthy country in the world now has an environmental movement, and Germany has an environmental party, the Greens.<sup>45</sup>

The environmental movement has won numerous political victories, including comprehensive federal regulation for most major environmental issues. Although the federal government usually moves very slowly, environmental regulation has increased rapidly over the past four and a half decades. The Environmental Protection Agency (EPA), created by the Nixon administration has become the largest regulatory body on Earth, whether measured in terms of employees or budget. In addition to these figures, we must count the indirect measures of the size of the EPA, such as the number of work hours devoted to preparing environmental impact statements or the number

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44. Mark P. Petracca, ed., *The Politics of Interest: Interest Groups Transformed* (Boulder, CO: Westview Press, 1992). See also Roger Congleton, "An Overview of the Political Economy of Environmental Protection," in *The Political Economy of Environmental Protection: Analysis and Evidence*, ed. Roger Congleton (Ann Arbor: University of Michigan Press, 1996), 3–30.

45. On the history of the environmental movement, see Kirkpatrick Sale, *The Green Revolution: The American Environmental Movement, 1962–1992* (New York: Hill and Wang, 1993). This topic still awaits satisfactory treatment from an analytical point of view, however, much less a definitive one. Samuel P. Hays provides some interesting material: *Beauty, Health, and Permanence: Environmental Politics in the United States, 1955–1985* (Cambridge, UK: Cambridge University Press, 1987).

of full-time environmental lawyers, estimated at 20,000 in 1989.<sup>46</sup>

Whereas the environmental movement has brought many desirable reforms, the movement now possesses a cachet that extends beyond its deserved reputation. A significant percentage of the American citizenry will side with the environmental movement on a given issue, regardless of what the facts suggest. A business or government automatically loses the public relations fight if it is labeled as “antienvironmental,” even if other facts stand on its side. The question then arises why the environmental movement has enjoyed such successes.

The strength of the environmental movements appears to arise from a confluence of several favorable factors. First, many environmental policies have addressed a real need to improve the quality of the environment, even if they have often done so in an inefficient and costly manner. A series of important initial triumphs will create lasting credibility for a movement for a long time. The public often evaluates movements and politicians in terms of a larger package, and if they see a small number of significant and highly visible achievements, they will view the entire package favorably for a long time. The civil rights movement still benefits from this kind of halo effect.

Second, the environmental movement has succeeded in associating itself with values that resonate favorably with most human beings. Individuals hold positive feelings about associating with the movement or donating their time or labor. Ralph Nader once noted, “The strongest impulse after survival in the human psyche, I am convinced after years of observation, is not power, lust, greed, jealousy. It is beauty. That’s the strongest impulse. . . . And environmentalism has that going for it.”<sup>47</sup>

Finally, the environmental movement has good stories on its side and is well suited for generating favorable media coverage. The media favor easily presentable stories with clear visuals and a relatively simple moral interpretation (see the discussion of media below), and environmental issues very frequently present stories of this kind. The Bhopal disaster in India, the Chernobyl nuclear reactor catastrophe, Love Canal, the Exxon Valdez oil spill, the French attack on the Greenpeace boat, and the discovery of the hole in the ozone layer over Antarctica all make good news copy. Most of these stories possess a David and Goliath element, where the victims are animals or ordinary citizens, and the “aggressors” can be identified with large corporations or governments.

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46. Benjamin Kline, *First Along the River: A Brief History of the U.S. Environmental Movement* (San Francisco: Acada Books, 1997), 118.

47. Nader is quoted in Philip Shabecoff, *A Fierce Green Fire: The American Environmentalist Movement* (New York: Hill and Wang, 1993), 248–49.



It nonetheless remains an open question how movements rise from obscurity to prominence. Exactly which objective conditions had changed between 1960 and 1975 for the environmental movement to succeed? Since we are unable today to predict which movements will succeed in the future, the link between objective conditions and movement success is likely a murky one.

## VII. UNDERSTANDING THE MEDIA'S ROLE IN SOCIAL CHANGE

The media are of central importance for understanding today's world and the shaping of public opinion. Today, most people receive their information from the media and arguably a good degree of their opinions as well. Radio stations, movies, and newspapers reach millions. Internet access has been growing exponentially.

Despite these facts, the influence of media on public opinion is not well understood. Do the media make people more interventionist, more conservative, more individualistic, or something else? In net terms, do mass media make people more or less libertarian? How do various media differ in their effects? What is the influence of the Internet and social media?

Many commentators believe that the media present a biased picture of politics and culture. Individuals on the Left believe that the media are captives of large corporations, which won most major media outlets. On the Right, many conservatives see a pronounced left-wing bias in the media. The mere fact that both perceptions are possible is itself interesting and suggests the complexity of the problem.

It is difficult to prove a charge of media bias, one way or the other, without agreement on what "unbiased" media would look like. Henry Luce once noted, "Eisenhower was right for the country for a large number of reasons, therefore it was *Time's* duty to explain why the country needed Ike. Any other form of objectivity would have been unfair and uninvolved."<sup>48</sup> When many commentators allege media bias, they often simply mean that the media do not share their perspective. Given that most media (radio may be an exception) are hardly in the forefront of the libertarian and conservative movements, market-oriented thinkers have a tendency to be suspicious of media. Furthermore, market-oriented thinkers, like their counterparts on the Left, identify themselves as intellectuals. This has reinforced their tendency to be suspicious of communications that are not aimed at the intellectual class.

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48. Cited in Daniel Sutter, "Can the Media Be So Liberal? The Economics of Media Bias," *Cato Journal* 20, no. 3 (Winter 2001).

We find evidence that supports both left- and right-wing perspectives on media bias. If we examine the political views of journalists and television personalities, we find that they identify with Democratic and left-leaning causes to a disproportionately high extent. One survey found that 94 percent of journalists voted for Johnson, 87 percent for Humphrey, and 81 percent for McGovern and Carter each.<sup>49</sup> It remains an open question, of course, to what extent those views influence the content of their reporting.

Alternatively, looking at the ownership of media outlets supports left-wing charges that media are biased in the conservative direction. CBS, for instance, is owned by Westinghouse. We do not expect Westinghouse to favor an overthrow of the capitalist system, an extreme leftward move, or even a small increase in the corporate income tax. Presumably, the shareholders of these companies wish to maximize profits and would not use their media assets toward a contrary end. Under this hypothesis, the media tend to be conservative, but in the literal rather than the political sense. These media outlets, especially television networks, hold privileged positions in the status quo and should not wish to push for radical change.

A null hypothesis postulates that the content of media is demand driven by consumers. Media may be biased in the sense of not reflecting the truth, but perhaps they simply broadcast what their viewers wish to see or hear. The demand-driven theory in fact dates back to Plato's *Republic*. In that work, Plato's Socrates argued that the Greek poets, such as Homer, wrote to entertain their audiences and in the process distorted important moral truths.

Libertarian or conservative theories of media bias—however media bias is to be defined—must explain how and why the media override the wishes of both consumers and shareholders. Under one possible alternative, individuals with a left-wing slant find careers in the media especially appealing, perhaps for some psychological reason or perhaps they wish to change the world. Conservatives may be more likely to end up in business, given their political and attitudinal orientation. The resulting bias may not even be intentional, but left-wing individuals will tend to see or frame the issues in a particular way, which will influence the content of news stories.

Note that profit-maximizing media corporations will not necessarily fight this tendency. Left-wing journalists or television producers will work in media sectors for a lower wage than will others, all other things being equal. Media corporations hire these individuals because they wish to get the best talent at

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49. S. Robert Lichter, Stanley Rothman, and Linda S. Lichter, *The Media Elite* (Bethesda, MD: Adler and Adler, 1986), 20–53.

the lowest wage possible. This policy does not contradict profit maximization at the level of the individual firm, even if the resulting intellectual climate tends to be antibusiness or antiprofit. The combined effect of all these hires, across all firms, may be a less favorable environment for business, but no single corporation takes this effect into account when choosing its hires. Thus there may be a collective action or free-rider problem. The media outlets, acting collectively, create a more left-wing climate of opinion than any one of them would otherwise wish to see if it had direct control of the process.

My favored hypothesis generates media bias from the preferences of the audience. Audiences do not always watch the news for its informative value. They may be looking to be entertained or looking for something to talk about with their peers. Many audience members are simply looking for stories, which they find in comedies, drama, game shows, and the television news to varying degrees. Media outlets, especially television, therefore tend to supply stories. The accompanying political orientation will be shaped by whatever best accompanies a marketable story.

Borrowing the language of Frédéric Bastiat and Henry Hazlitt, we can say that television specializes in marketing the “seen,” rather than the “unseen.” In the context of government policy, the seen refers to the tangible benefits of a given policy. The unseen refers to the foregone opportunity costs. If the government builds a new dam, taxpayers will end up with fewer swimming pools in their backyards, to cite one possible example, given that they have less money to spend on their personal consumption. It is easy to make a story out of the seen dam, but harder to make a story out of the swimming pools that might have been. In this regard, news reporting will often pay more attention to the benefits of government policies than to the costs. Government expenditure programs will tend to look good on television. This bias is to some extent ameliorated by nonvisual print media, but even then it is easier to report on the tangible benefits of a policy than the intangible opportunity costs. It is hard, on a repeated basis,

“My favored hypothesis generates media bias from the preferences of the audience. Audiences do not always watch the news for its informative value. They may be looking to be entertained or looking for something to talk about with their peers.”

to write a good story about how people might have spent their money had taxes been lower.

The desire for stories will slant the news in a variety of ways, some to the left and some to the right. News programs will seek out and present human tragedies, which make good stories. Therefore, the average viewer will be highly aware of natural disasters, plane crashes, and poor individuals in difficult situations. At the same time, the average viewer will be highly aware of the crime rate, since crime victims (and criminals) make good stories. Public attitudes toward crime therefore will tend to be right wing, or at least the media will tend to shape those opinions in a right-wing direction. Wartime atrocities, which make good stories as well, will be publicized on television too. This may lead to an antiwar climate, at least if the relevant war involves the death of American soldiers or civilians (how much Americans care about the deaths of foreigners is less clear).

This hypothesis, if expanded, can account for the predominantly left-leaning backgrounds of most journalists and reporters. Left-wing journalists may be better than right-wing journalists at telling stories of a certain kind, given their natural inclinations. This would account for the prevalence of left-wing journalists and other media employees without postulating any kind of conspiracy or cartel.

An alternative version of the stories hypothesis claims that media, and television in particular, tend to make individuals more cynical about politics and more apolitical.<sup>50</sup> Television broadcasts images of political leaders on a daily basis. The more we see our leaders, the less likely we are to be impressed by them. We observe their gaffes, their foibles, and their weaknesses. When Franklin Delano Roosevelt was president, most Americans did not know that he was in a wheelchair. He had an almost superhuman presence in the minds of many Americans. In more recent times, in contrast, we have seen Nixon sweat profusely in the Kennedy debates, Ford stumble and bump his head, Jimmy Carter wear a sweater and turn down the thermostat, and George H. W. Bush throw up in the lap of the Japanese prime minister. However much politicians may try, ultimately they will fail at orchestrating each and every media event. We will remember their weaknesses and blunders in detail simply because the weaknesses and blunders make such good conversation. And even if politicians do not blunder, overexposure will make them ordinary in our eyes. We can see

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50. Joshua Meyrowitz, *No Sense of Place: The Impact of Electronic Media on Social Behavior* (New York: Oxford University Press, 1986); Tyler Cowen, *What Price Fame?* (Cambridge, MA: Harvard University Press, 2000).

the president on television virtually every night. Over time it becomes clear that he or she is just another person like the rest of us.<sup>51</sup>

The ability and willingness of the media to “show everything” may contribute to cynicism more generally. *The Jerry Springer Show*, *So You Want to Marry a Multi-Millionaire*, and situation comedies may not have any direct political implications, but they may affect individuals’ worldviews more generally. The audacious and the immoral will, after a while, cease to shock us. Viewers will become somewhat jaded and generally suspicious. On the one hand, these attitudes may prove beneficial, as voters will be suspicious of poorly conceived government programs and cynical about political demagogues. On the other hand, the cynicism may undercut some of the values needed to sustain a free society.

These hypotheses, of course, are directly applicable only to television. A richer and fuller account of the media would have to examine what kinds of stories are most appropriate for radio, newspapers, and so on. The Internet, for instance, appears especially well suited for rumor, gossip, talk of conspiracy, and perhaps polarization as well. The ability to post anonymously, the rapid spread of news, the capability to forward material to others, the difficulty of verifying Internet sources, and the egalitarian nature of the medium all encourage information (or misinformation, as the case may be) of a particular kind.

In many cases the nature of a given medium shifts over time, as we have observed with newspapers. In the 19th century, newspapers were far more numerous than in the United States today; most cities had many commonly read papers, rather than just a single one. These newspapers tended to be explicitly partisan in their political views; they did not adhere to current canons of objectivity. The difference between reporting and opinion was one of degree, not of kind. In many regards, these earlier newspapers were like today’s Internet, which also involves numerous decentralized outlets and highly partisan discussions. Today the number of newspapers is much smaller and their perspective is more mainstream. Although there are more “Democratic” newspapers than “Republican” ones, no major urban newspaper identifies with the radical Left.

The newspaper medium shifted in the late 19th century, although the causes of that shift are murky. At that time, newspapers moved away from subscription financing toward financing through advertisements. Advertising finance may have encouraged newspapers to move closer to the political center

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51. For more general accounts of how the media shape ideas, see Harold Innis, *Empire and Communications* (Oxford, UK: Oxford University Press, 1950); Harold Innis, *The Bias of Communications* (Toronto: University of Toronto Press, 1951); and Dudley, *The Word and the Sword*.

“Market-oriented economies have demonstrated an ongoing ability to outcompete the available alternatives and the market is becoming more popular on a global scale. . . . Communism has fallen, and significant parts of the third world have become significantly richer and freer.”

and to become more objective. Few newspaper advertisers wish to sell only to individuals of a given set of political views. Rather, the advertisers wish to sell to as many customers as possible and to maintain a mainstream image that offends nobody. The newspaper, on its end, wanted to assemble the largest possible audience, so as to increase the value of its advertising space. These pressures contributed to making newspapers less partisan, although it is difficult to sort out which factors are causes and which are effects. And of course advertising is declining as a source of newspaper revenue, so the sector may well change again with regard to its relatively centrist political orientation.

In relative terms, right-wing ideas seem most prominent on the radio, rather than on television or in the newspapers. Whereas radio is by no means an exclusively right-wing medium, many of the leading radio talk-show hosts push right-wing, conservative, or libertarian ideas, with Rush Limbaugh being the most prominent example. Radio, like magazines, requires a relatively small audience and thus enables a diversity of opinion. Radio stations can compete by putting on partisan programming rather than trying to serve the mainstream. Furthermore, large numbers of relatively educated white males listen to the radio, and these individuals tend to be natural audiences for market-oriented ideas.

The Internet of course has been revolutionizing communications media. The role of the Internet in circulating rumor and conspiracy theories has already been mentioned, but the broader implications of the Internet remain an open question. Currently, the Internet appears to encourage minority political groups and radicals of various kinds. These individuals can now get in touch with each other more easily and have new outlets for their ideas. Whether these groups receive a real boost in the long run, however, remains to be seen. It can be argued that the Internet marginalizes these groups from the broader streams of political life. Members of these groups may talk to each other with greater ease, but it is not obvious that they will have a greater impact on policy.

An alternative perspective emphasizes the democratizing nature of the Internet. The Internet may allow the upper middle class, its most frequent users, to communicate with their political leaders more effectively than otherwise and perhaps influence those leaders more strongly. Information about government is now easier to come by, which also may increase the ability of voters to control policy or monitor their representatives.

## VIII. SUMMARY REMARKS: IS THE WORLD BECOMING MORE OR LESS FREE?

Many classical liberals and market-oriented economists look at the 20th century and react with trepidation. They see an era where government involvement in the economy has increased significantly. Only in a few of the Western democracies, such as New Zealand, have we seen a significant reversal of policy. These individuals therefore leap to pessimistic conclusions. They often believe that the course of history is against them.

I hold a more optimistic view. I believe that market-oriented economies have demonstrated an ongoing ability to outcompete the available alternatives and that the market is becoming more popular over time on a global scale. In the past 25 years alone, communism has fallen, and significant parts of the third world have become significantly richer and freer. Many recent technological developments, such as the Internet, hold out the promise of greater freedom and prosperity across the world.<sup>52</sup>

Even in the Western democracies, there are fewer reasons to be pessimistic than is commonly believed. Pessimists often focus on government's growing share of the national economic product or the growing absolute size of government, as measured by number of employees, consultants, or other variables of this kind.

In contrast, I see the government's share of GDP as a misleading measure of economic freedom. If we focus on this measure, we will conclude that societies are less free when, in fact, they are freer. The absolute size of government is increasing with time, but so is the absolute size of the market sector. And as long as the absolute size of the market sector is increasing, people most likely are enjoying more economic freedom. They have more opportunities and are engaging in more voluntary exchanges.

The higher level of tax rates and regulation is a negative drag on freedom, but the higher level of market opportunities is a positive offset. The absolute

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52. Francis Fukuyama, *The End of History and the Last Man* (New York: Free Press, 1992).

size of the market already measures the drag of government intervention. To whatever extent the government limits our economic freedoms, the absolute size of the market declines. We are double counting the burden of government if we look first at the absolute size of the market and then look at government as a percentage of GDP. The absolute size of the market already captures the negative effects of government, and in that sense, it serves as a “sufficient statistic” for measuring how much freedom we have.<sup>53</sup>

So far, in history, the absolute extent of freedom has grown in the Western countries, despite the growth in government. Markets have outraced government, so to speak. This is a befitting perspective for a view that emphasizes the power of markets.

Once the market economy has a chance to operate, it may grow more rapidly than the government can regulate it. The technology sector illustrates this point clearly. For the most part, it has grown more quickly than government has been able to regulate and control it. Of course the government will seek to bring the new sector under its control, as evidenced by the antitrust case against Microsoft, or later the EU case against Google, or the various attempts at Internet taxation and regulation. The government will, to some extent, catch up. But by that time, markets will have created yet additional new and relatively unregulated means of doing business.

My colleague Robin Hanson, in a series of papers, has argued that we may be on the threshold of extraordinarily high growth rates. He believes that economies have periodic “takeoff” eras, during which they are able to achieve qualitative improvements in living standards. The agricultural revolution and the industrial revolution were two such takeoffs in the past. If another such revolution is pending, markets may be on the verge of outracing governments even more than we might expect. The confluence of the Internet, the semiconductor chip, and genetic engineering, or perhaps nanotechnology, suggest that we may be relatively close to such an era.<sup>54</sup>

Government as a percentage of GDP is a misleading measure of freedom for another reason. In many previous eras, the government was a much smaller percentage of the economy than it is today. Nonetheless, the real distortions caused by government may have been much greater relative to social product. If government policies are very bad, the economy will be close to subsistence

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53. Some government interventions (torture is an obvious example) make people less free without necessarily limiting the size of the market. To this extent, the market size is a misleading measure, but in most cases the economic effects of poor government policies are very direct and real.

54. See, for instance, Robin Hanson, “Could It Happen Again?” (unpublished manuscript, 2000, George Mason University).



and government will not be able to consume a large percentage of GDP. In Haiti, for instance, per capita income is very low, and government is actually pretty small. Haiti, however, is not a very free country in economic terms. The activities that the Haitian government undertakes are highly distortionary, and they keep the country at a very low level of poverty. The only reason that the Haitian government is not larger is because most of the population is already hovering at the subsistence level and there is little left to confiscate. The “small” governments in earlier historical times to some extent fit this model. In essence, they were too destructive to become very large.<sup>55</sup>

A modern government can become large only if it supports freedom to some extent, which may in fact be our saving grace. This optimistic perspective puts social change research in a different light. At least in economic terms (leaving cultural issues aside for the time being), we should not view Western societies as headed off a cliff. Robert Wright titled one of his books *Non-Zero* to represent his view that human history is fundamentally a positive-sum, win-win game.<sup>56</sup> Wealthier, more complex societies benefit those who can build or support them, and Wright sees a general tendency for these gains from trade to be exploited, no matter what setbacks we may experience along the way. Let us all hope that Wright is correct and that, indeed, history is on the side of a free society.

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55. For further criticisms of this measure of government size, see the very useful essay, Robert Higgs, “Eighteen Problematic Propositions in the Analysis of the Growth of Government,” *Review of Austrian Economics* 5, no. 1 (1991): 3–40.

56. Robert Wright, *Non-Zero: The Logic of Human Destiny* (New York: Pantheon, 2000).

## ABOUT THE AUTHOR

Tyler Cowen is Holbert L. Harris Chair of Economics at George Mason University and serves as chairman and general director of the Mercatus Center at George Mason University. With colleague Alex Tabarrok, Cowen is coauthor of the popular economics blog *Marginal Revolution* and cofounder of the online educational platform Marginal Revolution University.

A dedicated writer and communicator of economic ideas who has written extensively on the economics of culture, Cowen is the author of several books and is widely published in academic journals and the popular media. He writes the Economic Scene column for the *New York Times*; has contributed extensively to national publications such as the *Wall Street Journal* and *Money*; and serves on the advisory boards of both *Wilson Quarterly* and *American Interest*. His research has been published in the *American Economic Review*, the *Journal of Political Economy*, *Ethics*, and *Philosophy and Public Affairs*.

In 2011, *Bloomberg Businessweek* profiled Cowen as “America’s Hottest Economist” after his e-book, *The Great Stagnation*, appeared twice on the *New York Times* e-book bestseller list. Columnist David Brooks declared it “the most debated nonfiction book so far this year.” *Foreign Policy* named Cowen as one of 2011’s “Top 100 Global Thinkers,” and an *Economist* survey counted him as one of the most influential economists of the past decade.

Cowen graduated from George Mason University with a BS in economics and received his PhD in economics from Harvard University.

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