



# FACTS & OPINIONS

*On Public Interest Issues*

## Quotes

“One thing our Founding Fathers could not foresee...was a nation governed by professional politicians who had a vested interest in getting reelected. They probably envisioned a fellow serving a couple of hitches and then looking...forward to getting back to the farm.”

— Ronald Reagan

“The office of government is not to confer happiness, but to give men opportunity to work out happiness for themselves.”

— William Channing

“In proportion as the structure of a government gives force to public opinion, it is essential that public opinion should be enlightened.”

— George Washington

## Radical Federalist

Donald F. Kettl

Ronald Reagan’s funeral stirred some remarkably warm reflections about his life and legacy. But amid the retrospectives, analysts largely ignored his impact on federalism, where he tore down a wall every bit as imposing as the one in Berlin.

Until the Reagan administration, federal spending for grants to state and local governments had been steadily growing in America for decades. As a share of the economy, federal aid had increased from 1.6 percent of the Gross Domestic Product in 1965 to 3.4 percent in 1980. Reagan’s tight budgets stopped that growth. By the end of his two terms, federal spending for intergovernmental aid had shrunk by almost a fifth (after accounting for inflation). As a share of the economy, grants fell by a third.

Even more important than Reagan’s decrease in spending was the change in the way the federal government distributed the

money. In the 1950s, the federal government began big grant programs for urban renewal and interstate highways. In the 1960s, Lyndon Johnson’s Great Society expanded these categorical programs dramatically. Richard Nixon, succeeding Johnson as president in 1969, believed that the categorical programs relied too much on federal control, so he replaced the old job training, community development and social service programs with block grants — money distributed by formula with relatively few strings. Local governments loved them, but critics increasingly questioned what value the nation got for the money spent.

Reagan and his team came to office wanting to go much further: They were convinced that the existing federal aid system was broken. They transformed old categorical programs and some of the newer block grants into still broader programs, which coupled even more administrative flexibility

*continued on page 3*

## FACTS & OPINIONS

November 2004  
Volume 10, Number 4

**President**  
Dr. Don Racheter

FACTS & OPINIONS is one of our quarterly membership newsletters, arriving in February, May, August, and November. It consists of short articles of public interest with an emphasis on current issues.

FACTS & OPINIONS is published by Public Interest Institute at Iowa Wesleyan College, a nonpartisan, nonprofit, research and educational institute, whose activities are supported by contributions from private individuals, corporations, companies, and foundations. The Institute does **not** accept government grants.

Contributions are tax-deductible under sections 501(c)(3) and 170 of the Internal Revenue Code.

Permission to reprint or copy in whole or part is granted, provided a version of this credit line is used: "Reprinted by permission from FACTS & OPINIONS, a quarterly newsletter of Public Interest Institute." The views expressed in this publication are those of the authors and not necessarily those of Public Interest Institute.

If you have an article you believe is worth sharing, please send it to us. All or a portion of your article may be used. The articles in this publication are brought to you in the interest of a better-informed citizenry, because IDEAS DO MATTER.

We invite you to:  
CALL us at 319-385-3462  
FAX to 319-385-3799  
E-MAIL to [public.interest.institute@limitedgovernment.org](mailto:public.interest.institute@limitedgovernment.org)  
VISIT our Website at [www.limitedgovernment.org](http://www.limitedgovernment.org)  
WRITE us at our address on page 8

Copyright 2004 PII

## Focus on Iowa Wesleyan College

Laura P. Keith

This summer, President of Iowa Wesleyan College Bill Johnston, Ph.D. and wife Susan traveled to IWC's sister school, Wu Ye University in the Canton province of China, located just south of Hong Kong.

Iowa Wesleyan has an exchange program with the university, hosting many students and seven faculty members from China over the years. Despite IWC's small student population, compared with Wu Ye University's 2700 new freshmen this school term, the students from China appreciate the individual attention they receive as well as the chance to experience small town America. It is challenging to obtain a visa to study in the United States, but some students and professors find it easier when they show Chinese officials that they have strong ties back home to draw them back to China.

One such Professor is Jane Zhongxiu. With both a husband and young child across the Pacific Ocean in China, she has come to IWC from Wu Ye University to teach civic issues. On her first trip to the United States, she is overwhelmed by the "tremendous material wealth" she sees around her. Though she had read about the highly commercialized economic development of the U.S., she did not realize the

*continued on page 8*

## What's New at Public Interest Institute?

Brad Cook joined the staff of Public Interest Institute in October. A recent graduate of Kent State University, Brad holds a B.S. in economics with a minor in political science. Brad comes to Public Interest Institute after working as an intern at Heritage Foundation in Washington, D.C. in the domestic policy department. His experience led him to study policy issues such as social security, health care, and welfare. Along with becoming familiar with the ins and outs of Iowa politics and policy, Brad intends to attend graduate school to further his degree in economics. Originally from Canfield, Ohio, staffers at Public Interest Institute will be attempting to change his loyalty from the Buckeyes to the Hawkeyes.

In other Public Interest Institute news, President Don Racheter, Ph.D., recently attended the State Policy Network annual

*continued on page 8*

**If you would like information on Iowa Wesleyan College, or the IWC-Wu Ye University exchange program, write or call:**

**Iowa Wesleyan College  
601 North Main  
Mt. Pleasant, IA 52641  
(319) 385-8021**

[www.iwc.edu](http://www.iwc.edu)

## Radical Federalist

Donald F. Kettl

*continued from page 1* with less money. Reagan's argument: With a greater ability to fit federal programs to local needs, state and local governments did not need as much cash.

By the time he left office in 1989, Reagan had eaten away at a large part of the Great Society's core. To be sure, the federal aid bureaucracies remained in existence and billions of dollars continued to flow. But the Reagan presidency put a cork in the steady growth of spending and ended the federal government's long "big brother" tradition of dominance in the intergovernmental system.

Even more fascinating is a bold move that failed but nevertheless shook the system. In his 1982 State of the Union address, Reagan stunned congressional Republicans and governors alike with a plan to swap responsibility for Medicaid and welfare. The federal government would assume the burden for Medicaid, while the states would take over welfare programs, including food stamps and Aid to Families with Dependent Children.

The plan seemed too risky for almost everyone. The states worried they would end up on the short end. Members of Congress worried they would spend enormous political capital in

exchange for uncertain gain. No one but Reagan and his staffers seemed very enthusiastic about the swap, and within weeks Reagan's dramatic proposal died.

With his radical plan, however, the conservative president had tapped into the emerging issue of federal-state fiscal relations. In backing away from the deal, the states ended up with prime responsibility for both welfare and Medicaid. The rising caseload swelled their welfare costs. In response, some states — notably Wisconsin and Michigan — tried creative experiments that eventually produced the revolutionary 1996 welfare reform block grant.

Meanwhile, Medicaid costs started to soar at an even more alarming rate.

By the turn of the 21st century, Medicaid was the fastest growing item in many state budgets. Faced with the biggest fiscal crunch in generations, governors looked to Washington for help. They got little in return.

More than one state official looked wistfully back at the Reagan swap proposal and concluded that the states should have taken the deal when they had the chance. Had they done so, states could have pursued the Wisconsin welfare reform strategy and ridden welfare costs down, while passing Medicaid, their biggest budgetary nightmare, to the feds. And with the federal government in control of both Medicaid and Medicare, the nation would have been a step closer to a system of national health insurance.

Johnson's Great Society brought the federal government

before, and on a scale and scope previously unimagined. Reagan ended the Great Society era by capping the size of the federal government's commitment. He shaped the new generation of grants, highlighted by welfare reform, that define the basic administrative relationships of 21st-century federal grant programs. And with the welfare-Medicaid swap proposal, he identified the nastiest issue in the fiscal relationship.

Johnson stretched the fabric of American fiscal federalism into its modern form. Reagan tailored it to the clothing we wear today.

*Donald F. Kettl writes the Potomac Chronicle Column for Governing Magazine. Reprinted with permission from the August 2004 edition of Governing Magazine.*

Check out our feature

### Question of the Quarter

on page 6. We want to know your thoughts about the issues!

*Have you renewed your membership with Public Interest Institute?*

To continue our publications, Public Interest Institute relies on the support of our readers to today's public-policy challenges. Please use the enclosed postage-paid envelope.

## Where in the World Can You Find Economic Freedom?

George C. Leef

Late 2003 saw the release of the most recent editions of two publications that ranked the nations of the world according to their degrees of economic freedom. The Fraser Institute, located in British Columbia, put out the eighth edition of its *Economic Freedom of the World* and the Heritage Foundation and the *Wall Street Journal* published the tenth in their *Index of Economic Freedom* series. Much can be learned about the meaning and importance of economic freedom from both publications. I must, however, register a terminological complaint: Even if the citizens of the United States are less economically controlled than the citizens of most other countries, that does not mean Americans are "free."

In Fraser's survey, the United States (tied with New Zealand, Great Britain, and Switzerland) remained the third freest economy in the world, behind Hong Kong and Singapore. But in the Heritage/*Wall Street Journal* study, the United States slipped from third to tenth! Three nations — Luxembourg, New Zealand, and Ireland — all moved ahead of the United States.

Where this country scores least well in these analyses is in the government's fiscal burden. While the United States is exceptionally

strong in such areas as monetary stability and property rights, its fiscal burden scores are much weaker. Thus if government officials here were interested in increasing economic freedom, the place to start would be with a reduction of the vast federal budget. Unfortunately, the gigantic spending spree of President Bush and the 108th Congress will probably cause the United States to lose ground in subsequent editions of both publications. (In this regard, see Veronique de Rugy, "The Republican Spending Explosion," Cato Institute Briefing Papers No. 87, March 3, 2004, [www.cato.org/pubs/briefs/bp-087eshtml](http://www.cato.org/pubs/briefs/bp-087eshtml).)

Most Americans take their high standard of living for granted and never contemplate the conditions that make it possible. Sport utility vehicles and Palm Pilots...DVD players and Nike shoes...fresh orange juice and robotic vacuum cleaners... townhouses and jewelry. We are able to enjoy a fantastic assortment of goods and services that make life longer, easier, and more pleasant. But what conditions make it possible for us to produce and purchase them? Or, to look at it another way, why is it that the inhabitants of countries like Zimbabwe, Uzbekistan, or Cuba cannot purchase such things? Ask your typical American if there is some connection between prosperity and economic freedom and you'll get a shrug and an answer like, "Maybe...I guess so."

The most valuable part of these two reports is that they

make it unmistakably clear that national standards of living depend on economic freedom. Nations with high scores on economic freedom invariably have higher average incomes than nations with low scores. Furthermore, nations that increase their scores (such as Estonia, once a repressed part of the Soviet Union, but now one of the freest countries) see corresponding increases in their people's living standards. Conversely, nations that decrease economic freedom (such as Venezuela, a once relatively free country now suffering under a quasi-Marxist military dictatorship) see their living standards fall. We aren't just talking correlation here; we're talking causation. The Fraser study sums it up this way: "[S]maller government, rule of law, sound money, and general economic freedom will almost certainly guarantee wealth for its

***"Most Americans take their high standard of living for granted and never contemplate the conditions that make it possible."***

citizens. People left alone will generally prosper."

"Prosperity" does not just mean that people can buy sophisticated gadgets. It is far more elemental. *Economic Freedom of the World* notes that in "unfree" nations life expectancy is only 55 years; in "free" nations it is over 77 years. In "unfree"

Individuals like you who believe in individual liberty and free-market solutions envelope to make your tax-deductible contribution to this effort today.

## Where in the World Can You Find Economic Freedom?

George C. Leef

nations only half the people on average have access to improved sanitation facilities, while in "free" nations 99 percent do. Escape from the world, where life is poor, solitary, nasty, brutish, and short, depends on economic freedom.

### Knowledge Gap

Our typical American might at this point nod and say, "Yes, I get it." But then if you asked what economic freedom consists of, you'd probably get a long silence. Both publications give the reader the knowledge needed to fill the gap, detailing the analysis that **went into the scoring.** The *Index of Economic Freedom* employs 50 variables that fall into these categories: trade policy, the fiscal burden, intervention in the economy, monetary policy, capital flows and foreign investment, banking and finance, wages and prices, property rights, regulation, and informal market activity. *Economic Freedom of the World* works with 38 variables under these headings: the size of government-expenditures and taxes; legal structure and the security of property rights; access to sound money; freedom to exchange with foreigners; and regulation of credit, labor, and business.

The point that the perceptive reader will grasp, but perhaps should be made more explicitly, is that economic freedom isn't like a light switch — either on or off. Instead, it is composed of numerous moral choices, a few of which call for government to do certain things (protect property rights, for example) and not to do quite a few others (dictate wages and prices, impose barriers to starting new businesses, interfere with trade, tax people heavily, and so on).

"So that means that we have less economic freedom because of our Social Security system, our minimum wage laws, our income

***"...economic freedom isn't like a light switch—either on or off...most government expenditures, programs, and regulations make us less free."***

tax rates, licensing requirements, import tariffs, and many other such laws and programs," the perceptive reader will realize. Right! Most of the hallmarks of American economic and social policy during the twentieth century are incompatible with economic freedom. A vast number of the policies that most Americans unthinkingly accept and approve are losses of economic freedom. A full list would be nearly impossible, but I wish that the studies said more plainly that most government expenditures, programs, and regulations make us less free.

It's too bad that neither study discusses in detail the reasons why the United States gets the far-from-perfect scores that it does. That would be a valuable companion document.

*Economic Freedom of the World* scores the United States 8.2 on a ten-point scale for size of government. What's behind the number? How much government spending — which necessarily means forcibly taking away money that would otherwise go into personal spending — would have to be cut for the United States to get a 10? If the implication of getting an 8.2 is that the government here is overspending by 18 percent, that seems far too low to me.

Both reports group nations into broad categories — free, mostly free, mostly unfree, and repressed — based on their scores. As noted, in *Economic Freedom of the World* the United States is ranked third and in the *Index of Economic Freedom* it is ranked tenth. That puts us near the top of the category of "free" nations. But let's hold off on any celebrations.

### Freedom in America

The problem is that to a great extent, Americans are not free. We have to put up with economic restraints and commands from the state that would have had our forebears up in arms. Unfortunately, it may bolster the forces of governmental expansion to be able to point to our "free" designation and say, "Look, with

*continued on page 6*

## Where in the World Can You Find Economic Freedom?

George C. Leef

*continued from page 5*

all of our laws and programs, we're still a free country." Truly bold big-government advocates might even claim that we're "free" because of our vast assortment of laws and regulations and therefore we should have more. How about the added "freedom" that would come from completely socialized medicine?

A more accurate way of stating the matter would be to say that Americans are less regulated and controlled than people in most other countries. "Free" implies an absolute state, as *absence of governmental control*. All that we can really say from these reports is that Americans are *comparatively less repressed* than most other people. Someone who is allowed to walk around inside a prison isn't free just because other prisoners are tightly shackled to the walls.

Consider the matter of taxation. Thanks to our income tax, Americans spend much of the year working for government.

***"All that we can really say from these reports is that Americans are comparatively less repressed than most other people."***

## *Facts & Opinions* Question of the Quarter:

Is the War on Iraq a diversion in the War on Terror?

Send your thoughts on this issue to us at  
[public.interest.institute@limitedgovernment.org](mailto:public.interest.institute@limitedgovernment.org).

We will publish some of your ideas in the next issue of *Facts & Opinions* in February 2005 and on our Website at [www.limitedgovernment.org](http://www.limitedgovernment.org).

Tax Freedom Day, as calculated by the Tax Foundation, is April 19, an improvement over recent years, but still too late. (See [www.taxfoundation.org/taxfreedomday.html](http://www.taxfoundation.org/taxfreedomday.html).) So the average citizen works from January 1 until April 19 just to pay his taxes, and only after that is he earning money to spend according to his own desires. (That's for the average citizen. Those in the highest federal and state tax brackets work even longer to satisfy the demands of the politicians.) We don't really own our labor — government has staked out a prior claim to a large percentage of anything we earn. Taxation is worse in many other nations, but that doesn't make us free.

What about our property rights? In a "free" country each person's property would be protected by law against theft or destruction. In both studies, the United States receives high scores when it comes to property rights, but see how much that impresses an individual who has lost property under the aggressive application of

civil-asset forfeiture laws. It is possible for a person to face confiscation of his bank account, house, car, cash, and anything else just because a law enforcement official suspects he may be involved in the sale of drugs or other crimes. Numerous appalling cases are detailed in Randall Fitzgerald's recent book, *Mugged by the State*. In a truly free country the police are not allowed to steal property to pad their budgets and make hapless citizens go through difficult and costly legal hoops if they want to get it back, even if declared innocent of any wrongdoing. Maybe such governmental rip-offs are more prevalent in other countries, but that doesn't mean we are "free."

*continued on page 7*

***Visit Public Interest  
Institute's web page  
at  
[www.limitedgovernment.org](http://www.limitedgovernment.org)***

## Where in the World Can You Find Economic Freedom?

George C. Leef

Americans living in 2004 are much less free than Americans living in 1904. Government not only confiscates far more of our income in taxes than it used to, but its laws and regulations have spread into most facets of life. In labor markets, product markets, housing markets, and credit markets Americans now face voluminous, sometimes conflicting regulations from federal, state, and local authorities telling them what they must and must not do. Just to cite two egregious examples, our crusades for environmental purity and multicultural diversity have spawned huge bureaucracies with the temperaments of junkyard dogs, eager to tear into anyone who has in some way displeased them.

The United States used to be a free country, but it isn't any more. As Paul Craig Roberts writes: "It is a paradox that a country that has abandoned freedom and re-enslaved its population sees itself as role model for the world."

**George C. Leef reviews books for *The Freeman*. *The Freeman* is a publication of the Foundation for Economic Education. For more information visit their website at [www.fee.org](http://www.fee.org). Reprinted with permission from *The Freeman*, September 2004.**

## The Expansion of National Power

Dave Hogberg

In "Legislation and Adjudication in a Federal Republic," Chapter Twelve of *FEDERALIST GOVERNMENT IN PRINCIPLE AND PRACTICE*, Dr. Don Racheter concludes that Federalism has been eroded in the United States. This is due to growth of centralized governmental power caused by changes in legislation and adjudication, and the attempt by elites to transform the Constitution into a "living document."

Racheter begins his analysis with an examination of the original Framers of the Constitution. Racheter states that "the leading defenders of states' rights...did not show up" at the Constitutional Convention of 1787. "Thus, all the proposing, debating, and voting was left to the supporters of a stronger national government." Most importantly, those in attendance at the Convention did not craft Article Three of the Constitution, which creates the Supreme Court, as carefully as they should have. As a result, the Court began expanding the power of the national government almost immediately, in cases such as *Marbury vs. Madison* (1803) and *McCulloch vs. Maryland* (1819).

Despite the Court-precipitated expansion of national power, throughout most of the 19<sup>th</sup> century the national government

was fairly limited in scope. A key turning point occurred in 1913 with the passage of the 16<sup>th</sup> and 17<sup>th</sup> Amendments to the Constitution. The 16<sup>th</sup> Amendment created a national income tax, thereby increasing the fiscal power of the national government. The 17<sup>th</sup> Amendment provided for the direct election of U.S. Senators, instead of election by state legislatures. This put the Senate under the control of forces — political parties, the media, interest groups — more favorable to the increase of national power.

The New Deal and the Great Society accelerated the increase of national power. Most importantly, states began to vie for national funding for various projects such as highway construction. "This system...opened the states up to national government blackmail to do things that the Constitution did not give the national government a warrant to do directly." Examples of such "blackmail" include 55 mph speed limits and mandatory motorcycle helmet and seatbelt usage.

To scale back national power, Racheter proposes a Federal Questions Court. This Court would hear cases involving conflicts between state governments and the national government. The judges would be randomly selected from sitting State Supreme Court Chief Justices. The Chief Justice of any state involved in a case would be precluded from serving on the court. This court might tilt the balance of power back to favor states in questions regarding state vs. national power.

*continued on page 8*

**Public Interest Institute  
at Iowa Wesleyan College  
600 North Jackson Street  
Mt. Pleasant, IA 52641-1328**

NONPROFIT ORGANIZATION  
U.S. POSTAGE PAID  
MAILED FROM ZIP CODE 52761  
PERMIT NO. 338

## **The National Expansion**

**Dave Hogberg  
continued from page 7**

However, Racheter is pessimistic about the chances that we can reassert the system of Federalism, unless the public becomes informed on this issue and demands corrective action from our governmental leaders. Creating a Federal Questions Court would require an amendment to the Constitution, and amending the Constitution is a very difficult process. Any such proposal will be opposed by those forces that favor expanding the power of the national government. Racheter warns that if nothing is done, "the shift in power from the people, the local governments, and the states to the national government will not be reversed, but will continue, and perhaps accelerate."

*Dave Hogberg, formerly of Public Interest Institute, is a Senior Fellow at Capital Research Center.*

## **What's New at Public Interest Institute?**

**continued from page 2**

conference in Austin, Texas. Research Analyst Laura Keith helped the Heartland Institute celebrate its 20th anniversary by attending the Emerging Issues Forum in Chicago, Illinois. Research Analyst Amy Frantz is up for the PII Employee of the Year Award for 2004. The Institute also celebrates the record number of Iowa Civics Projects sent out to Iowa high schools to help students understand Iowa's state government and encourage them to become responsible citizens and help shape Iowa's future.

## **Focus on Iowa Wesleyan College**

**Laura P. Keith  
continued from page 2**

impact it would have on her. The Canton Province of China is very wealthy compared to many Chinese provinces, but is still highly industrialized. President Johnston, complimenting China on its booming economy and industry, noted that many of its techniques are still focused on manual labor.

Many thanks go out to the "heroes among [IWC]" from Susan Johnston, who saw the results of the trip as an affirmation for the IWC community.

*Laura P. Keith is a Research Analyst at Public Interest Institute.*