

## The Ideas Behind the Revolution

by Stephen Lazarus

The beginning of the year is a good time to reflect on the most important political changes of 1996. During the past two years, the 104th Congress sought to fulfill a bold commitment to reduce the size and scope of government. Making government smaller, more efficient, and closer to home became the catch phrase which signaled a fundamental rethinking of the role of government in the lives of Americans. Moving beyond the slogans, what were the ideas which motivated this influential movement?

To answer this question, *Beyond Politics: Markets, Welfare, and the Failure of Bureaucracy* is a good place to begin. Written by William Mitchell and Randy Simmons—professors of political economy at the University of Oregon and Utah State University—the book provides the intellectual capital behind the news-making headlines. They argue that big government, the "Nanny State," has simply become too expensive, inefficient, and intrusive to maintain. In short, a truly free market better coordinates economic life than the power of government.

The authors make their case in clear terms, targeting an audience of both everyday citizens and academic colleagues. They explain what markets are and how they work. Markets facilitate the exchange of goods and services in economic life. Examples of markets can be as simple as a neighborhood garage sale or as complex as the stock exchange. All markets, they explain, share two features in common. As Adam Smith suggested, markets coordinate human economic activity by harnessing the power of self-interest. They also provide consumers vital information about the products or services available in the market—information not always available to government planners.

When parents buy their child a shiny red bicycle for Christmas, they voluntarily exchange a given amount of money for an item they value more highly, pursuing their desire to make their child happy. The price of the bicycle is a good example of information supplied by the market. This price supplied by a market system helps them choose among competing products of different quality with different features and different prices. They seek to maximize their value for the money they spend. Prices also enable producers to calculate whether they will earn a profit or suffer a loss, and consequently, whether they should produce more or less of an item. Thus, through the price system, a free market allocates goods efficiently without one central authority or bureaucracy determining how much to produce, or at what price goods should be sold.

Mitchell and Simmons explain that in the 20th century Americans began increasingly to depend more on the government to deliver goods and services and to determine prices and less on the

free market. Citizens were told by economists, politicians, and "those in the know" that an activist government must intervene to correct "market failures."

Government thus increased in size and power. Budgets and staff sizes ballooned to new proportions. Scores of regulatory agencies were created to accomplish what market forces were thought incapable of achieving. People placed their faith in a benevolent government of elected representatives and scientific managers to secure their best interest. Yet, problems previously blamed on the market, such as pollution and economic inequality, remained. Furthermore, new problems were created—most notably, a staggering national debt.

Today, the view from atop the bridge to the 21st century appears less sanguine. Policy planners, the authors explain, are more aware of the limits of governmental solutions. The focus of the debate has shifted from market failure to the failure of government. "The fundamental reason for government failure," they argue, "is that the information and incentives that allow the market to coordinate human activities and wants are not available to government."

Market solutions appear to have fewer "external costs" than those achieved through politics and government. Government solutions typically replace the price mechanism of market exchanges with political deal-making. When an activist government interferes in market affairs, prices no longer direct human actions; politics does. People begin to use the government for their own selfish ends. They enrich themselves from the public trough at the public's expense.

One example of the public pursuit of private gain is "corporate welfare." Corporations today frequently vie for special subsidies, quotas, and tax breaks from the government. Legislators, in cooperation with their clients' lobbyists, intervene in the market to grant these special privileges. Subsidies and quotas shield favored companies from their competition; tax breaks give particular companies unfair competitive advantages. Worst of all, Congress passes high costs on to taxpayers, who must support the salaries of the bureaucratic ranks required to administer these policies.

Average taxpayers—those who are least organized politically—are the losers. Citizens finance these subsidies and tax breaks through higher tax rates *and* higher prices at the point of purchase. Mitchell and Simmons point to the legacy of protectionism in the auto industry to show how rigging markets through political means backfires on the consumer. Citing a Brookings Institution study of the auto industry in the late 1970s and early 1980s, Mitchell and Simmons explain: "The protection afforded domestic automobile companies caused car prices to be more than four billion dollars higher per year than they would have been without protection."

The misuse of government for private ends short-circuits the market's ability to deliver goods and services at prices favorable to *both* the producer and the consumer. The free market preserves equality before the law and avoids the consequences of this type of government intervention. However, according to Mitchell and Simmons, unless government power is limited to the realm of its own competence, similar abuses of the public purse and trust will continue unrestrained.

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