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Government for the People?

In a memorable address at Gettysburg in 1863, President Abraham Lincoln exhorted his fellow citizens to recommit themselves to the American democratic experiment – government of, by, and for the people. Under Lincoln’s leadership, the Union survived the great test of the Civil War and, soon after, experienced a new birth of freedom. Meanwhile, the concept of government of and by the people began to transform into something quite different. As noted by filmmaker Ken Burns in his poignant film documentary on the Civil War, one of the changes wrought by the conflict is that when referring to the “the” in “the United States of America,” Americans took the definite article to refer to the singular “United States” after the conflict versus the plural prior to the conflict. The change was tectonic not editorial. It has, as natural human behaviors have played out over time, set the stage for a replay of a historic phenomenon that threatens the heart of the Union Lincoln fought to preserve.

As in many other countries around the globe, the role of government in the United States has grown, changing markedly in the short arc of time since Lincoln delivered his Gettysburg address. Beyond expanding the size of the military, the Civil War precipitated the nation’s first income tax, which Congress passed to help pay for the army. Paper currency, no longer backed by gold, was issued to finance the war effort.¹

A Department of Agriculture was launched to assist farmers as the United States industrialized and urbanized. A Bureau of Pensions was established to aid wounded soldiers and the families of dead ones. One of the country’s first social welfare programs, the bureau grew appreciably following the war and became a central part of the Veterans Administration instituted in 1930.

¹ Bense (1990) details how the Civil War spurred a reconceptualization of the US government.

Congress enacted land grants for public universities, western settlers, and a transcontinental railroad. Federal protection of civil liberties was increased with the postwar passage of three Constitutional amendments that abolished slavery, guaranteed equal protection, and extended voting rights to African-Americans.

In less than a century, subsequent tectonic shifts further remade the political-economic landscape. The United States grew emboldened by the spirit of Manifest Destiny; saw the rise of big business; and encountered world wars, the Great Depression, and the Cold War. Each of these events influenced and enhanced the state's role in American society. While liberties were compromised at times (for example, the Japanese internment camps during World War II), progress was made in terms of advancing the rights of minorities, women, gays, and immigrants.

Outside the United States, the same period has been characterized by increasing democratization. Two world wars reduced the number of monarchies and the extent of colonial holdings by established powers. The end of the Cold War further diminished, although by no means depleted, the ranks of autocratic states. This trend prompted political theorist Francis Fukuyama to argue that the world was approaching a sociocultural terminus: "the universalization of Western liberal democracy as the final form of human government."² Sparked by the Jasmine Revolution of 2010 in Tunisia, the Arab Spring fanned hopes for the demise of entrenched autocracies in the Middle East.

NAGGING QUESTIONS

Yet, despite the progress toward government by the people, a nagging question remains. That is, does the trend toward democratically elected rulers ensure that a government operates for its people?

This question is readily apparent outside the United States. Autocratic rule remains all too common, but even many democracies are dysfunctional and deliver meager results when it comes to creating jobs and promoting economic prosperity. Some politically repressive governments, such as those in China and Singapore, have been outpacing more liberal states in growing gross domestic product (GDP).

Celebrations of new democracy movements often have proved premature. The Arab Spring has produced precious few democratic blossoms.

² Fukuyama (1992). However, in more recent work, Fukuyama (2014) has become less optimistic about an inevitable global march to democracy.

Instead, its failure to launch confirms autocracy's staying power. It fuels the theory by political scientists that over 75 percent of autocratic regimes, once overthrown, are replaced by another autocracy (or something worse) rather than by democracy.³ Witness the reversion to military-autocratic rule in Egypt; the destruction Bashar al-Assad continues to levy on Syria so as to retain power; the spread and savagery of ISIS; and the lawlessness in Libya, Yemen, and large parts of Iraq. The manner in which the Arab Spring has played out forces to the fore questions about what makes a government seemingly by the people strong enough to endure for the people.

These questions span far beyond the Arab Spring. Political and economic freedoms have declined in democratic Turkey, Thailand, and Nicaragua, as well as in many of the autocratic USSR's former republics. Venezuela provides a prime example of why government by the people does not necessarily result in government for the people.

Largely freed of colonial rule, sub-Saharan Africa remains the poster child for autocracy and its debilitating effects. While failure is a proverbial orphan, many parents have been blamed for the struggling progeny where such autocracies continue to fail their citizens. Chief among the suspected parents in sub-Saharan Africa are culture; an unconstrained geography allowing for greater tribal mobility, thus impeding the precolonial development of effective states; colonization on the cheap by Europeans who invested little in building political institutions while undermining traditional sources of authority; excessive postcolonial foreign aid keeping despots in power; and ignorance.⁴ It is frequently presumed that the last of these causes of hardship – ignorance – can be alleviated by the enlightened advice of development economists and the attention of music and movie icons. Although well intentioned, the advice and attention has, at least so far, largely failed to ameliorate the damage done by Africa's autocrats.

In democracies, questions keep arising over the extent to which government *by* the people operates *for* the people. Argentina provides an enigma in this regard. Having been a New World economic beacon, Argentina rivaled the United States in the early part of the twentieth century in terms of both growth and per capita income. From being richer than Switzerland and Canada, Argentina began a relative slide in the 1930s to where it now has no more than one-third the per capita

³ See Geddes, Wright, and Frantz (2014) on the durability of autocracies.

⁴ See, for example, Acemoglu and Robinson (2012) and Fukuyama (2014).

incomes of these two countries. From its high standing in First World wealth not quite a century ago, Argentina has declined to become a persistent member of the Latin American sovereign debt default club, perpetually trying to extricate itself from the clutches of the latest round of spurned financial creditors.⁵ This ostensibly democratic government by the people shows evidence of failure to work for the greater good of its people.

Japan likewise has fallen from the economic heavens. It has gone through a lost generation of slow to no growth. Its public debt now totals nearly 250 percent of GDP. Its Nikkei stock market remains mired at half the peak it attained in 1989. The Land of the Rising Sun represents another democracy where the government's ability to deliver well-being, let alone prosperity, has waned over the arc of relatively few years.

Europe, particularly Portugal, Italy, Greece, and Spain, amply illustrates democracy failing to deliver the economic goods. Often portrayed as having been turned into a museum, Venice may portend the future for all of Europe. Political economy scholars Daron Acemoglu and James Robinson claim that Venice has been reduced to a historical relic, living off its charms for tourists, by the Republic's *Serrata*, or the economic and political closure that began in 1297.⁶ Far more recently, much of Europe now similarly relies evermore on past grandeur and tourism as increasingly entrenched structural economic features inhibit innovation and job formation.

Look beyond Venice and consider all of Italy, the birthplace of the Renaissance. Italy is a democracy that routinely earns the highest possible Freedom House scores for civil liberties and political rights.⁷ Italy also is hypercompetitive when it comes to its political leadership, having had forty-four different prime ministers since World War II and, so, offering its citizens appreciable electoral choice. Yet, notwithstanding the apparent full-blown government by the people, Italy's policy makers by and large have failed to deliver the economic goods for the people. The country has averaged a meager annual GDP growth rate of 0.62 percent since 1960, and that rate has turned negative in recent years. Per capita GDP has declined by 7 percent since 2000. Italy's economic freedom ratings also are nothing to brag about. They parallel Italy's anemic productivity and both run counter to the country's political openness.

⁵ Acemoglu and Robinson (2012) and Fukuyama (2014).

⁶ Acemoglu and Robinson (2012).

⁷ Freedom House annually rates nations on a 1–7 scale.

Italy's Index of Economic Freedom score typically places it barely above the "Mostly Unfree" category.⁸

Closer to home, the United States has rebounded from the 2007–2009 financial market meltdown. However, the rebound has been tepid when measured against other economic recoveries and against expectations raised as the government engaged in highly stimulative fiscal and monetary policies and the world market saw the halving of oil prices over 2014–2015. While some would argue over the degree, most would agree that the United States remains a stable government by the people. Yet, even against this political backdrop and ample resources, the United States appears unable to recharge the dynamism of its citizens' economic opportunities and wealth.

The lethargic US economic recovery actually is not as puzzling as it may seem at first. The trend here correlates with the trends that scholars have observed about economic performance across many countries.⁹ Similar to Italy, over the last decade, the United States has maintained high Freedom House marks for the civil liberties and political rights of its citizens. However, the Index of Economic Freedom score for the United States has declined in eight of the ten years from 2006 to 2016, through two presidential administrations, and across an arc of time spanning both major parties.

How a decline in economic freedom affects the very real tepid recovery following the US financial market meltdown has been hotly debated in the media and policy arena. But generally, indices of economic freedom, such as the Index of Economic Freedom and Economic Freedom of the World, are consistently and positively related to a nation's economic performance. By contrast, the relationship between indices of political freedom (for example, Freedom House and Polity) and a nation's economic performance is less consistent, and less clear. The idea that economic freedom has a positive impact on economic performance does, at least, dovetail with research showing that economic freedom matters more than political freedom when it comes to determining the wealth of nations.

Americans seem to agree. Studies indicate that talk of increasing income and wealth inequality has failed to spark Americans' support for redistribution.¹⁰ Their focus remains on more and not less economic freedom. Americans are more concerned about growing the economic pie than over how the pie is divided.

⁸ See Miller, Kim, and Holmes (2015). The Index of Economic Freedom rates nations annually on a 0–100 scale for the extent of their economic freedom.

⁹ See Zupan (2015a) for a summary. ¹⁰ See, for example, Kuziemko et al. (2015).

POLITICAL OUTCOMES AND THE PUBLIC INTEREST

As Americans focus on more and not less freedom of any kind, including economic freedom, the inevitable issue is the power of choice by individuals that reduces the power of the government to choose for the collective. Usually, this balance is debated in terms of trading off individual good for public good, and vice versa. The debate assumes that political outcomes are crafted in the public interest, for which individuals cede power over their choices. This book challenges that assumption.

That is, to what extent does government actually operate on behalf of its citizens? To what extent is it reasonable, even safe, to assume that as individuals cede some degree of freedom to government, what the public gets in return are political outcomes that serve all or most individuals?

Political ideologies have been founded on the answer to such a question, but to avoid slipping into their assumptions this book will look broadly across the globe and through history for examples of a striking trend that is lost when our focus is trained narrowly on our own nation in our own era. Perhaps most surprisingly, we will look across democracies and autocracies to find valuable perspectives gained by applying a model of politics spanning both.¹¹ Guiding learning across centuries, this principle bears repeating here: by exploring the broad course of human history seeking insights we need today, we avail ourselves of a dispassionate lens which makes it easier to see where we are now. Poet T.S. Eliot aptly notes the virtues of traveling and questioning across time and place: “we shall not cease from exploration, and the end of all our exploring will be to arrive where we started and know the place for the first time.”¹²

Examining diverse policies across time and place will not allow us, in inductive fashion, to conclusively determine the state’s appropriate role in society. The answer to this question surely varies by circumstance of location and time. At least after the fact, we can identify policies serving the public interest as well as ones that do not. For example, my birthplace of Rochester became an entrepreneurial hotbed when the Erie Canal’s construction in the 1820s lowered the cost of transporting goods across

¹¹ Bueno de Mesquita and Smith (2011) note that classifying governance forms as being either democracies or autocracies can be overly simplistic and that it may be more important to focus on three dimensions spanning all political systems: the nominal selectorate or interchangeables, individuals who at least have some legal say in choosing their nation’s leader; the real selectorate, or influentials, individuals whose support is critical to electing a nation’s leader; and the winning coalition, or essentials, individual supporters without whom a leader would be unable to retain power.

¹² Eliot (1943).

the State of New York by over 90 percent. The enhanced commercial activity easily justified the public investment, and the tolls collected in just two years recouped the state outlays.¹³

While the Erie Canal's net benefits are clear, it is harder to ascertain the effect of other policies on the public interest, especially those associated with significant non-pecuniary benefits and costs which are hard to measure, such as those dealing with divisive ideological issues like abortion and affirmative action. So, even though I look at particular policies in this book, my focus is not on definitively proving the appropriate role of the state in society. Rather, policies are chosen for their power to illustrate the extent to which government, any government in any place and at any time, has proven capable of serving the public interest.

That is not to say that the extent to which government serves the public interest can be settled deductively. It cannot. Economists argue that state intervention is justified for so-called public goods benefiting multiple parties and for which it is prohibitively costly to exclude individual parties from realizing benefits. However, there is no consensus over which specific goods are public, and this disagreement limits our ability to deduce the state's appropriate role in society. Whereas most economists agree that national defense, an effective system of property rights, fire protection, and perhaps parks and transportation infrastructure are public goods, debate persists over classifying other programs such as education, social security, health care, welfare, and basic research. For example, Thomas Piketty marshals considerable data favoring progressive global income taxation so as to promote greater equality and what is often termed "social peace." Other economists, however, dispute Piketty's data, methodology, and policy proposals.¹⁴

Neither starting, deductively, with a guiding principle about the appropriate role of the state, nor building up, inductively, from examples of policies that appear to serve the public interest, this book will nonetheless explore whether government has promoted social well-being across time and around the globe, particularly in instances where governments become players in their own policy actions.

THE ECONOMIC MODEL OF POLITICS AND ITS POTENCY

In the process of revealing what has happened across nations and centuries when public officials assume roles in the policies they devise, this

¹³ Bernstein (2005).

¹⁴ Piketty (2014). For a critique, see Acemoglu and Robinson (2015).

book will show that the economic model of politics has greater potency than has generally been realized. By “economic model of politics,” I mean the market-based framework wherein public officials are the sellers of wealth transfers through their policy actions so that interest groups must compete for favorable wealth transfers by offering support to public officials in return. By “potency,” I mean the economic model’s ability to explain and predict policy outcomes, thereby allowing us to determine the extent to which government operates for the people – and to apply these lessons to current situations. By “government,” I mean individuals who serve as rulers, elected officials, or public employees and have some ability to influence policy outcomes on account of their positions. By “public interest,” I mean the maximum outcome for a society’s total net economic benefits (pecuniary as well as non-pecuniary) based on an initial distribution of resources.¹⁵

While the economic model will be applied to governments from many eras and regions, what we know from behavioral economics is that reference points matter.¹⁶ With this in mind, the relative youth and focus of the economic model of politics is notable. Birthed over the last fifty years, the economic model thus far has been applied principally to democracies – governments characterized, to different degrees, by electoral competition, rule of law, and accountability.¹⁷ So, it is not surprising that democracies have fared badly in scholarly examinations of why political-economic institutions may not serve the public interest, and that voters have formed something akin to the demand side of the political marketplace, seeking favorable wealth transfers. In that scenario, it generally has been presumed that untoward outcomes must result from some demand-side interest groups co-opting the apparatus of the state for their benefit and at the expense of the general citizenry. The flaw, it would seem, is in fragmenting constituency and in interest groups hijacking the political process at the expense of the public good – not in government itself.

As shown in the Figure 1.1 depiction of the economic model of the political marketplace, the list of such co-opting “demand-side groups” in democracies has varied and grown over time. Depending on the varying outcomes scholars have sought to explain, the culprits have included producers, capitalists, economic elites, one-percenters, consumer activists, labor unions, industry cartels, and ideologically oriented environmentalists. Domestic-producer

¹⁵ Becker (1983), Peltzman (1976), Posner (1974), and Stigler (1971) provide foundational pillars for the economic model of politics.

¹⁶ See, for example, Kahneman (2011). ¹⁷ Fukuyama (2011, 2014).

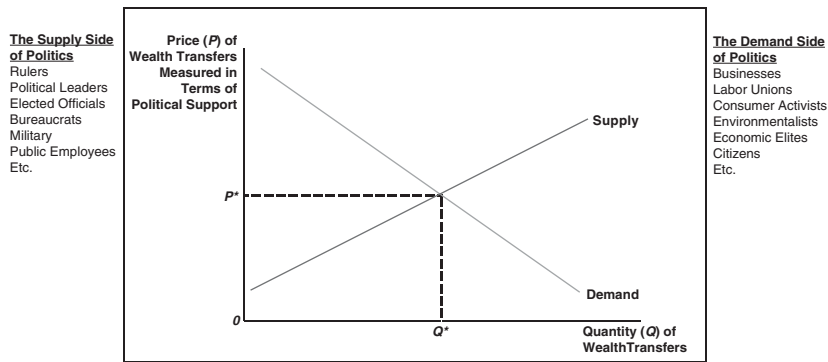


Figure 1.1 The political marketplace

interests are the suspects when it comes to trade restrictions. Consumer interests bear responsibility for rent control or price ceilings on pharmaceutical drugs. Economic elites, or one-percenters, are blamed for the government bailout of financial institutions following the downturn of 2007–2009. The list of particular policies as demand-side capture stories goes on.

Yet other political outcomes are tougher to explain through a capture story which features a culprit drawn solely from the demand side of politics. The phenomenon of tyrannical governments turning on their own people, or acting against voters' greater will, is sadly commonplace, such as with Hitler and his henchmen in 1930s Germany, or Japanese rulers' moving toward militarism in the 1920s–1930s.

Government policies running counter to popular will, of course, have not always furthered harmful ends, such as with Peter the Great's modernizing influence on Russia in the early eighteenth century, or Mustafa Kemal Ataturk's drive to create a secular, progressive Turkey at the same time that Germany was shifting under Hitler's control and Japan was moving toward militarism. As president, Ataturk effected a separation of government and religion, abolished the caliphate and religious Sharia courts, instituted free and compulsory public education, granted women equal civil and political rights, replaced Arabic script with a Latinate alphabet, promoted Western dress, and liberalized culture and the arts.¹⁸

¹⁸ See Kissinger (2014) on the role played by military and political leaders in Japan's turn toward militarism in the 1920s–1930s. For a leading biography on Ataturk, see Kinross (2001).

Even when government officials did not act in unison, there are many instances where policy outcomes were captured by someone other than those on the demand side of politics, thus leaving a lasting imprint on history. The French politician Talleyrand, whose name is synonymous with craftiness and self-interested diplomacy, survived Bourbon kings, the French Revolutionaries, and Napoleon as advisor to all, often pressing for peace where his rulers sought vainglory and expansion with a citizenry agitated and ready for battle and conquest.

Where an individual managed to capture a policy outcome without any mandate from the demand side of the political marketplace is illustrated with particular clarity through the public works projects championed by “master builder” Robert Moses in New York City in the middle of the twentieth century. New York still has a greater proportion of public benefit corporations than any other US state. Yet, the public authorities Moses established or led provided the means to limit citizen input, to issue bonds to underwrite infrastructure ventures with minimal legislative oversight, and to generate sizable revenues from tolls and other fees to finance his largely autonomous empire, lifestyle, and, most importantly, influence.¹⁹ In other words, Moses created public works with public authority to advance his own power as a government insider.

Without Moses’ forceful leadership it is hard to imagine New York City having the public benefit of its extensive parkway system, the United Nations headquarters, Lincoln Center, the Triborough Bridge, and the iconic Tavern on the Green restaurant in Central Park. Favoring cars over buses, Moses also managed to leave a lasting signature in New York City’s preponderance of highways over public transit, creating a dearth to this day of public transit options between LaGuardia Airport and Manhattan. The same can be said of New York’s large urban renewal projects which reflect Moses’ personal policy preferences regarding public housing. By seeking to co-locate area professional sports teams in Flushing Meadows, Moses drove the Brooklyn Dodgers off to a new city, Los Angeles, and the New York Giants to San Francisco. While the individual or cumulative public benefit of Robert Moses’ policies is debatable, his ability to capture and control political outcomes without benefit of the demand side of the economic model is clear.

Robert Moses and Talleyrand illustrate what I will call “government insiders,” who, as opposed to members of demand-side special-interest groups, are hard to ignore when it comes to influencing political outcomes

¹⁹ Caro (1974).