YES

Jeff Madrick

The Case for Big Government

After World War II, almost all economists feared a reprise of the Depression. It was hard to imagine what could replace all the lost military demand. But the opposite occurred. After a pause in 1947, the economy grew as rapidly on average as it ever did before, and the incomes of most working Americans grew faster than ever before. The progressive turn of policy, despite a resurgence of antigovernment sensibility, did not deter growth. Nor did higher income tax rates, which were raised by Roosevelt during the Depression and were raised again to record levels during World War II, where they remained for more than a decade. The highest tax bracket reached approximately 90 percent, where it remained until 1964. To the contrary, bigger government seemed to go along with ever faster growth. Roosevelt had proposed a G.I. Bill of Rights in 1943, among other things, to provide aid for veterans to go to college and to buy a house. Congress raised objections, but in 1944 the G.I. Bill was passed. By the late 1950s, half of the returning sixteen million soldiers financed college or other training programs as a result. Millions of mortgages were guaranteed. The nation was thus directed in a particular way. The Marshall Plan under President Truman, and named after the secretary of state who strongly advocated it, provided billion of dollars of aid to rebuild Europe.

Dwight Eisenhower, as a former president, incurred the ire of the Republican right wing by proposing to expand Social Security coverage to another ten million workers—to include farm workers and professionals such as teachers, accountants, and dentists. He also increased benefits. Eisenhower said that it was simply clear that not all could save enough for retirement. Eisenhower also advocated the development and federal financing of a national highway system. He had strong support from the major auto companies, of course, and the bill passed in 1956. By the late 1950s, 90 percent of all homes in America were reachable by road, and often by highway. It was an explicit case of national government coordination and investment that deeply influenced the development of the nation into a new geography of suburbs, based on cheap gas, cheap property, and mostly free roads.

In these decades, the federal government financed and administered the antipolio vaccines. In the wake of the Soviet launch of the first space satellite, Sputnik, Congress passed the National Defense Education Act, providing billions of dollars of annual grants and loans to support higher education, technical training, and other educational programs. Young people were further spurred to go to college. The National Institutes of Health, as an extension of late nineteenth-century government investment in health research, were expanded dramatically after World War II, and accounted for a high proportion of medical breakthroughs. Research and development (R&D) was undertaken in many federal agencies, not least the Defense Department, where the Internet had its origins. The federal government accounted for most of America's R&D, in fact, through the 1960s, topping out at 67 percent of all such research in 1963. Many economists contend that such intense research efforts account for greater American economic superiority in these years than any other single factor. The Supreme Court under Eisenhower, led by Johnson's appointee as chief justice, Earl Warren, ordered that public schools be integrated.

In the 1960s, President Johnson passed Medicare and implemented his War on Poverty, including health care for the poor under Medicaid. Regulatory changes were significant, and included landmark civil rights legislation, which protected voting rights for blacks, ended Jim Crow laws once and for all, and forbade gender and racial discrimination in labor markets. Other regulatory reforms involved cigarettes, packaging, motor vehicle safety, consumer credit, and the expansion of the authority of the Food and Drug Administration.

Between 1948 and 1970, the share of spending in GDP by the federal, state, and local governments rose from 16.5 percent to 27.5 percent, nearly eleven percentage points. Most of this increase was in social expenditures. Yet productivity, wages, and overall GDP grew very rapidly, as noted. What is the complaint then in light of all this success? It is hard to escape the conclusion as noted earlier in this section that government did not hurt but significantly helped economies to grow.

The Economic Benefits of Government

. . . Few economists disagree with the theory that some measure of public investment in infrastructure, education, and health care is necessary. Because public goods such as roads and schools benefit society overall more than any individual or business, such investment would not have been adequately undertaken by private firms. . . . Government support is required for primary education, roads, and the poor.

Far less frequently discussed is the fact that government can be the focus of needed and useful coordination. When railroads used different size track (gauge), government was needed to standardize them. By organizing communities to use a single public water system, government creates economies of scale for such a public good. The highway system was an immense act of coordination that probably couldn't have been attained through a private network; there is no example of one in the world, in any case. The system of international trade and currency valuation is a government-led example of coordination.

Similarly, regulations can and often do make economies work better. They can make information about products and services more open. They can reduce corruption, monopolistic pricing, and anticompetitive policies regarding research, innovation, and new products. They can temper financial speculation, which distorts the flow of capital toward inefficient uses and can often lead to costly corrections and serious recessions, as occurred yet again in 2008.

Some regulations can be poorly administered and reduce economic efficiency. Others will outlive their usefullness; they should be pruned and streamlined over time. But other regulations will be a short-term cost to business that the nation chooses to bear for quality of life and even a better economy. Maintaining the safety of products that consumers cannot judge for themselves is an example; but the safety and effectiveness of products also makes consumers more confident buyers of products. Environmental regulations adopted in the early 1970s have probably been costly to all of us, but they are a cost we bear for cleaner air and water and the diminution of global warming. It is no cause for alarm that regulations have multiplied as the economy supplies so many more goods and services to the people. As economies change and grow more complex, it is only natural that more oversight is needed.

At the still more liberal end of the political spectrum, some economists will argue—though not the American mainstream—that programs that help raise and make wages more equal, such as laws that facilitate union organizing, minimum wages, and equal rights, may well aid economic growth, not undermine productivity, by creating demand for goods and services, and also reinforcing faith in workers that they will be fairly rewarded for their effort. . . .

One of the key benefits of the larger post–World War II government, if in some quarters still a controversial one, is also that it makes the economy more stable. Well before Keynes's work during the Depression there were calls for government spending to create jobs and support incomes. Massive public works projects that reignited economic growth, such as Baron Hausmann's rebuilding of Paris, are common in history. But in the post–World War II era, such activities gained new theoretical justification from Keynes's theories. Both Keynesian liberals and some Friedmanite conservatives accepted, to one degree or another, that fiscal and monetary policy—deficit spending by the treasury or the adjustment of interest rates by the central bank—could help avoid or ameliorate recessions and thereby raise the rate of growth over time. A large government is itself, despite conservative arguments cited earlier, a bulwark against rapidly declining spending. Unemployment insurance, Social Security, and government employment itself are stabilizing factors.

If the size of government truly and directly caused the inflation of the 1970s and contributed demonstrably to slower economic growth, it would be reason for concern. But we have seen that it did not in the United States, and nations with far larger governments have produced neither more rapid inflation nor substandard levels of income for their citizens. The public goods and social programs of many countries—from Sweden and Norway to France and Germany—are significantly more generous than America's. . . .

In fact, enlightened regulation has been imperative for economic growth at least since Jefferson's policies for governing the distribution of land. When done well, regulation keeps competition honest and free, enables customers to know and understand the products they receive, and fosters new ideas. When neglected, abuse becomes easy, information in markets is suppressed, capital investment is channeled to wasteful and inefficient uses, and dangerous excesses occur. The open flow of products and services information is critical to a free-market economy. The conditions for healthy competition have simply not been maintained under a free-market ideology of minimal government that professes great faith in competition. Competition requires government oversight; the wool has been pulled over our eyes.

We now know the following. If federal, state, and local governments absorb roughly 35 percent of GDP in America, rather than the current roughly 30 percent, it will not inhibit growth and undermine entrepreneurial spirits, productivity, or prosperity if the spending is well-channeled. Government absorbs much more of national income in other nations whose prosperity is the equivalent of or perhaps superior to America's. In European nations, government spending absorbs approximately 40 percent of all spending, and standards of living are high. If government programs are managed well, they will on balance enhance productivity. A rise to 35 percent will raise approximately $700 billion a year to the federal, state, and local governments to provide protections to workers, finance social programs, maintain an adequate regulatory presence, and raise significantly the level of investment in transportation, energy, education, and health care. Part and perhaps all of this $700 billion can be paid for with higher taxes. . . .

. . . The most productive way to address rising global competition is not trade restrictions per se but for the government to invest in the nation. Consumer spending leaks to foreign imports and business investment leaks across borders. But potential returns to the economy from spending on transportation projects are at this point significant, partly due to years of neglect, and the jobs created to implement them largely stay at home. The proportion of the federal budget spent on investment in the nation—including transportation, science, technology, and energy—are well down from the levels of the 1970s. Federal spending on education as a proportion of GDP fell under Clinton but was raised under his successor, George Bush, and it remains slightly higher as a proportion of GDP than it was in the 1970s. Overall, public investment equaled nearly 3 percent of GDP in the 1970s, which would come to more than $400 billion today. Under Clinton it fell to halt of that proportion, and under Bush it rose but remains at less than 2 percent of GDP. Merely raising it to 1970s levels would produce $140 billion more a year to spend. To reemphasize, such spending usually creates domestic jobs and builds future productivity at the same time.

To take one estimate, a House Transportation Committee report cites a Federal Highway Administration model that claims that a $75 billion investment will create more than 3.5 million jobs and $464 billion in additional nationwide sales. Every $1 billion, in other words, yields 47,500 jobs and another $6 billion in sales. Spending has been so inadequate that such estimates can be accepted confidently. The Society of Civil Engineers suggest that much of America's infrastructure should get a grade of D. While these studies are hardly definitive, they are suggestive of the possibilities.

The most exciting potential returns are for high-quality pre-K education. A wide range of studies has been undertaken on several high-quality programs that have long been underway in the United States. The benefits of such programs include not only improving the ability of children to learn, but also long-term reduction in crime rates, reduced need for special education and repeating grades, and lower welfare enrollment rates. A conventional conservative economist such as James Heckman, a Nobel laureate who opposes college subsidies, nevertheless favors significant funding of preschool programs. Some estimate these programs create benefits that exceed costs by five to ten times. A highly sophisticated recent analysis by two economists estimates that if a high-quality program was instituted nationwide, the federal moneys spent would be fully paid for in increased tax revenues due to improved incomes and would reduce welfare, crime, and special education expenses. In other words, it would pay for itself. . . .

As a consequence of neglect and change, an adequate agenda for America is a lengthy one, but it is not an antigrowth agenda. It favors growth. Growing personal income is more necessary to a full life than is recognized, in part because the cost of some key needs rise very fast, in part because a wealthy society can finance innovation, and in part because a wealthy populace will find it easier and more congenial to pay for communal needs through taxes. But for too long, mainstream economists have accepted the notion that more savings and technology will alone lead to faster growth. The agenda for government is therefore inappropriately limited; government spending, for example, will allegedly erode savings. America has been able to test this economic philosophy for a full generation and it has failed. Years of below-par productivity growth, low and stagnating wages, inattention to basic needs, persistent poverty, and the undermining of assets necessary to future growth, including education, health care, energy alternatives, and transportation infrastructure are the consequences.

The gap between a growing economy and falling wages is the major contemporary mystery. Global competition and off-shoring may explain part of the gap, but the trend began decades ago. Research shows that a gap in worker compensation and productivity began to open up slowly in the late 1980s: typical workers got less than their historical share, while capital (profits) and high-income workers got more. This gap widened explosively in the 2000s.

Furthermore, there was little explanation as to why male incomes in particular fared especially poorly over this long period we have described. A major reason is the withdrawal of government from its traditional purposes.

Jim DeMint **NO**

Saving Freedom

Big Government's Impossible Dream: Making Everything Right for Everyone

The proliferation of special interests in Washington has created a threat to freedom quite different from the "tyranny of the majority." Majority interests in America are now secondary to the politics of special interests. The election of 2008 demonstrated how a political party could bundle the interests of numerous groups and create a new ruling majority—a new tyranny of special interests.

This new political dynamic is the antithesis of the intent of our Constitution and a serious blow to the cause of freedom. The rights of individuals, protected by equal justice and the rule of law, are now subjugated to the special rights of groups that are guaranteed by a strong, centralized government. The "common good" is now viewed as a conglomeration of disparate interests of multiple groups demanding special treatment.

There are a lot of good reasons for Americans to fight back against this centralization of special interest power in Washington, but the most important reason is it creates a dysfunctional government. It may be a cliché, but it's true; Washington is broken. Almost everything our federal government attempts to do becomes a disaster. We mandate that cars burn corn ethanol and cause a world food crisis. We combine social engineering with monetary policy and create a worldwide financial crisis. . . . We have left one catastrophe after another in our wake as we have attempted to save the world, dry every tear, and solve every problem. . . .

Freedom is protected by a wide range of public and private institutions guarding against the concentration of power. The concentration of power at the federal level destroys this balance, weakens other institutions of freedom, and destroys freedom itself. Americans must not continue to allow one institution of freedom, the federal government, to dominate and diminish the role of other institutions or to demean the individual values that made our country great and free.

America needs champions of freedom at the state and local levels who will challenge the growing concentration of power in Washington. Governors and state legislatures could take much more control of education, health care, transportation, energy, and other services that would give their citizens more independence from the federal government. This could help begin the process of downsizing the federal government. Business leaders could unite around common goals to reduce corporate taxes, duplicative regulations, and frivolous lawsuits at the state and federal levels. Every dollar and decision we keep from Washington today means more freedom for all Americans tomorrow.

Freedom versus Big Government: *Unlimited Government Leads to Unlimited Debt and Socialism*

Long ago in a distant land, a very old man called his son to his dying bed. There he revealed an amazing secret: the old man's father had bequeathed him a genie he kept locked in a small cage and hidden in a closet. The genie provided two services to the kingdom where the man's family lived for generations. First, he protected the people from any person or country that attempted to harm them. Second, he guaranteed all the citizens of the kingdom were treated equally and fairly. Because of these two protections, their kingdom was the happiest and most prosperous in the land.

The man told his son to bring the genie's cage to his bedside. "The genie is now your responsibility," he said, "but you must never ask him to do any more than the two services he has provided for years. If you do, he will grow in size and strength with every new request. Then he will break out of his cage and become a threat to the kingdom instead of a blessing."

The son promised to heed his father's warning, and for several years he kept his promise. Then a neighbor's home burned along with all of the possessions in the house. Instead of waiting for the community to help the man rebuild his home as was the kingdom's custom, the son decided to ask the genie to help. The whole community was amazed at the beautiful new home with all the man's possessions restored. They held a great celebration for the son and gave him a beautiful award. But soon another man's home was destroyed by a flood, and instead of rushing to help, the community came to the son's house and demanded that the genie restore the man's home.

The son relented and asked the genie to help. This time the genie grew large enough to break out of the cage. He escaped, and everywhere he went someone asked him to do something new. He grew and grew and began to demand more and more food and possessions from the kingdom. The genie built a huge castle on a hill and demanded that all citizens bring him half of everything they produced. But citizens continued to ask for more and more, and the genie continued to grow and demand more and more from the citizens. The people became weaker and poorer, and their kingdom eventually disappeared from the land.

America's founders knew they were putting a powerful genie in a cage when they formed the federal government. They knew that historically all democratic governments grew until they consumed the freedom of the people and ultimately collapsed under their own weight. They knew the American people would have to remain constantly vigilant to restrain the growth of government. And they knew, like the genie in the story above, the federal government would grow every time we asked it to do something new. But our founders left us a "cage" to protect ourselves against the genie of government growth: the Constitution.

After my first election to Congress in 1998, I spent November, December, and the first few weeks in January 1999 setting up my office, hiring staff, and fighting to get on the committees that aligned with my priorities: tax reform, Social Security reform, health-care reform, and education choice. Most of these issues were handled by the powerful Ways and Means Committee that was reserved for senior members or "vulnerable" Republicans who needed to raise a lot of money. Apparently, outside groups gave a lot of money to committee members who could tinker with the tax code. They were less interested in people like me who really wanted to reform the tax code. I never got on the Ways and Means Committee during my six years in the House.

Swearing-in ceremonies for the new Congress were in late January. My wife and four children traveled to D.C. to watch from the House gallery as I took the oath of office. Every member of the House has to stand in the House chamber, raise his right hand, and recite the oath of office at the beginning of each new Congress. I had never given a lot of thought to the oath until I took it, and frankly was a little surprised by what it actually said. I guess I expected to swear allegiance to my country and agree to do whatever I thought was best for my state and the American people. But the oath was a simple pledge to defend the Constitution:

> I, Jim DeMint, do solemnly swear that I will support and defend the Constitution of the United States against all enemies, foreign or domestic; that I will bear true faith and allegiance to the same; that I take this obligation freely, without any mental reservation or purpose of evasion; and that I will faithfully discharge the duties of the office on which I am about to enter. So help me God.

There is nothing in this oath about representing my district and state or helping the poor and downtrodden. There was nothing about responding to the woes of the American people. There was no list of duties because everything we were supposed to do in Congress was written in the Constitution. All federal officers, the president and his cabinet, justices on the Supreme Court, and members of the armed services all take an oath to protect and defend the Constitution. It must have been really important at one time. . . .

I rarely heard the Constitution spoken of again—not when considering legislation, not when considering any new government program. It was never used as justification for legislation because there was little we did that fit within the limited powers of the federal government specified by the Constitution. . . .

The Constitution gives Congress the power to make laws for specific federal purposes, raise revenues (taxes), and spend money; it charges the president with the responsibility to execute the laws and command the military, and it gives the Supreme Court and other federal courts the responsibility of ensuring equal justice under the law. The areas in which Congress is allowed to make laws and spend money are confined primarily to protecting Americans against "enemies foreign and domestic" by establishing and funding the military and by punishing counterfeiters and pirates on the high seas (Article I, Sec. 8). Congress is also given the power to regulate commerce *between* (not within) the states and foreign nations and to establish post offices and post roads.

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Section 9 of Article I then tells Congress several things it can't do, including showing preference to states and spending money unless it is properly appropriated by law. This is where most of Congress's mischief originates. Politicians and even some judges have said this section gives Congress "the power of the purse" to spend money on anything it pleases. This is categorically absurd! It is clear in context that Congress only has authority to fund actions consistent with those powers given to Congress in Section 8.

The modern-day interpretation of Section 9 of Article I completely undermines all the restraints in size and scope of the federal government that were the primary purpose of the Constitution. Today Congress makes laws, spends money, and raises taxes for small local projects (traffic lights and water projects), for preferential requests from specific states (museums), and to satisfy demands from special interest groups (farmers, unions, minorities, senior citizens, veterans, etc). It won't be easy to turn this around because most American voters are now dependent in some way on federal beneficence.

The federal government now provides funding and heavily regulates public education, health care, retirement income (Social Security), farming, transportation, research, water and sewer services, banking and financial services, electric utilities, environmental standards, business and labor relations, and a myriad of other activities not found in the Constitution. It is perhaps naive and unrealstic to believe that Americans who are heavily dependent on these federal services would ever support a return to a pure Constitutional framework. I do believe, however, that if Americans could grasp the disastrous long-term impact of allowing our federal "genie" continued growth, they would force elected officials and judges to focus more on the protective "cage" provided by the Constitution. Then we could begin to restrain the growth of the federal government.

Why Restrain the Growth of the Federal Government?

Most members of Congress act like the Constitution is no longer relevant and seem to believe we should continue to expand federal programs whenever and wherever we see fit. But no reasonably informed, thinking American could believe unrestrained government spending would be good for our country. I will discuss in later chapters the corruption, incompetence, mismanagement, and devastating societal impact of congressional meddling in all areas of American cultural and economic life. The focus of this chapter, however, is the financial condition of our country. The most compelling arguments to stop the growth of the federal government are our government's unsustainable levels of spending and debt, which could result in the financial collapse of our government and our private sector economic structure.

. . . Government spending represented only a small fraction of the private economy until the twentieth century. Since World War II government spending has hovered around 20 percent of GDP.

Economic cycles over the past several decades have confirmed that good economic growth can occur when government spending stays below 20 percent.

The U.S. economy has usually slowed and declined as government spending exceeded 20 percent. . . . Government spending now exceeds 20 percent and will surpass 40 percent in about thirty years. . . .

Equally troubling is the growing national debt owed by the American people. Over recent decades America's debt has grown but has stayed below 50 percent of GDP because our economy has continued to grow. Based on current projections, however, our debt will soon explode and dramatically eclipse our total economy. Unless major reforms are enacted quickly, Americans will face devastating economic consequences. . . .

Americans have been told so many times about an impending "crisis" they no longer take these alarms seriously: the energy crisis, the Social Security crisis, the housing crisis, the mortgage crisis, the Wall Street crisis, the auto industry crisis, the recession crisis, and of course, the global warming crisis are all examples of recent problems used for political manipulation. Global warming, which is now being used as an excuse to expand dramatically the power and control of government, may not even be a man-made phenomenon. The science on this issue is far from conclusive. Yet Congress is in a virtual panic to implement massive taxes on our economy to punish the users of coal and gas.

Unlike politically manufactured crises, the catastrophic financial course of the federal government is an absolute fact. Without major reforms there is no plausible survivable scenario for our economy. This is not a problem that might occur in the distant future. The nation's debt, out-of-control spending, and loose monetary policy are creating worldwide economic insecurity. It seems inexplicable that Congress is completely ignoring this problem.

Ignoring the Warnings

During the hurried debate and political panic of the Wall Street debacle in late 2008, I remember many of my Senate and House colleagues expressing disbelief that there had been no warning of the crisis. The fact is there were ample warnings for more than ten years. Congressional leaders chose not to act because the government-sponsored entities (Fannie Mae and Freddie Mac) and Wall Street were doing their bidding, in addition to making consistently large financial contributions to their campaign accounts.

Easy and cheap credit were allowing more people to buy homes and cars, accomplishing the dual goals of artificially raising the standard of living for lower-income Americans and keeping our economy running on steroids. The problem with steroids is they eventually destroy the people who use them. Loose monetary policy created a financial house of cards destined to crash. But unqualified borrowers and unscrupulous lenders were not the only ones who suffered. Much of the savings of responsible, hardworking Americans evaporated almost overnight.

Once the panic ensued, many politicians were quick to blame others and claim "they had sent a letter" warning of the coming crisis. Baloney. Congress, well-known for its doublespeak and dishonesty, outdid itself during the "economic rescue" debate. The people who blocked reforms and received the

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most campaign contributions from the guilty parties were the ones in charge of negotiating the irresponsible bailouts. The result was several trillion dollars borrowed against America's future and an unprecedented intrusion by the federal government into the private economy.

I'm afraid neither Congress nor the majority of the American people learned their lesson. We are now ignoring a much more serious warning. America's massive and growing debt is today's greatest threat to America's prosperity. Early in 2008 the comptroller general of the United States, David M. Walker, began to travel the country trying to warn Americans about our unsustainable level of spending and debt. Almost no one paid attention. His warnings did not appear on the nightly news of the major television networks.

Mr. Walker's presentation, titled "Saving Our Future Requires Tough Choices Today," revealed that mandatory spending (required by law) for Social Security, Medicare, and Medicaid (entitlements) had grown from 16 percent of federal spending in 1966 to 40 percent of the entire federal budget in 2006. The large wave of baby boomers now reaching retirement age promises to make this problem much worse.

Most of this spending has been taken from funds that should have been used for the primary constitutional responsibility of the federal government—defense. Military spending dropped from 43 percent in 1966 to 20 percent in 2006. While "smart bombs" and other new high-tech weapons systems have lulled Americans into a false sense of security, our military is fighting with one hand tied behind its back. In the age of terrorism, our intelligence capabilities are woefully lacking. Our Air Force is flying many antiquated planes (often more than forty years old), and the scheduled replacement rates guarantee a worsening situation. So much of our military spending is directed by political earmarks from congressmen and senators with parochial interests that we make it harder for our military leaders to develop coherent plans to defend our nation.

My point is this: there is a terrible cost to unrestrained government spending and debt. Part of that cost is the neglect of real national priorities such as defense. The other costs are the devaluation of our currency, the destruction of our private-sector economy, and the loss of wealth and quality of life for all Americans. . . .

Principles and Institutions

Government is an essential *institution* for the development and protection of freedom. We must have a framework of law, order, and justice for freedom to grow and thrive. Government makes the rules and enforces them much like the officials at a football game. Players and coaches have the freedom to do whatever they want as long as they follow the rules. When they don't, the officials throw a flag and impose a penalty. But the officials don't call the plays or decide who gets to play. Officials don't manage the game, and the federal government shouldn't try to manage America.

America's government has grown well beyond the constitutional framework provided by our founders. Our federal government is no longer the referee for our economy and culture; it is now the biggest player on the field. Our federal government is trying to manage many aspects of America's economy and social services. It is not an exaggeration to say the results have been catastrophic. Not only has the government inhibited the growth of our economy and undermined our culture, it has put our country on an unsustainable financial course that must be reversed immediately. . . .