When and Why did Government Become an Enemy of the People ?

Jeffry Frieden
Harvard University

The role of the government in economic life is once again at the center of political controversy. The 1980s saw a wave of liberalizations, privatizations, and deregulations in the advanced industrial countries, followed by an even stronger wave in the developing world and, eventually, in the formerly centrally planned economies. By the 1990s a middle ground appeared to have been achieved, combining lighter regulation and more private enterprise with a strong social welfare state.

The crisis that began in 2007 has called this consensus into question. Some indict radical free-market policies and irresponsible deregulation; others blame overweening government intervention and an overgrown welfare state.

Current conflicts should not obscure the fact that there is a general intellectual consensus about the role of the state in advanced industrial economies. Apart from extremists on both sides, modern thinkers and politicians accept that government is responsible for a range of public goods, including economic and social infrastructure, public health, education, and financial and monetary stability. All but extremists also accept that governments in rich societies should provide a range of social insurance programs: unemployment insurance, worker's compensation, retirement pensions and health care for the indigent. There are disagreements over the scope and range of public goods and social insurance, and these disagreements can be heated. But the consensus is broad, especially in historical perspective. This is not, in fact, the central arena in which battles over the role of the state are being fought. Whether in normative neo-classical theory, or in more practical programmatic terms, the modern capitalist state's responsibility to provide an array of public goods and social insurance is well established.

Today's controversies come largely from dissatisfaction with the ways in which governments have carried out their responsibilities. Many feel that the government's programs serve only narrow interests –including the narrow interests of politicians– rather than broader public purposes.

Aggregate social welfare does not vote

The problem is an enduring and general one: concentrated interests are well positioned to get policies on their behalf, even when the purpose of the policy is more general. This means that public goods and social insurance can be distorted to favor concentrated interests, so that the public feels that its interests are being ignored or contravened by policymakers.

By definition, incentives to supply pure public goods are weak; this is why they are supplied by government rather than private firms. Yet incentives to politicians are also weak, for demand for public goods is diffuse –and diffuse demands do not often translate into meaningful political pressure[2].

Even the most desirable policies needs interested parties to promote them. Politicians undertake policies when these policies affect how constituents reward the politicians. Politicians' incentives to provide public goods are strongest if powerful interest groups press for them. The public good might be a joint product with a private good; this could be the case, for example, of the establishment of an independent central bank, where the bank was structured so as to provide particular benefits to the financial sector.[3] The public good might have differential benefits, providing substantial assistance to some but only trivial benefits to others. Government support to establish a national railroad network served the economy as a whole –but it served railroad-men particularly well.

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2. This is not to say that politicians are completely indifferent to the impact of policy on aggregate social welfare. Indeed, standard political economy models present the policymaker as weighing the impact of policy on both special interests and the broad electorate. This is the central argument of the canonical Stigler-Peltzman model, of which the more modern version is the Grossman-Helpman model first presented in Gene Grossman and Elhanan Helpman, «Protection for Sale,» *American Economic Review* 84 (1994): 833-850.
3. I use "constituents" broadly, in the sense of the "selectorate" in to include the politically relevant portion of society: all voters, or all powerful elites, or the military, as the case may be. On the selectorate, see Bruce Bueno de Mesquita, Alastair Smith, Randolph M. Siverson and James D. Morrow, *The Logic of Political Survival* (Cambridge: The MIT Press, 2003).

Public interest vs special interests

Most public goods can be provided in very different ways, with very different distributional implications. Pollution control is a public good; it can be implemented in ways that are very costly to polluting firms, or that pay them handsomely for compliance. Interests battle over the ways and means the public goods are structured and provided.[4] But there is ample evidence that the provision of even the most worthy public goods is powerfully influenced by concentrated interest groups.

This creates a tension between the public purpose and those private interests that gain disproportionately from its pursuit. On the one hand, the principal supporters of many public goods are concentrated groups that stand to benefit especially from them. On the other hand, this means that the public goods are provided in ways that may be biased toward these concentrated groups. Publically funded education can be bent to provide most assistance to the children of wealthier parents, or to protect teachers and administrators. Retirement benefits can be structured so as to subsidize the politically powerful elderly, at the expense of current taxpayers who have no chance of receiving such generous benefits. Defense spending can go to powerful corporations or politically connected regions.

This creates resentment about the ways in which governments accomplish even generally accepted goals. Financial regulators and central bankers are seen as tools of private financial institutions. Infrastructure projects are regarded as cash machines for contractors. Voters blame beneficiaries of government programs, public employees, and politicians for hijacking worthwhile policies for private benefit.

The result is that there is substantial public opposition even to some of the most important public policies. In the United States, for example, observers are virtually unanimous about the need for more public spending on education and the economic infrastructure. Yet there is such suspicion about the eventual effects of such spending –will it go to children of the rich, to ineffective administrators, to crooked contractors, to bridges to nowhere?– that there is virtually no possibility of obtaining broad support for this spending.

We can argue all we want about the appropriate role of government in the economy, but the outcome will be determined in the political sphere, not the intellectual one. And the political reality is that while voters

4. In the words of Stephen Krasner, the politics of public goods provision is "life on the Pareto frontier;" see Stephen D. Krasner, "Global Communications and National Power: Life on the Pareto Frontier," *World Politics* Vol. 43, No. 3 (April 1991), pp. 336-366.

appreciate what governments do for them, they generally feel that public policies are beholden to powerful special interests. And they are not wrong –concentrated interests are powerful, and do dominate much policymaking.

The principal obstacles to a more constructive involvement of the state in economic management are not intellectual, or ideological, or historical; they are political. Governments need to build, or restore, faith in their willingness and ability to provide for the public good, rather than for private special interests. Only government can supply the public goods needed to keep a modern economy running smoothly –regulation, infrastructure, monetary policy, social policy. But the experiences of the past couple of decades have left many voters embittered and cynical, scarcely believing government commitments to do what is best for the nation. The challenge, especially to those who believe in a positive and progressive role for the state in modern economies, is to demonstrate that government policies are driven primarily by the public interest, and not by special interests.