

GEORGE STIGLER AND THE MYTH OF EFFICIENT GOVERNMENT

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George Stigler took the Chicago School’s “perfect markets” model to its logical extreme when, in a 1992 article in the *Journal of Law and Economics*, he declared that

- 1) politics is just another market, complete with “buyers and sellers of legislation,” and
- 2) all long-lived governmental institutions are therefore “efficient” by virtue of their having survived for a long time.¹

Another Chicago School scholar, Donald Wittman, goes even further, calling government failure a “myth” and asserting that democratic government unequivocally promotes the welfare of all citizens.² The free market may never meet the perfectly competitive ideal but democratic government, to these two scholars, is Pareto optimal.

This article argues that while there are a few transparent similarities between politics and markets, the fundamental differences between them render the Stigler-Wittman view that politics is “just another market,” and therefore always “efficient,” dubious at best. Markets are not perfect in any neoclassical sense (nor is anything else on earth, for that matter), and neither is democracy. The Stigler-Wittman view is based on a false view of how both markets and governments operate and also suffers from being ahistorical.

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¹George Stigler, “Law or Economics?” *Journal of Law and Economics* 35 (October 1992), pp. 455–68.

²Donald Wittman, *The Myth of Democratic Failure* (Chicago: University of Chicago Press, 1995).

EFFICIENT GOVERNMENT?

Stigler may have had a reputation as a free-market champion of individualism but, ironically, his argument about “efficient” government was based on methodological collectivism. Rather than examining the behavior of individual actors, even in their roles as members of political interest groups, Stigler posited that “society,” not individual decision makers, makes political choices.

[I]n policy analysis, one may legitimately employ an alternative definition of efficiency that rests on the goals adopted by the society through its government. When a society wishes, for example, to give more income to a group than the market provides, we may surely analyze the efficiency with which this is done. In this . . . view, every durable social institution or practice is efficient, or it would not persist over time.³

This means that all common *and statute law* “must be efficient.”⁴ Stigler’s Exhibit A in his catalogue of “efficient” government programs is the sugar price support program, which at the time (1992) was responsible for the transfer of more than \$3 billion annually from sugar consumers to a small handful of politically-influential sugar-growing corporations. The program was necessarily efficient, said Stigler, because it had met the test of time: it had been around for 50 years. In keeping with the Chicago tradition of empiricism, this would suggest that Soviet communism, which at the time of Stigler’s article was 75 years old, was exactly 50 percent more efficient than the U.S. sugar price support program.⁵

India is the world’s largest democracy and has maintained more or less the same socialist institutions for more than 50 years. By Stigler’s

³Stigler, “Law or Economics?” p. 459.

⁴Stigler, “Law or Economics?” p. 459. Research in law and economics casts doubt on the notion that even the common law is efficient, however. Paul Rubin and Martin Bailey have shown, for example, how tort lawyers have shaped modern product liability law *to benefit lawyers primarily*, and not even the victims of product liability problems. See Paul Rubin and Martin Bailey, “The Role of Lawyers in Changing the Law,” *Journal of Legal Studies* 23 (June 1994). Peter Huber comes to a similar conclusion in his book, *Liability: The Legal Revolution and its Consequences* (New York: Basic Books, 1988).

⁵Stigler did not explicitly state that he was restricting his comments to democratic governments.

(and Wittman's) standards, India is arguably the largest purveyor of governmental "efficiency" in the world. Slavery existed for over 80 years under American democracy, which would presumably make it 60 percent more efficient than the sugar program.

Stigler's model explicitly assumes that there is little or no agency problem—no separation of ownership from control—when it comes to the relationship between citizens and government. Goals are adopted by "society" through its government, and as long as those goals are pursued for a long time, they are necessarily "efficient." Moreover, the goals that government sets for us are said to be exceptionally "authoritative," even though no explanation is given by Stigler for the source of this authority.

Chicago School scholars accept competitive equilibrium as their ideal benchmark and, as such, they also accept the whole framework of welfare or market failure economics, including the supposed necessity of antitrust regulation. But in Stigler's model, there is no corresponding government failure: government is essentially perfectly competitive. Politicians faithfully pursue the goals of "society" in an efficient manner.

Stigler was obviously aware of the voluminous government failure or public choice literature, but his argument ignores it completely.⁶

FORCED LABOR AND EFFICIENT GOVERNMENT

Government power rests primarily on its use of threats, intimidation, coercion, violence, propaganda, and fraud. If one protests the wastefulness of the sugar price support program, Pentagon fraud, the welfare state, or anything else by refusing to file a tax return, for example, the result will at first be threatening letters, then intimidating demands for payment, and ultimately the use of armed force to confiscate the protester's assets or throw him into prison. The fact that citizens do not revolt and overthrow their governments very often

⁶Stigler published several articles in *Public Choice*, and included in his references two classics in the field, James Buchanan and Gordon Tullock, *The Calculus of Consent: Logical Foundations of Constitutional Democracy* (Ann Arbor: University of Michigan Press, 1962), and Anthony Downs, *An Economic Theory of Democracy* (New York: Harper, 1957), so he can hardly claim ignorance of this literature. Oddly, he does not discuss these works, or public choice in general, in the text of his article. Many of his references, in fact, seem to have no relation to the discussion in the text of his article.

does not mean that they consent to being plundered. As David Hume once pointed out, the fact that a conscripted sailor does not jump overboard and commit suicide does not mean that he consents to being conscripted.⁷

Secession from the corrupt, rent-seeking society that is lorded over by the federal government can also be risky and life threatening, as the Southern Confederates learned more than 135 years ago. Although modern historians usually ignore it, the Confederate Constitution attempted to limit the domain of government much more than the U.S. Constitution did, by outlawing protectionist tariffs and the use of taxpayer funds for corporate subsidies, and by eliminating the General Welfare Clause of the U.S. Constitution, among other things.⁸

But protectionist tariffs, subsidies to railroad corporations, and central banking (which most Southern statesmen also opposed) were the keystones of the 1860 Republican Party platform. Consequently, Abraham Lincoln waged a bloody war in which one out of every four white Southerners between the ages of 20 and 40 was killed by the federal government in order to “save the Union.” This phrase was Lincoln’s euphemism for creating a centralized state that overthrew the smaller, more decentralized system of government that had been created by the American founding fathers.⁹ The right of secession, which many of the founding fathers considered to be *the* principle of the Revolution of 1776, was destroyed, along with the Jeffersonian doctrine of states’ rights as a check on the overreaching powers of the central government.

The Jeffersonian dictum enshrined in the Declaration of Independence that governments derive their just powers from the consent of the governed was essentially overturned by Lincoln’s war. Southerners no longer consented to be governed by Washington, D.C., and they were forced into an association with that government at gunpoint. From

⁷David Hume, “Of the Original Contract,” in *Hume’s Ethical Writings*, ed. A. MacIntyre and D. Hume (New York: Collier Books, 1965), p. 263.

⁸Thomas J. DiLorenzo, *The Real Lincoln: A New Look at Abraham Lincoln, His Agenda, and an Unnecessary War* (New York: Forum/Random House, 2002).

⁹Lincoln’s position was always that his “paramount objective” was to “save the Union,” even if he could do it without freeing a single slave. His only use of the slavery issue, he repeatedly stated, was as a propaganda tool in the service of his overriding objective, consolidating governmental power in Washington, D.C. by destroying the right of secession.

that point on, the American government became more and more the master, rather than servant, of the people.

It is this kind of violence, force, and coercion that lies behind and supports “long-lived government programs.” There were no long-lived income transfer programs prior to the War Between the States. By ignoring this history, the Stigler-Wittman theory of governmental efficiency implicitly assumes that forced labor (to pay taxes) is an efficiency-enhancing institution since that is what allows special-interest programs to last for decades despite their inefficiencies and injustices. Indeed, it is fair to say that forced labor is a *prerequisite* for Stigler’s brand of governmental “efficiency.”

Products or practices that last a long time in private markets can be said to be efficient in that they assist market participants in coordinating their plans better than any alternative arrangements. In government, the income-transfer programs that Stigler and Wittman think are “efficient” can only last if threats, intimidation, fraud, and violence are used to keep them in place. The fact that such tactics must be used is evidence of how grossly *inefficient* such acts of theft really are in the sense that they are *not* the kinds of institutions that assist individuals in plan coordination. If they were truly efficient, people would adopt them voluntarily.

THE ROLE OF PROPAGANDA

Government doesn’t always resort to outright violence or threats of violence to maintain its powers; excessive use of such tactics could incite a revolution, as they have on occasion throughout history. Consequently, it also operates a massive fraud operation designed to perpetually pull the wool over the public’s eyes.¹⁰ Or, in the polite, euphemistic language of academic discourse, it “manipulates constitutional-level transaction costs.”¹¹

The average citizen is “rationally ignorant” of most governmental policy issues, increasingly so as the size and scope of government increases. The *Federal Register*, for example, contains more than 80,000 pages of fine-print regulations that affect every industry in America,

¹⁰E.g., while hypocritically policing “consumer fraud” through the Federal Trade Commission, government itself is exempt from FTC regulation.

¹¹Charlotte Twight, “Government Manipulation of Constitutional-Level Transaction Costs: A General Theory of Transaction-Cost Augmentation and the Growth of Government,” *Public Choice* 56 (1988), pp. 131–52.

and almost all aspects of our lives. No human could possibly possess knowledge of anything but a minuscule portion of such a monstrous document. Federal tax laws and regulations are just as voluminous. This suggests that it is quite absurd to believe that voters are actually voting for real changes in public policy. How could they be voting for changes in policy if they have no way of understanding what more than a minuscule fraction of government policy consists of?

It is not in the average citizen's financial interest to invest sufficient time to become well informed in any but a few areas of public policy. This gives special-interest groups—including government officials and employees themselves—the latitude to manipulate political outcomes in democracies in ways that benefit themselves *at the expense* of nearly everyone else, which is hardly an “efficient” outcome. More than 50 years ago, Joseph Schumpeter observed that:

What we are confronted with in the analysis of political processes is largely not a genuine but a manufactured will. . . . So far as this is so, the will of the people is the product and not the motive power of the political process.¹²

The hoary welfare economics dictum that special-interest transfer payments should be considered to be efficient as long as, *in theory*, the winners can compensate the losers (i.e., taxpayers) is a red herring argument. No such compensation has ever occurred, and even if it had, it is not clear that it could ever be efficient by the criteria established by neoclassical economics.

Far from Stigler's (and Wittman's) implicit assumption of near perfect information among voters, real-world voters are, for the most part, grossly uninformed about what government is up to. To make matters worse, much of what they do “know” is self-serving propaganda that is repeatedly broadcast to them by government itself. Government spends billions of dollars attempting to persuade the public that policies that in reality only benefit a small special interest group, including the state itself, are really in “the public interest.”

In *Official Lies: How Washington Misleads Us*, James Bennett and I detailed how institutionalized governmental lying pervades all areas of government policy.¹³ In welfare policy, government statistics

¹²Joseph Schumpeter, *Capitalism, Socialism, and Democracy* (New York: Harper & Row, 1950), p. 263.

¹³James T. Bennett and Thomas J. DiLorenzo, *Official Lies: How Washington Misleads Us* (Alexandria, Va.: Groom Books, 1992).

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do not count cash and in-kind subsidies as part of the income of “the poor,” nor does government subtract out taxes from the income of the more affluent when publishing its “income distribution” statistics. This allows it to perpetually complain about the “inequity” of capitalism and to advocate egalitarianism.

Farm subsidies go mostly to large corporate farms, although decades of propaganda have convinced millions of Americans that it is the “small family farm” that is the primary beneficiary. From the time oil was discovered in the U.S. in the 1860s, various government agencies have been warning of an impending depletion of the oil supply unless there is a governmental takeover. Government-funded lies about environmental policy are almost too numerous to count. Military policy lies are so pervasive that “Pentagon propaganda” has become a redundancy.

Governmental control of schooling has always been motivated by a desire on the part of politicians to brainwash children in one ideology or another.¹⁴ John Lott has argued that this is so because such brainwashing makes government’s income-transfer schemes more palatable to the public, which in turn makes it easier for politicians to maintain power by buying votes with taxpayers’ money. In other words, it reduces the transactions costs of wealth transfers.

Although there are countervailing forces, such as certain educational institutions, the internet, talk radio, etc., it is nevertheless true that government still has the ability to drown out most other voices with its vast propaganda resources. And it doesn’t need to drown all other voices out; only enough of them so that a majority of the rationally ignorant voting public continues to believe its lies.

These countervailing forces of public opinion have the deck stacked against them in a most lopsided way. When it created the welfare state, the federal government chose to administer its new programs through thousands of ostensibly private, nonprofit organizations. The same is true of many other government programs regarding environmental policy, civil rights policy, old-age policy, labor policy, etc. These nonprofit organizations (including labor unions) receive billions of dollars annually in government grants. Much of this money goes not to assist the poor or the elderly, to improve the environment, etc., but

¹⁴Thomas Sowell, *Inside American Education* (New York: Free Press, 1993); and E.G. West, *Education and the State: A Study in Political Economy*, 3rd ed. (Indianapolis, Ind.: Liberty Fund, 1994).

to finance the lobbying for bigger budgets for the governmental agencies that made the grants in the first place.¹⁵

Here's how it works:

- 1) Government agencies grant taxpayer dollars to nonprofit groups to ostensibly administer government programs.
- 2) The groups devote half or more of the money (illegally) to a lobbying and publicity campaign in favor of greater taxpayer funding for the program.
- 3) Congress is "persuaded" to spend more on the program.
- 4) This allows the nonprofit groups to receive even bigger grants.
- 5) The whole cycle starts over again from step 1.

The "will of the majority" is much more of a government-manufactured will than even Joseph Schumpeter imagined. Stigler's basic assumption that governments faithfully respond to the wishes of "society" rests on a very weak foundation indeed.

In addition, nearly every state-funded university in America is a *de facto* "think tank" for the promotion of statism. It should surprise no one that as government funding has so overwhelmingly dominated the financing of higher education, most academics who have anything to say about public policy have become paid mouthpieces of the state. Their claims of academic freedom ring hollow.

Stigler's theory of efficient government is based on a model of perfectly competitive government, but in reality the government has long established a system of barriers to entry into politics that renders national politics monopolistic. This, too, is a fatal flaw in Stigler's model. It has not been at all unusual over the past 50 years for well over 90 percent of all congressional incumbents to be reelected in each election cycle because of the formidable incumbent-protection rules and institutions that have been put into place. Incumbent members of Congress receive over \$100 million annually in "free" mailing privileges which they use to send campaign literature to their home districts and states. Challengers must pay their own way.

Each congressional representative has more than two dozen taxpayer-financed "staffers," while senators have about 75 staffers each. These individuals effectively comprise a permanent, taxpayer-funded

¹⁵James T. Bennett and Thomas J. DiLorenzo, *Destroying Democracy: How Government Funds Partisan Politics* (Washington, D.C.: Cato Institute, 1985).

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campaign staff. Challengers must raise money privately to hire their campaign staffs.

Incumbents in Congress have created dozens of committees and subcommittees, the purpose of each is to make sure that each incumbent can be on a committee that specializes in dispensing taxpayer dollars or special favors to the voters of his or her district or state. Farm-state legislators will be on various agricultural committees, for example, whereas those from urban areas will sit on the Banking and Urban Affairs committee. Since it is illegal for challengers to buy votes, this too creates a formidable barrier to entry into politics. Incumbents are free to use taxpayer dollars to buy votes, but challengers can only make vague promises to do so.

In Stigler's perfectly competitive government, any policy that is opposed by enough people will be replaced through the electoral process, just as consumers will replace an inferior product by "voting" with their dollars. But that's only (remotely) possible if there is a reasonable degree of competition in government. In the U.S. federal government, there is not. Even at the state and local levels of government in the U.S., consolidation of local governments and state and federal mandates that tend to homogenize local government policies render state and local government more monopolistic.

Stigler was always a strong proponent of antitrust regulation for the private sector for economic efficiency reasons. Yet, he maintained that monopoly *government* was somehow economically efficient.

FINANCIAL SUBTERFUGE

Another fundamentally fraudulent aspect of democratic governments is their proclivity to hide or disguise the true costs of their operation through various subterfuges, such as off-budget spending, while simultaneously spending billions on propaganda campaigns that wildly exaggerate the supposed benefits of government programs and activities. For well over a century, federal, state, and local governments in the U.S. have responded to citizen demands for tax cuts, expenditure restraints, or debt limitations by paying lip service to these demands while at the same time creating myriad off-budget enterprises that can spend money without the direct approval (via referendum, for example) or even knowledge of the voters.¹⁶ At government's state and local

¹⁶James T. Bennett and Thomas J. DiLorenzo, *Underground Government: The Off-Budget Public Sector* (Washington, D.C.: Cato Institute, 1983).

levels, time and time again, when voters reject a spending referenda, politicians routinely respond by establishing off-budget enterprises funded by non-voter approved “revenue bonds.” At the federal level, debt finance permits the government to disguise its true cost, as does the “fiscal illusion” created by dozens of well-hidden excise taxes. There is even a “Federal Financing Bank” that was set up in 1974 specifically to place certain kinds of (politically unpopular) spending off the books and to keep it well hidden from the taxpayers.¹⁷

The essential question that is raised by all these subterfuges is this: If these government programs are genuinely in the “public interest” and efficiency enhancing, why then do politicians consistently go to such great lengths to keep the public from learning about them?

GOVERNMENT AS EXTORTION ARTIST

Another characteristic of democratic governments that calls into question the validity of Stigler’s government-is-always-efficient claim is Fred McChesney’s well-researched thesis that much of modern democratic government is essentially a protection racket.¹⁸ McChesney models and catalogues dozens of examples of politicians threatening (with proposed laws and regulations) to confiscate the wealth of various individuals or groups unless they (the politicians) receive payoffs and bribes in the form of campaign contributions and other payments. “Payments to politicians are often made,” writes McChesney, “not for particular favors, but to avoid . . . political disfavor, that is, as a part of a system of political extortion.”¹⁹ Congressmen and congressional staffers refer to such legislation as “juice bills,” designed to “squeeze” money from potential contributors, or “milker bills,” designed to “milk” money from corporations that would be harmed by, say, a price control law affecting their industry. The threat of price controls or an excise tax imposed on an industry can result in millions of dollars in campaign contributions from the threatened industries.

Even Stigler’s vaunted sugar price support program would fall under McChesney’s “extortion” designation. The sugar program, like so many government subsidy programs, must be renewed every couple

¹⁷Bennet and DiLorenzo, *Underground Government*.

¹⁸Fred McChesney, *Money for Nothing* (Cambridge, Mass.: Harvard University Press, 1997).

¹⁹McChesney, *Money for Nothing*, p. 2.

of years. That way, every couple of years, members of Congress are guaranteed of a new round of bribery as both the sugar farmers and the opponents of the program lobby and make campaign contributions to hopefully shape the “new” bill in their favor. Every five years, this same game is played with a new “farm bill” that goes before Congress. This encourages the maximum amount of rent seeking, and thus the maximum amount of economic inefficiency. Consequently, the longer-lived a special-interest transfer program is, the more economic destruction it will have caused in terms of wasteful rent seeking. Stigler and Wittman have it all backward.

THE MYTH OF POLITICS AS “JUST ANOTHER MARKET”

Stigler and Wittman’s the-government-is-always-efficient theories assume that there are no significant differences between private property markets and “political markets.” “Markets are markets,” they would say. Wittman even says that political “markets” are “sufficiently like” private property markets that whatever conclusions hold for private property markets must also hold for politics as well. This is the key assumption of his analysis, and of Stigler’s as well, but it is based mostly on faith.

One implication of this assumption is that government pursues its goals every bit as efficiently as does any private business. This is most certainly false because of the stark differences between profit management in private property markets and bureaucratic management in government. As Mises pointed out, because there is no cash value on the market of any governmental agency (they cannot be bought and sold), and there are no profit-and-loss statements in an accounting sense, there is simply no way to know how “efficient” a government enterprise is in pursuing its objectives. Economic calculation is impossible.²⁰

In private property markets, entrepreneurs tend to allocate capital in ways that satisfy the most urgent wants of consumers. Resources are allocated and reallocated to their highest-valued uses. No such thing occurs in government, since resources are allocated largely according to the degree of political clout of various special-interest groups, not according to private capital markets. Government budgets only provide information on the amounts of tax dollars spent on particular programs

²⁰Ludwig von Mises, *Human Action: A Treatise on Economics*, scholar’s ed. (Auburn, Ala.: Ludwig von Mises Institute, 1998), p. 305.

but say nothing (nor can they) about the opportunity costs of those expenditures, i.e., the subjective value of alternative uses of those tax dollars either by taxpayers or by other government agencies.

In profit-seeking businesses, the managers' behavior is guided by considerations of profit and loss; in government, managers' behavior is guided by arcane, voluminous, and often arbitrary bureaucratic rules.²¹ It has to be this way if elected officials are to have any control at all over the bureaucracies to which they allocate taxpayers' revenues. In other words, it is impossible to think of government bureaucracies as being "efficient" in the allocation of resources in the same sense as private competitive businesses are, not to mention the widely-discussed incentives for inefficiency that are known to exist in all government bureaucracies. Indeed, there is wide agreement in the public choice literature and elsewhere that government bureaucracies are best viewed as cost or budget *maximizers* rather than as cost minimizers, as is the case with private competitive firms.

POLITICAL ENTREPRENEURSHIP VERSUS PRIVATE PROPERTY ENTREPRENEURSHIP

Private property entrepreneurs succeed by discovering ways to reduce costs and prices, improve product or service quality, or by inventing new products that meet the approval of consumers. They succeed, in other words, by catering to consumers. If they fail to please consumers, they lose money or go bankrupt.

In politics, the opposite is often true: "entrepreneurial" politicians "succeed" by *avoiding* the minor constraints imposed on their behavior by the elections that are held every two or four years. The most "successful" political "entrepreneurs" are the ones who are most adept at convincing a gullible, public-school-educated, rationally ignorant public that they can offer them something for nothing. They are the slickest liars and propagandists. Bill Clinton was arguably the biggest and best liar in American politics over the past half century, and was one of the most successful politicians as well. As discussed above, successful political "entrepreneurs" are good at

- telling official lies about government policy,
- hiding the costs of government with fiscal illusions created by excise taxation and debt finance,

²¹Mises, *Human Action*, p. 306. See also Anthony Downs, *Inside Bureaucracy* (Boston: Little, Brown, 1966).

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- creating off-budget government enterprises to further hide the true costs of government from the public,
- and allocating large amounts of taxpayer dollars to nonprofit-sector special interest groups which grossly exaggerate the benefits and understate the costs of special-interest legislation.²²

DOLLARS VERSUS VOTES

In private property markets, consumers “vote” with their dollars, to make a Stigleresque analogy. This means that consumers can decide for themselves just how much of any product or service they want, if they want it at all. And they are perfectly free to change their minds more or less constantly by engaging in market transactions. Moreover, all market exchanges are voluntary; no one is forced into them. Market exchange is always *mutually beneficial* as long as it is voluntary.

In dramatic contrast, political “exchange,” takes place very seldom. During any eight-year period, each voter is allowed to vote twice for president, four times for a U.S. representative, and, at most, three times for a U.S. Senator, even though those individuals are among the 535 men and women who allocate more than a third of GDP and enforce literally tens of thousands of regulations that affect nearly all aspects of our lives.²³ Moreover, since citizens have no capability to understand anything but a minuscule percentage of what government does, the act of voting is more analogous to judging a beauty contest or attending a sporting event than to a market transaction.²⁴

Voting is an all-or-none choice. No disaggregation of issues is permitted, in the sense that the free market allows consumers to “disaggregate” products (I like Coke, you like Pepsi). Once majority rule has

²²There is an occasional reformer who genuinely does succeed at making government somewhat more efficient, such as former mayor Brett Schundler of Jersey City, New Jersey, but they seldom last very long in politics, as is the case with Mr. Schundler, who was trounced in New Jersey’s November 2001 gubernatorial election.

²³Don Boudreaux makes this point in “Was Your High-School Civics Teacher Right After All? Donald Wittman’s *The Myth of Democratic Failure*,” *The Independent Review* 1 (Spring 1996), p. 117.

²⁴Goeffrey Brennan and Loren Lomasky, *Democracy and Decision* (New York: Cambridge University Press, 1993).

decided the winner, that candidate's administration will prevail, creating "political externalities" to all voters both to the left and to the right of that winning candidate. For example, if we used democracy to determine what kind of shoes to produce, and the majority wanted to produce men's shoes in size 10D, then we would become a nation of sore feet, as everyone with bigger or smaller feet would be inconvenienced and would have to rely on black market shoes. This is analogous to market exchange?

THE IMPORTANCE OF PRIVATE PROPERTY

On an even more fundamental level, markets rely crucially on private property and the enforcement of contracts. Without private property, there can be no markets; without markets there can be no economically meaningful prices; and without market prices rational economic calculation—and a functioning economy—is impossible. Property rights provide individuals with incentives to work and produce, and to improve one's ability to do so through training and education, for stable property rights allow one to reap the fruits of such labors.

In contrast, for the most part, democratic government involves a process of one group of citizens bribing legislators to *attenuate* the private property rights of others for no other reason than the first group wishes to (legally) steal the others' property.²⁵ It is the domain of rent-seeking behavior. The business of modern democracy is to attenuate property rights in order to fuel the special-interest, rent-seeking machine. This is very much the *opposite* of voluntary, consensual, private property markets. Merely repeating over and over that "politics is like markets," as Stigler, Wittman, and some other Chicago School scholars have done, does not make it so. The attenuation of property rights that is the defining characteristic of democracy weakens incentives to be productive while increasing the rewards of unproductive rent seeking.

One implication of this analysis is that the people who rise to the top in democratic governments are those who are adept at orchestrating

²⁵A study prepared for the Joint Economic Committee of Congress in 1998 concluded that only 14 percent of all federal expenditures could conceivably be construed as "economically productive" expenditures that facilitated economic growth, as opposed to pure transfer payments. See Joint Economic Committee, *The Size and Functions of Government and Economic Growth*, report prepared by James Gwartney, Robert Lawson, and Randall Holcombe, 1998.

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the rent-seeking game. Indeed, years of experience at lower levels of office (city council, state legislature) is the usual prerequisite for higher office. As Hans-Hermann Hoppe puts it, “democracy virtually assures that only dangerous men will rise to the top of government.”²⁶ Dangerous, in the sense that they are adept at destroying property by facilitating the plunder of rent seeking. As rent seeking becomes more pervasive in a democracy, more and more people will decide to try to become adept at it rather than becoming genuinely productive citizens. The proportion of parasites will rise relative to producers, which will cause national wealth to be lower than it would otherwise be. Hoppe has written:

[A]ny income or wealth redistribution within civil society implies that the recipients are made economically better off without having produced either more or better goods or services, while others are made worse off without their having produced quantitatively or qualitatively less. Not producing, not producing anything worthwhile, or not correctly predicting the future and the future exchange-demand for one’s products thus becomes relatively more attractive . . . as compared to producing something of value and predicting the future exchange-demand correctly. Consequently . . . there will be more people producing less and displaying poor foresight, and fewer people producing more and predicting well.²⁷

This is not a very “efficient” prospect.

Private property markets induce many people to moderate their time preference rate and be somewhat future oriented. Homeowners, for example, have incentives to preserve the value of their property because any appreciation accrues solely to them upon sale, as do any losses. Democratic government, on the other hand, promotes an increase in the rate of time preference (short-term thinking)—what Hoppe calls the “infantilization of society”—with its constantly expanding taxation and spending, inflation, and unending flood of special-interest legislation designed to satisfy every perceived want of every segment of the electorate.²⁸ This is another important source of inefficiency to which Stigler and Wittman pay no attention.

²⁶Hans-Hermann Hoppe, “The Democratic Leviathan,” *www.mises.org*. See also his book *Democracy—The God that Failed* (New Brunswick, N.J.: Transaction Publishers, 2001).

²⁷Hoppe, *Democracy—The God that Failed*, p. 32.

²⁸Hoppe, *Democracy—The God that Failed*, p. 32.

DEMOCRACY AS BANDITRY

Modern democracies have evolved into gangs of bandits who rely on the public's worshipful attitude toward democracy (promoted for generations in the government-run schools) to "justify" the game of stealing one person's property in order to buy votes from two or more others with it. But America's founding fathers did not believe in democracy and they did not establish one, and for good reason: they understood that democracy would quickly become the kind of system that we have today. In hindsight, they were naive to believe that the Constitution would be sufficient to block this outcome.

One political theorist who understood this was John C. Calhoun, former American vice president, secretary of war, senator, and congressman. Calhoun understood that under any kind of democracy, the community will inevitably be divided into:

two great parties, a major and a minor, between which there will be incessant struggles on the one side to retain, and on the other to obtain the majority—and thereby, the control of the government and the advantages it confers.²⁹

There would be "two great hostile parties," comprised of "the payers of the taxes and the recipients of their proceeds," with the inevitable result that society will be divided into:

two great classes; one consisting of those who, in reality, pay the taxes, and, of course, bear exclusively the burden of supporting the government; and the other, of those who are the recipients of their proceeds (the tax-consumers).³⁰

Because of the powerful incentives that the tax-consuming class would have to plunder the taxpaying class, Calhoun did not believe that the Constitution was sufficient to keep the government from becoming a permanent instrument of plunder. The tax-consuming majority would perpetually "endeavor to elude" all constitutional restrictions on their plundering ways, and they would wage a relentless propaganda campaign to portray such restrictions as "folly."³¹ Calhoun supported the rights of secession and nullification, as did nearly all of the founding generation, and introduced the concept of a concurrent majority—

²⁹John C. Calhoun, *Union and Liberty: The Political Philosophy of John C. Calhoun*, ed. R.M. Lence (Indianapolis, Ind.: Liberty Fund, 1992), p. 16.

³⁰Calhoun, *Union and Liberty*, p. 19.

³¹Calhoun, *Union and Liberty*, p. 27.

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the right of a subgroup of the population, such as a state, to veto unconstitutional legislation. All of these protections against the plunder of democracy were abolished in 1865 when the federal government finally established its supremacy over the states and the citizens, and appointed itself as the final arbiter of constitutionality.³²

The kind of constitutional republic that existed in the U.S. prior to 1865 had very few income transfer programs. The only contact the average citizen had with the federal government was through mailing a letter. There were no long-lived income transfer programs, and the economy was much more efficient as a result. Yet, it is the post-war democracy, not the constitutional republic of the founding fathers, that Stigler and Wittman theorize as efficient, which again seems altogether backwards. There are many varieties of democracy, but Stigler and Wittman treat all of them equally. In doing so, they ignore centuries of political philosophy, including modern public choice theory, that has much to say about how all the various permutations of democracy have led to very different results over time and space. Economists can arrive at some awfully absurd conclusions if they insist on ignoring the study of history and philosophy while commenting on such momentous issues as the successes and failures of democracy.

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³²For more on Calhoun's thought, see the symposium on "Federalism, War, and Reconstruction: Antecedents and Consequences of the War Between the States," *Journal of Libertarian Studies* 16, no. 2 (Spring 2002). In particular, see K.R. Constantine Gutzman, "Paul to Jeremiah: Calhoun's Abandonment of Nationalism," and H. Lee Cheek, Jr., "Calhoun, Sectional Conflict, and Modern America."

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