

# IMPRIMIS

## "Private Sector Solutions to Public Sector Problems"

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Preview: *Barry Asmus argues that public sector "solutions" have done more harm than good in our society and that it is high time to restore the freedom of the marketplace. This essay is based on his remarks at Hillsdale's Shavano Institute for National Leadership seminar, "American Perestroika: Returning Public Services to the Private Sector" on May 24-25, 1993 in Atlanta, Georgia.*

Let's play a "what if" game about public spending for a moment. What if our politicians had said back in 1965: "We won't spend a dime on welfare for the next three decades, but in the early 1990s, we will take the money we would have spent and buy every Fortune 500 company and every piece of farm land in America. Then we will deed these companies and farms over to the poor." That is exactly what politicians could have done with the money—about \$3.5 trillion—that they have spent on welfare since 1965. If they had, what would the problem of poverty be like today? Would there be tens of thousands of Americans who are members of a "permanent underclass" and millions more who qualify as "working poor"?

What if our politicians had said back then: "Instead of spending 14 percent of the GDP—about \$840 billion in 1992—on health care, much of it subsidized government spending, we will promote free market solutions," that is, health care costs paid by the consumer instead of government and other third parties. Would there be any support today for socialized medicine, for price controls on provider fees and charges, or for

adopting what is basically a Third World model for U.S. health care?

What if they had also said: "Instead of spending more money than any nation on earth on centralized, government-run primary and secondary education—currently more than \$200 billion a year or almost \$6,000 per pupil—we will strengthen the private, locally-supported schools that were once the backbone of education in the country." Would 40 percent of all high schoolers today be functionally illiterate or reading below the 8th grade level? Would one-quarter of them be dropping out?

This "game" has a very serious purpose: It shows how much our dependence on politicians and public sector solutions has cost us and how little it has achieved. Schemes of top-down economic coordination are a hopeless absurdity whether tried by the U.S. or the former Soviet Union.

### The Essence of Modern Politics

The "public choice" school of economics explains why government solutions to economic problems inevitably fail. First, politicians don't spend our money as carefully as if it were their own. Second, in contrast to the private business firm, the public agency has no bottom line. Prices, wages, interest, profits are not a part of the government calculus. The politician has all sorts of incentives to spend more of our money to "do good" (there is no end to what do-gooders will do with other people's

money). It is important that they "care" about a perceived public crisis and "bring home the bacon" to constituents, so as to increase their own political power and influence.

Finally, politicians are motivated to localize benefits and defuse costs. For instance, a few Congressmen can get together in committee and agree to award sugar beet farmers in their districts a whopping \$1 or \$2 billion in subsidies and price supports in exchange for electoral support, knowing full well that since it costs only a few dollars per taxpayer, no one will protest. Every Congressman has supporters who are quite willing to steal from the many to benefit themselves. The Congressman gets re-elected and special interests vow their continued support.

Today, government at all levels is spending about \$2.3 trillion of our money every year, in contrast to the \$678 billion, adjusted for inflation, in 1965. Yet we still have the same problems and they are, if anything, worse. Why? It is *not* because politicians are spending too little. It is because there are inherent flaws in government as a delivery system. When the consumer "purchases" something from government, the good or service appears to be "free." The act of consumption is divorced from the tax payment and excess demand always results. In addition, efficiency suffers. The absence of a profit or loss calculation by government means services such as garbage collection, fire protection, prisons, city management services, and schools, for example, are invariably more expensive than when provided by private industry. Government does a rotten job of running nearly every enterprise it undertakes while simultaneously reducing personal freedom and choice.

## Deja Vu All Over Again

**T**he Clinton administration continues to stubbornly insist that government is not spending or regulating enough. Exploiting the politics of envy and class warfare, they suggest that the rich are not paying their "fair share" of taxes, though the top one percent of income earners paid 17 percent of the total federal tax burden in 1980 and 27.5 percent in 1990.

The essence of modern politics, Clinton seems to think, is to keep the populace envious and then to drag out more "experts" and public sector "solutions." That's certainly what is happening now. Health care is a good example. We are the world leader in health care. There is no place on the face of the earth that has a system as successful as ours.. or can deliver

the quality of health care we have come to enjoy. Yet politicians tell us that the current system is falling apart and that only government can "fix things." Stirring the acids of envy, they portray doctors and drug companies as the enemies who need to be controlled when in fact it is government policy and the legal system that need changing. Hillary Clinton warns us that 37 million Americans are uninsured, even though 10 million of these earn more than \$30,000 per year and fully one-half of the 37 million are without insurance for less than four months. To the extent that there is an uninsured problem, it is the result of government's larger role in health care markets—largely made "free" to the patient by Medicare and Medicaid—that has driven medical care costs upward, thereby forcing many individuals out of the market.

## Taking from Peter to Pay Paul

Politicians can't give us anything without depriving us of something else. Government is not a god. Every dime they spend must first be taken from someone else. Unfortunately, stealing

money from Peter to give to Paul really makes Peter a "Paul-bearer." The last Republican administration signed off on nearly \$300 billion in increased taxes and regulatory costs during its four years. The current Democratic administration wants to at least match that with its very first round of proposed tax hikes.

No wonder Washington, D.C. is so often described as 67 square miles surrounded by reality, an influence-peddling pleasure palace, a whorehouse where every four years we get to elect a new piano player. Politicians just don't seem to understand that taxes are a disincentive to people who work, save, and invest. High taxes actually *reduce* tax revenues from the rich, as they motivate individuals to reduce their tax-

able income and economic activity. And the problem is compounded by the fact that politicians spend at least \$1.30 for every dollar collected in taxes. Tax rates have gone up and down over the years, but spending continues to rise.

## The Wealth of Nations

**T**he good news is that despite what politicians are doing to damage our economy—and they are doing plenty—we are living in an age when the possibilities to create new wealth and expand the production of goods and services are greater than ever. In today's global marketplace all you need to start a business is a telephone and a fax machine. Labor and capital are more mobile than ever before, going where they are wanted and staying where they are well treated. Annual international capital flows are fifty times greater than all world trade, zooming along fiber optic cables and bouncing off satellites at the speed of thought rather than the speed of things. The earth has become a massive electronic highway.

The world economy is in an epochal transformation from the Machine Age to the Information Age. Brains are replacing BTUs. The new source of wealth is not material, it is information. Here are two very modest, everyday examples: Old-style carburetors used to allow automobiles to run 12 miles on a gallon of gasoline. Now, computerized fuel injectors allow them to run 22 miles on the same amount of fuel, thereby effectively

increasing the world supply of gasoline by one-third. It used to take 165 pounds of aluminum to make one thousand cans. Now, it only takes 30 pounds. As we push further into the information age, matter will no longer matter. It is what the mind does with matter that counts. These technological advances, and thousands like them, are not the result of public spending; they are the result of free minds at work in a free market. It is for this reason, says Hillsdale College President George Roche, that "the wealth of nations lies not in material resources but in the minds and hearts of men."

Centralized command is over. Hierarchical, corporate bureaucracies are over. We are moving from monolithic palace structures to a world of tents—fast, flexible, and immediate response to changing customer demands. "Reinventing government" is not going to work because government is the wrong mechanism to give people what they want. The information economy demands agility and the efficiency of market signals which government does not possess. The speed that Wal-Mart shows in responding to consumer preferences in its markets is simply not possible for the U.S. postal service or the top-heavy, monopolistic public school system. If Marriott believes it must contract out the hotel's parking, then what are the implications for municipally operated parking garages? As GM, IBM, Apple, GE, the Union Pacific, and EDS eliminate bureaucratic rule, decentralize, link their profit centers in partnership, and engage in a continuous process of self-education and assessment, what are the odds that the EPA, FDA,

the Department of Agriculture, the Department of Education, and the Tennessee Valley Authority, to name a few, will do the same?

The answer is privatization wherever possible and then some. Public bureaucracies never plan their own demise. We must do it for them, arguing on the grounds that government ownership of property does not promote an efficient allocation of resources but that it actually prevents it.

## The Mainspring of Human Progress

Others have said it over and over again: Freedom is the mainspring of human progress. But our politicians apparently choose to ignore this. They are not looking to maximize our freedom; they are bent on limiting it and on confiscating more of what we earn and save. The idea of imposing higher taxes and more regulation on an economy to help it grow is like breaking a man's leg to help him run faster. As with everything politicians do, their timing is awful. Around the world, centralization, industrial planning, and command economies are on the way out. Privatization around the globe continues to be the goal—in the United Kingdom, Mexico, Chile, New Zealand, China, parts of Africa, and in particular in Eastern Europe and the former Soviet Union. Most of these countries are lowering taxes, not raising them.

Ironically, in the midst of this revolution, Clinton's brain trust—in particular Secretary of Labor Robert Reich and intel-

lectual guru Lester Thurow—offers the German "social economy" as a model to be emulated. (Note how they have now soured on Japan.) We are advised to copy Germany's apparent hardening of the arteries, even as Chancellor Helmut Kohl, recognizing his nation's folly, declares: "A successful industrial nation—which means a nation with a future—doesn't allow itself to be organized as a collective amusement park." Meager job growth in Germany has been mostly in the government sector. Labor unions and "codetermination" in industrial management have produced restrictive labor practices, discouraged new hiring, and limited productivity in German industry. The current German recession and the cost of reunification have simply accelerated the demise of the earlier "economic miracle." It appears that the social welfare state can no longer pay for its foolhardy promises.

It has taken all of the history of the world to reach its current gross world product—about \$25 trillion—and that could very well double in the next 30 years because so many nations in Latin America, Eastern Europe, and Asia have finally begun to throw off the chains of socialism and embrace the free market. We can learn from them as we seek to rid ourselves of the creeping varieties of collectivism that have taken root here in the United States in the last sixty years:

- Public sector problems will be resolved best through private sector solutions.
- Individuals are the ultimate source of

wealth, and economic growth can occur only if people are allowed to better them-selves by taking chances.

- It is entrepreneurial business that creates prosperity, not politicians. Government cannot create jobs. The miracle of a government summer employment grant is more than offset by the anti-miracle of higher taxes and the private businesses that fail to expand and hire.
- The economy is not a machine; it is a living social organism. The beneficial out-comes generated by a spontaneous free market order cannot be known in advance. The self-regulating nature of a market economy is comparable to the interdependent qualities of the biologist's ecosystem, not the mathematical precision wished for by so many economists in their static systems and equations.
  - The market is not good because it works; it works because it is good. As one economic historian has noted, "It is a plain historical fact that the treatment of man by man became conspicuously more humane side by side with the rise of capitalism."
  - Freedom and capitalism are inseparable. Capitalism *is*. The market, like gravity, *is*'.
  - And finally, freedom is a "virus" for which there is no antidote. **4**

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