



WHY DOES FREEDOM WAX AND WANE?

Some Research Questions in Social Change and Big Government

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Preface

The 20th century has seen some of the greatest restrictions on liberty of any period in human history, and also some of the most significant liberalizations. As scholars, we wish to understand how and why these changes have occurred. As human beings, we can use this understanding to make the world a better place.

Unfortunately, these questions do not always hold a central place in mainstream academic discourse. Nonetheless some researchers are investigating these topics, especially at my home university of George Mason in Virginia. In this essay, I seek to take this research and make it accessible to a broader audience, including decision makers, journalists, the nonprofit sector (e.g. think tanks and foundations), and other academics wishing to look beyond their immediate field of specialization. I therefore present some relevant research on social change and explain how it fits into a larger picture. I will present some “cutting edge” areas in social change research, examining what we already know, and offer some conjectures as to what we should be trying to figure out.

Throughout the essay I discuss various works that are being done by individuals affiliated with George Mason University, either currently or previously. In part I am more acquainted with these works than with many other writings. But also in part I hope to present George Mason University as a central locus for work, and thinking, on social change. This work is one reason why George Mason is such an exciting intellectual environment. At the end of this essay I offer a concordance listing the George Mason affiliations of many of the cited authors.

I. Introduction

Why do societies become more or less free over time? What accounts for the successes and failures of deregulatory movements? Why have some countries succeeded in reforming their economies while others have not succeeded? Why are some social movements successful, such as environmentalism, while others fail? What forces shape public opinion?

For the purposes of this essay, I define social change in terms of broad, systemic trends that affect liberty and prosperity. Why communism fell, why New Zealand reformed its economy in the 1980s, and why the environmental movement succeeded are all topics of direct relevance to this notion of social change. In the history of ideas, social change has been a primary concern of such writers as Montesquieu, Adam Smith, Hegel, Alexis de Tocqueville, and Karl Marx. In economics, social change is most closely related to the fields of Public Choice and Constitutional Economics.

I leave aside broader questions of culture, including some of my own work on commercial culture, celebrity culture, and cultural globalization, as well as the literature on the evolution of

moral behavior and cognition. These issues are extremely important for social change, but I hope to consider them separately in future work.

I will consider and briefly survey five central areas for social change: why government grows, why market-oriented reforms occur in some countries rather than others, how procedural reforms affect government growth, how public opinion is shaped, and the role of the media in social change. Broadly construed, I see these five questions in social change research as having the clearest links to liberty and prosperity in the Western democracies. I offer some concluding remarks on whether we should be optimistic or pessimistic about social change in today's world.

II. The Paradox of Government Growth

The growth of government is one of the most striking trends of the twentieth century. Around the world, governments today are much larger than they have been in times past, either as a percentage of gross domestic product or in absolute terms. This increase in the size of the public sector has influenced all of our lives greatly, for better or worse. Yet the determinants of government growth remain poorly understood. In particular, we do not understand why government has become so much larger in the twentieth century than in previous eras.

Gordon Tullock (1994) has referred to the "Paradox of Government Growth." In his explication of the paradox, Tullock pointed out a simple fact. Before the 1930s or so, government was a very small percentage of gross domestic product in most Western countries, typically no more than 5 percent. In most cases this state of affairs has persisted for well over a century. The twentieth century, however, saw the growth of government to 40 or 50 percent of gross domestic product.

Public choice theory has been very effective in generating theories for why government grows and why that growth is inevitable. Special interest groups, voter ignorance, and the pressures of war are all cited in this context. Those theories, however, fail to explain the historical pattern more generally. Until the 20th century, governments were not growing very rapidly. Yet standard public choice theories of government growth do not contain enough institutional differentiation to account for little or no government growth in one period and rapid government growth in another period. The evidence suggests that those theories are incomplete, and that the real causes of government growth lie in forces that are more contingent and more historical than public choice theories imply. At the same time, the explanation of government growth should not be too contingent or too historical, since every Western economy has experienced broadly similar trends. Some structural shift occurred in the late 19th and early 20th centuries, and has since been common to the Western capitalist democracies.¹

A number of partial explanations have been suggested for the Tullock paradox. One line of inquiry focuses on ideology and the shift in the intellectual climate. According to his claim, the philosophy of classical liberalism declined in the mid- to late 19th century. This may be

¹ Borcherding (1985) provides a useful survey of the evidence and literature on government expenditure. Larkey, Stolp, and Winter (1984) survey the literature on government growth and also consider non-economic perspectives. See also Bennett and Johnson (1980). For a public finance perspective, see Wagner and Weber (1977). On social security expenditures, see Congleton and Shughart (1990). Congleton (2000) surveys some of the relevant literature more generally.

attributed to the rise of socialist doctrine, internal contradictions in the classical liberal position, or perhaps the rise of a professional intellectual class. F.A. Hayek (1971), in his essay *The Intellectuals and Socialism*, suggests that intellectuals' ideas were the driving force behind the political transformation, although he offers no clear reason for why classical liberal doctrine declined.²

While the ideology hypothesis has merit, it is unlikely to provide a final answer to the Tullock paradox. Ideology is to some extent determined by broader social conditions. Ideologies changed, in part, because intellectuals perceived reasons to promote larger government, rather than classical liberalism. It remains necessary to identify the change in social conditions that drove this trend. This does not suggest that all or most intellectuals cynically court power, as many changed their minds sincerely, due to some change in objective conditions. Furthermore, some change in objective conditions caused socialist ideas to win larger audiences at the expense of classical liberalism.

Some authors attribute the rapid government growth of the 20th century to war and international conflict. Robert Higgs, in his book *Crisis and Leviathan* (1987), argues for this view in detail. He postulates a ratchet effect. State activity invariably expands in wartime. Taxes increase, resources are conscripted, and economic controls are implemented. When the war is over, some of these extensions of state power remain in place. The 20th century, of course, has seen the two largest and most extreme wars in history, the two world wars.

The war hypothesis nonetheless fails to convince. There is no doubt that government grows during wartime and that a ratchet effect is present. But the ratchet effect becomes much stronger in the 20th century than before. Furthermore, most forms of governmental growth probably would have occurred without war. The example of Sweden is instructive. Sweden avoided both world wars but nonetheless has one of the largest governments, relative to the size of its economy, in the West. The war hypothesis also does not explain the chronology of observed growth. Many Western countries had taken important steps towards larger government before the First World War. Finally, even if the war hypothesis explains the genesis of government growth, it does not explain why large government persists, given that voters can choose their politicians, and indirectly can choose their economic policy.

A third answer to the Tullock paradox attributes governmental growth to the expansion of the voter franchise. In the early 19th century, voting rights typically were restricted to a small percentage of the population, typically wealthy male landowners. In many European countries, of course, there were no voting rights at all and no democracy. By the 1920s, this state of affairs had changed. Almost all of Western Europe was democratic. Men had voting rights in all the democratic countries, without regard for income or property qualifications. Women had the franchise in many of the democracies and would shortly win it in others.

² Greenleaf (1983) offers a comprehensive history of the decline of classical liberal doctrine in Great Britain. For the United States, the best source is Ekirch (1955). On the influence of Keynesianism, see Buchanan and Wagner (1977). Daniel B. Klein and Theodore Balaker (2000) are currently writing a history of "intellectual migrants," individuals who switched from one ideology to another. Levy (2000) considers the transformation of liberal thought on racism and asks why liberalism split from its heritage of classical economics on the issue of race.

Under this hypothesis, widespread voting rights drove the move to larger government. The small governments of the early 19th century are portrayed as the tools of ruling elites. But once the franchise was extended, the new voters demanded welfare state programs, which to this day account for the bulk of government expenditure. Peltzman (1980) offers the related hypothesis that the demand for government tends to be large to the extent that voters are relatively homogeneous and equal in income, which he sees as broadening the political base for widespread redistribution. Lindert (1980) argues that the young and the old drive the demand for government spending, while middle-aged groups typically oppose spending increases. Rodrik (1998) suggests that the demand for government is highest where risk is highest, such as in small, open economies.³

The story of franchise extension is one of the most convincing attempts to address the Tullock paradox. Tullock himself does not find this explanation convincing, largely because it fails to explain the cross-sectional variation in the data. The dates at which countries extend their franchise do not correlate in any simple way with when their governments start growing. Furthermore, non-democratic regimes, such as Franco's Spain, illustrate similar patterns of government growth as do democracies. Nor do referenda—which make decision making more democratic—seem to have a dramatic effect on the size of government, although they do alter the mix of policies (Brook, Cowen, and Tabarrok 1992).

Some evidence, however, does support the hypothesis that the franchise matters. Husted and Kenny (1997), looking at data from state governments, find that the elimination of poll taxes and literacy tests leads to higher turnout and higher welfare spending. Lott and Kenny (1999) found that women's suffrage had some role in promoting greater government expenditures.

A fourth potential explanation of the Tullock paradox focuses on the production technology for large government. Government might have been small in previous eras simply because the technologies for supporting large government may not have existed. Large institutional structures of any kind require a certain degree of communication, organization, and coordination. The less advanced the technology in a given society, the harder it is to maintain large institutional structures. In other words, big government might have always "been in the cards" for whatever demand-side reasons, but only the 20th century has been able to sustain it on the supply side.

Prior to the American railroads, which arose in the middle of the 19th century, private business corporations were not typically very large. The costs of control and large-scale organization were simply too high. The railroads needed to overcome these problems, however, given the magnitude of the production and coordination task they faced. Following the railroads, a variety of large corporations arose in steel, oil, and later automobiles, to name a few examples. Alfred Chandler (1977) has chronicled the rise of such corporations in his book *The Visible Hand*. The rise of these corporations coincides roughly with the rise of big government, which suggests the two may have common roots. The poorer countries still have smaller governments, as a share of GDP (if not in terms of their efficiency costs) than do the richer countries.

The relevant changes in supply-side technology may involve the railroad, electricity, the telegraph, techniques of scientific management and bureaucracy, and the greater efficiency of

³ On these issues, see also Mueller and Stratmann (2000).

steam engines. Dudley (1991) places great stress on the radio and electronic means of communication, which became widespread in the 1920s. In his view, these technologies enabled fascism and greater communication between political leaders and the citizenry, which may have led to larger government through programs such as at the New Deal.

Nonetheless, a number of puzzles remain. The world of antiquity sustained a number of large and sometimes very oppressive empires. While they may have been smaller, in percentage terms, than modern governments, they probably were larger than the governments of the mid-19th century. This suggests that technology alone is not the relevant binding constraint on governmental size. Furthermore, for any particular technology we might postulate, it is unclear how exactly that technology drives or enables big government.

Improved voter ability to monitor government may be another reason why government is larger today. Most elections are fair today (in the Western democracies) and there is a strong national news media. Politicians court opinion polls almost to the exclusion of all other considerations. Voters may tolerate a larger government, simply because they feel they can control that government along various margins and with regard to various details. Conversely, earlier governments might have been truly terrible, had they tried to perform all the function of today's governments. Voters, implicitly realizing this fact, may have wanted to keep the earlier governments on an especially short leash, which they did by keeping those governments at a very small size.

III. Which Countries Have Reformed?

The 1980s and 1990s saw some of the most significant moves towards freer markets in this century. Perhaps most notably, communism fell and most of those countries (though not all) now have significantly more economic and political freedom than before. Most of Latin America and Asia have moved towards greater reliance on the market and on democratic decision-making procedures.⁴ In the Western nations, many European countries have sought to cut back or restructure their welfare states. The EU has brought significantly greater economic competition as well. The Thatcher Revolution swept away many harmful interventions in the United Kingdom. The Reagan Revolution in the United States led to less change but nonetheless reflected a significant shift in the ideological climate.

In 1984, Karen I. Vaughn wrote a well-received paper for the Mont Pelerin Society entitled, "Can Democratic Society Reform Itself?" The question remains open but in the meantime we have more evidence. Charles K. Rowley also has focused on the question of whether democracy is efficient and to what extent democracy is consistent with the protection of property rights.⁵

New Zealand is the Western democracy that has seen the most reform. We therefore can look at the New Zealand experience and look for clues as to what makes reform possible.

⁴ On the causes of the fall of communism, see Boettke (1993). I do not have the expertise to survey this admittedly vital question.

⁵ See Rowley (1983), Rowley and Vachris (1996), and Rowley and Tollison (1994) for examples of many of his writings on this topic.

New Zealand started the postwar era as one of the richest countries in the West, but subsequently frittered away its advantages. By the end of the 1970s, New Zealand was one of the poorest of the developed democracies. The country had engaged in a massive program of public spending, labor market regulation, protectionism, and social welfare legislation. The country was arguably the most socialistic and most interventionist of the Western democracies. Furthermore, the New Zealand interventions were especially ill conceived, especially the “Big Think” programs of the Muldoon administration, centralized labor market regulation, and absence of fiscal responsibility, and ongoing double-digit rates of price inflation. In addition, New Zealand was hit by a severe negative shock when the U.K. joined the Common Market in 1972, eliminating New Zealand’s privileged access to U.K. agricultural markets.⁶

New Zealand turned its economy around with two waves of reforms, starting with the Labour Party government of 1984. Roger Douglas, the finance minister, was the inspiration for and the leader of the first wave of reform. Douglas had read Hayek, Friedman, and other market-oriented thinkers and realized that the New Zealand economy required radical change. Moving rapidly, the government first deregulated the financial markets, floated the exchange rate, and removed wage, price, interest rate, and foreign exchange controls. The government also swept reform of state-owned enterprises, with an eye towards their eventual privatization. Top marginal income tax rates were halved and a (nearly) flat tax was instituted. Note that the Labour Party had historically been a left-wing party.

The first wave of reforms ended in 1987, when Douglas fell out of favor in the Lange government and New Zealand entered a severe recession. The second wave of reform started with the National party government of 1990, which finished the restructuring of the New Zealand economy. Most importantly, the National party deregulated labor markets through the Employment Contracts Act of 1991, which placed labor markets on a contractual basis, in opposition to the older system of centralized collective bargaining. The National governments also instituted the “zero inflation” contract with the New Zealand central bank, continued deregulation, completed the virtual elimination of tariffs, and continued economic privatization, most notably through the sale of New Zealand Telecom. The National governments also instituted a general campaign to bring accountability to government and to eliminate unnecessary government jobs and departments.⁷

The New Zealand reforms were significant. While transfer payments and government health care have remained largely untouched, New Zealand went from being one of the most interventionist of the Western democracies to being the least interventionist, all in the span of no more than a decade. Numerous economies moved in a market-oriented direction in these years, but none did so more than New Zealand.

A variety of hypotheses explain why New Zealand implemented such far-reaching reforms. New Zealand found itself in a deeper economic mess than did other countries. New Zealand interventionist policies were especially harmful, and those results were compounded by the negative real shocks that hit the New Zealand economy over the same time frame.

⁶ The best reference on New Zealand reforms is Evans, Grimes, Wilkinson, and Teece (1996).

⁷ A leading figure in the National Government reforms was Maurice P. McTigue, who is currently a Distinguished Visiting Scholar at the Mercatus Center at George Mason University.

Interventionism therefore may have lost more legitimacy, and relatively radical reforms were needed to keep New Zealand amongst the tier of first-world economies.

A second hypothesis cites the special features of the New Zealand system of government as a reason for the radical nature of the reforms. New Zealand government has no division of powers, as the executive and legislative branches are fused into one. There is no effective judicial review of government decision-making and no written constitution in the American sense. Parliament also has a relatively high degree of control over the bureaucracy, especially compared to larger countries. Federalism is extremely weak, since the small size of the country allows the national government to perform most functions. Parliament is relatively small (fewer than 100 members at a time), which can create significant power for a cohesive Cabinet. A “whip” system strongly encourages Parliament members to vote the party line. While backbencher revolts are common, the party leadership has a strong “first-mover” advantage in proposing legislation and setting policy. In all of these regards, the New Zealand system of government was a relatively undemocratic one. A relatively small number of individuals, if they control Cabinet, can shape the economic policy of a country more than in the United States or in Western Europe.⁸

In these regards, New Zealand attenuates the constraints on government relative to other systems, such as the United States. In other regards, however, the New Zealand system subjects government to an extreme form of external democratic control. New Zealand is a relatively small country (3.6 million today), much of the population is concentrated in a few major cities (Auckland, Christchurch, and Wellington), and is relatively homogeneous, despite substantial Maori and Polynesian minorities. The country is well educated and well informed. Voter participation rates are high. Elections are held every three years, one of the shortest cycles of any democracy. In the interim, a government may fall at any time through a Parliamentary vote of “no confidence.” The possibility of no confidence votes keeps governments in line with public opinion, even when the threat is not exercised. In essence, an implicit election is held every day, since Parliament would not go along with any government that fell too far out of favor. Furthermore, since there is no division of powers, Parliament, and Cabinet in particular, are held accountable for all policy. If something goes wrong, the citizenry is never in doubt as to who is to blame, unlike in the United States or other mixed systems.

The New Zealand system of that time can be thought of as allowing Cabinet almost complete latitude in the short run but imposing severe constraints in the medium run. Cabinet can initiate reforms and put them into practice with an effectiveness that the American system could never replicate. At the same time, if those reforms do not work, a New Zealand government will be punished with a swiftness and harshness that is foreign to the American system. There is a “hair-trigger” property to the New Zealand system that makes for potential instability but also enables beneficial reform.⁹

⁸ Since that time, the New Zealanders have introduced proportional representation in an attempt to constrain their government with more checks and balances. The switch of electoral systems, however, is not generally considered a success among New Zealanders.

⁹ Brook, Cowen, and Tabarrok (1992) analyze the New Zealand system in detail, and how it is geared to support certain kinds of beneficial reform.

Note that the Thatcher revolution in England went much further, in terms of real reforms, than did the Regan revolution in the United States. Thatcher fundamentally transformed the British economy, whereas Reagan did not do the same in the United States. In part the British economy was simply more interventionist to begin with and thus allowed greater latitude for change. But in part the changes of the Thatcher regime were due to the British parliamentary system. New Zealand, of course, drew its “Westminster” system of government from Great Britain. As in New Zealand, the British system of government has fewer checks and balances than does the American. This enabled Thatcher to push through more change than did Reagan, though the lack of checks and balances meant that the British economy had become more socialized in the first place.

The New Zealand reforms have enjoyed mixed popularity with the voters. In the initial stages of the reforms, the voters did not demand more economic freedom. Rather, voters demanded that something be done to reverse economic decline and gave politicians some amount of license to change the system. This created a wedge for the market-oriented ideas of Douglas and the Labour Government. The New Zealand reformers knew, however, that they had to create some fairly immediate gains if the reforms were to stand any chance of being maintained and extended.

Later on, many of the reforms became unpopular. After the New Zealand stock market crashed in 1987, the New Zealand economy performed poorly. Unemployment rates were high, the stock market fell, and real interest rates reached very high levels. Many voters blamed the bad economic times on the reforms and on the reformers. For that reason, the reforms fell out of favor and were discontinued for a while. The previous reforms, however, were not reversed. They had been implemented in such a way that their reversal would have occasioned obvious and direct economic catastrophe. It would not have been possible, for instance, to re-peg the exchange rate or reinstitute capital controls, once they had been removed. The small, open nature of the New Zealand economy made various liberalizing moves especially difficult to reverse once they had been implemented. The New Zealand system therefore gives a government considerable latitude to institute irreversible changes, if that government is willing to accept electoral judgment down the line.

As noted above, the reforms started up again when the 1990 National Party government was voted in to replace the Labour government. The National Party had a significant market-oriented faction (being traditionally the conservative party), and many party members saw the need for reform. Furthermore, a new window of opportunity was opened up, as there was a new three-year term and voters did not blame National for the problems of the late 1980s. Additional reforms were in any case necessary, given the objective economic conditions. New Zealand still has too many state-owned enterprises, a poor framework for monetary policy, and highly regulated labor markets, among other problems. For all these reasons, National staked its reputation on continuing the reforms, despite difficult economic times. Whatever risks they may have run, there was a general feeling that no other strategy would have worked in any case.

Finally, the economy came around in the early 1990s. Voters accepted the necessity for the reforms, albeit somewhat grudgingly. By 1993, New Zealand was enjoying a fully-fledged boom. Since that time most of the reforms have held, although there has been some minor

backsliding. New Zealanders also voted to eliminate their first-past-the-post system of government, which they partially blamed for the perceived “dictatorial” nature of some of the reforms. This has been interpreted as “expressive” statement of discontent with the reforms and how they were implemented. In other words, New Zealanders wished to vote against the reforms in some fashion, without actually wanting to eliminate or reverse the reforms.

If we examine non-communist autocracies, the reforms of Pinochet’s Chile were probably the most successful. The Pinochet regime started in 1973 when a military coup overthrew the elected government of Allende. The Pinochet government then ruled undemocratically until 1990, when Pinochet stepped down after having lost a 1988 plebiscite on his rule. Since that time, Chile has been a democratic nation.

The Pinochet government ushered in many significant reforms. Nearly 3,000 price controls were lifted and over 4,000 firms were privatized, including large firms such as airlines and the telephone company. Relative free trade replaced protectionism and monetary responsibility replaced periodic hyperinflation. The Chilean economy was reoriented towards productive entrepreneurship, rather than rent-seeking through government favors. The agriculture and technology sectors boomed and Chile moved away from its previous dependence on copper exports. The social security system was essentially privatized and converted into individual retirement accounts, managed by the private sector (savings remain compulsory, however).¹⁰ Over the course of a dozen years, Chile moved from having an extremely weak economy to being the economic envy of Latin America and indeed much of the world. The economy grew at an average rate of about 7 percent for over a decade. Many other second- and third-world countries, for better or worse, started to proclaim that they “need a Pinochet.” The Chilean example served as a focal point that encouraged (largely successful) reform efforts in other Latin countries, most notably Peru and Argentina.

As in New Zealand, the Chilean reforms were not in all regards an immediate success. The Chilean restructuring led to high unemployment and considerable hardship. As in the former communist economies, the reformers underestimated the number of years that would be required for readjustment. Misguided interventions are costly precisely because they misallocate resources, implying that beneficial reforms will be extremely disruptive in the short run. Chile also made the mistake of pegging its currency to the American dollar at the wrong time, which led to an economic catastrophe in 1982–83 when the dollar rose sharply. Until the mid-1980s, it was not obvious to Chileans that the Pinochet reforms would succeed.

The Chilean reforms were strongly informed by market-oriented ideas from the United States. Pinochet wished to make Chile a great country and a strong power and he saw economic liberalization as a means to this end. He relied on American-educated advisors, many of whom were market-oriented economists. Many of these individuals had studied at the University of Chicago with Milton Friedman and Arnold Harberger, among others. These advisors came up with the bulk of the reform proposals and Pinochet was willing to push them through. In addition to the Chicago economists, it has been noted that: “[the writings of] Friedrich Hayek... James

¹⁰ Martinez and Diaz (1996, chapter 2) provide a good overview of the Chilean reforms. See also Bosworth, Dornbusch, and Laban (1994). Whelan (1989) provides many useful details, despite his “apologies” for the worst aspects of the Pinochet regime.

Buchanan and Gordon Tullock...played an active and vital part in the dissemination of neo-liberalism in Chile.”¹¹

The degree and extent of opposition to market-oriented reforms is difficult to gauge, given the political oppression practiced at the time. The use of oppression is itself telling, although it is difficult to estimate how much oppression was needed to support an oppressive political dictatorship, and how much because market-oriented economic policies would otherwise have been unpopular. According to many left-wing accounts, market-oriented reforms succeeded only because the political environment had eliminated many traditional democratic checks and balances. Hojman (1993, chapter one), in contrast, stresses how the reforms were consistent with the historic power of various Chilean interest groups. Martinez and Diaz (1996, p. 3) go further and argue that the inflexible nature of the Pinochet dictatorship endangered the reform process rather than supporting it. Velasco (1994) sees the previous economic collapse as having created a “vacuum” without strong interest groups, thus giving the Pinochet regime extreme latitude to institute reforms. Under another account, the Chilean reforms succeeded because of the relative strength of rule of law in that country and a history of low levels of corruption.

The Pinochet reforms did, in the long run, prove popular with voters. Once the Pinochet government was replaced with democracy, even the left-wing parties supported the market-oriented reforms. Those reforms have not been reversed in the 10 years of subsequent democracy and no one has successfully campaigned on overturning the reforms. In the last election of 1999, the “Pinochet candidate” came very close to winning. Nonetheless, democracy might not have produced market-oriented reforms in Chile in the first place. The Pinochet forces would not have won a free election and indeed they failed in the election that brought Allende to power. The reforms also might not have survived the difficult years in the early 1980s had democracy been in place.

Fujimori, in Peru, also implemented Pinochet-like reforms in an essentially non-democratic manner. Fujimori was elected, but quickly “rewrite” the constitution to limit free speech and ensure his continued rule. His rule appears to have been largely popular, *ex post*, but again it is an open question what a more democratic environment would have produced in the first place. Argentina is the primary Latin example where significant market reforms were introduced in a democratic system with free elections. In the 1990s, Argentina reversed a 50-year economic decline, moving to a regime of controlled inflation, a stable currency, fiscal responsibility, and rapid economic growth. In addition, the intellectual and political climates in Argentina appear to have permanently changed for the better. These episodes, however, await systematic study.¹²

In Asia, the freest countries have not generally been democratic. If we examine the index of economic freedom, Hong Kong is typically among the freest areas in the world, if not the freest. Even the takeover of Hong Kong by the Communist Chinese has not changed this fact. Hong Kong, of course, is not a democracy nor had it been in the period under consideration. Hong Kong owes its market-oriented policies to the enlightened British rule. In particular, the individuals responsible for the Hong Kong territory made a very deliberate decision to allow the

¹¹ See Pollack (1999, p. 21).

¹² Corraltes (1997) provides one treatment and analysis of the Argentina experience. For a survey of the political economy of reform more generally, in a variety of countries, see Williamson (1994) and Rodrik (1996).

colony to develop in a laissez-faire direction. Hong Kong received the benefits of a market-oriented economic policy, while simultaneously enjoying protection under the British rule of law. No other country in the world has had this unique combination of systems. Had Hong Kong been a democracy, its citizenry probably would have voted for more intervention. Indeed right before the Chinese takeover, the democratic pressures in Hong Kong were for more government in the economy, not less. The British rule of law, of course, was the direct result of foreign intervention, which also would not have survived a democratic test.¹³

Singapore also ranks highly on the index of economic freedom. Singapore, of course, is no democracy but rather owes its economic policy to a particularly enlightened autocracy, primarily under the guise of Lee.

We can draw some very rough generalizations from the examples of successful reforms. First, in each case, a small number of critical decision makers were conversant with market-oriented ideas on a highly intellectual level. The writing of Hayek and Friedman appear to have been particularly important for the reforms of the 1980s. This intellectual background can be thought of as a precondition for reform.

Second, in no case were reforms brought on by popular demand for market-oriented ideas *per se*. Yet in New Zealand and Chile, especially in the former, the public was open to the idea that some form of radical change was necessary, given the extant crises. In Hong Kong and Singapore, there was a sufficient social consensus to support leadership and a desire to earn money through business and investment, but again no attachment to market ideas as an ideology. This suggests that public toleration is more important than deep public involvement with market-oriented ideas.

Third, in each case traditional democratic constraints were to some extent attenuated, for one reason or another. New Zealand was the most democratic of the radical reformers, but their system involves extreme short-term latitude for politicians to implement changes. Comparable latitude is harder to imagine under a system with more checks and balances.

It is this third fact that makes market-oriented reforms so difficult to achieve in other democratic contexts, such as the United States or much of Western Europe. In the case of the Reagan administration, for instance, many of Reagan's advisors and appointees had deep familiarity with market-oriented ideas. The public also had thrown out the Carter administration and was ready for a change of some sort. Nonetheless, most of the Reagan market-oriented initiatives were aborted. Regulatory reform was a failure. There was one large tax cut, but followed by a larger tax increase. The public decisively rejected some of the "environmental" ideas of Reagan appointees such as James Watt. For the most part, Reagan did not make a dent in the "big government" that he had campaigned against.

The clearest account of the Reagan years comes perhaps in David Stockman's memoirs. Stockman had run OMB and at first was considered a "whiz kid" who would pare down big government. He failed in this endeavor, and in his memoir he later expressed the following realization (1987, p. 427): "The truth to be remembered is that history in a democracy does not

¹³ On the government of Hong Kong before the Chinese takeover, see Miner (1985).

live to be rewritten and rerouted; it just lives for another day, finding its way into the future along the trajectory of its well-worn and palpable past.” The American system of government, in particular, is designed to prevent radical change.

The above evidence does *not* suggest that relatively non-democratic forms of government are superior to more democratic forms. In fact, I explicitly favor more democratic systems, despite thinking that market-oriented reforms have been desirable in the cases discussed above. Non-democratic systems of government have accounted not only for some beneficial reforms, but also for many of the worst problems in the first place. In New Zealand, economic policy was so poor in the first place precisely because of the lack of checks and balances on the government. Many earlier dictatorships had impoverished Chile, rather than enriching it. The non-democratic Chinese Communist state may wreak great havoc on Hong Kong. And so on.

The relatively non-democratic systems seem to account for the extreme outliers of all kinds, including the most successful attempts at reform. Despite this evidence, however, we do know that the United States has undergone radical reforms in its past. The Progressive Era, the New Deal, and the civil rights movement all were highly controversial and had profound and lasting effects on American life. A broader perspective suggests that reforms are possible, and it remains to be seen how these conflicting pieces of evidence will be brought together into a larger, more consistent framework.¹⁴

IV. Procedural Reform

Many individuals have suggested procedural or constitutional reform for the United States and Europe. If American political institutions render market-oriented reforms too difficult to achieve, then perhaps those institutions should be changed. Nonetheless, the available evidence suggests that unambiguously beneficial procedural changes are difficult to come by.

Given the instability of the Westminster Parliamentary system, as discussed above, it is unlikely that the United States would be better off moving in that direction. While the weakening of checks and balances would increase the chance of a very good outcome, it also would increase the chance of a very bad outcome. Furthermore, the widely perceived legitimacy of the United States Constitution suggests that such a change would involve disastrous transition costs. The American social consensus in favor of the Constitution could not easily be reconstructed from some alternative set of political institutions.

Term limits are one more modest procedural reform that received attention in the 1990s. Indeed over 20 states passed term limit laws for their congressmen, although the U.S. Supreme Court later struck down legislation of this kind. The idea behind term limits was to limit the power of incumbents and professional politicians and return to the earlier idea of the citizen-legislator. Proponents claimed that term limits would make legislators more responsive and less monopolistic. James L. Payne, in his fascinating *The Culture of Spending* (1991), argues that the longer politicians stay in Washington, the more interventionist their beliefs become, given the

¹⁴ Gordon Tullock, in an intriguing unpublished piece from 1989 called “Accidental Freedom,” argues that much of the economic freedom in American came about by accident, rather than design.

pressures that surround them. Term limits might change the intellectual climate by continually bringing in “fresh blood.”

The available evidence, however, does not suggest that term limits would favor market-oriented reforms. First, more democratic systems do not necessarily favor beneficial reforms, given the discussion in the previous section of this paper. Second, turnover rates were much higher in the 19th century, four to six times higher than today, but the composition of Congress was remarkably similar. Lawyers made up 60 percent of the House of Representatives in the 19th century, more than they do today (Tabarrok 1994). Third, term limits would shift the political balance of power without necessarily producing better outcomes. Term limits would strengthen the president, political parties, the bureaucracy, and arguably the media, at the expense of Congress. The net effects of term limits involve mechanisms that are very complex and difficult to predict, as stressed by Tabarrok (1994). Nor does the empirical evidence make a strong case for term limits. John R. Lott and W. Robert Reed (1989) have shown that politicians in their last term in office do not behave very differently from other politicians, which suggests that term limits would not matter much.

The line-item veto gives the executive, whether a governor or a president, the power to selectively veto items in a budget. Some individuals believe that this device offers potential for checking excess or pork-barrel spending. The line-item veto also makes it harder for the legislature to logroll, as any trade of votes can effectively be voided *ex post*, which may limit spending as well. The standard treatment of the line-item veto (Holtz-Eakin 1988) suggests that it is a poor tool for limiting spending. According to this account, states that use the line item veto do not have systematically less spending than states that do not. In more recent times, however, Mark Crain (2000) has reexamined this evidence, using superior statistical techniques and finds that the line-item veto does have a real ability to constrain spending.

James M. Buchanan has been one of the leading advocates of balanced budget proposals and constitutional spending limits. A balanced budget proposal would require the government to cover its expenditures with taxes each fiscal period, or perhaps allowing an “out” if a sufficiently high percentage of the legislature is willing to vote that a crisis exists. The “out” provision may be needed for major wars or perhaps for a severe depression. Expenditure limits would cap government spending at some absolute level or at some percentage of gross domestic product.

It is difficult to estimate how effective these provisions would be in practice. The U.S. came closest to such policies with the Gramm-Rudman-Hollings Act of 1985. The Gramm-Rudman Act was not enacted at the constitutional level, but it did specify that balanced budget targets were to be drawn up and then met within five years. Following the passage of the act, Congress and the executive branch engaged in intense gamesmanship. Various categories of government spending were redefined as off-budget and the deadlines were postponed. Eventually the targets were ignored altogether and the act ceased to have any meaning. The deficit continued to be high and neither Congress nor the executive was willing to accept responsibility for that deficit. Rudman himself later repudiated the legislation that he had sponsored.¹⁵

¹⁵ On this experience, see “Submission to the Finance and Expenditure Committee of the House of the Representatives on the Fiscal Responsibility Bill” (1994, pp. 61–2).

This experience illustrates some of the difficulties with procedural reforms. Undesirable outcomes, such as excess deficits, often have deep structural roots in voter demands, partial voter ignorance, and special-interest pressures. Purely procedural reforms do not make these underlying causes go away, and cannot bring about changes that would otherwise find little or no support. Instead, procedural reforms tend to shift the pressures into a different arena. Usually the final result is the same, but in the meantime political pressures end up trampling on the procedural reform to achieve the relevant end, such as high levels of government spending.

Elevating fiscal constraints to the constitutional level could either improve or worsen the basic problem. On one hand, political pressure groups might find it harder to trample on the Constitution, given the special status of that document. The procedural reform might stick to some extent. On the other hand, any trampling that took place could weaken the Constitution significantly. In essence, putting an unpopular and unenforceable provision in to the Constitution could lower the stature of the document without achieving the desired end of expenditure limitation. Arguably various states' rights provisions had exactly this effect during the earlier years of the civil rights movement. The provisions were overridden and the Constitution lost stature in the process. Furthermore, American history has shown that the courts simply will not enforce many unpopular provisions of the Constitution, again diluting the overall power of the document. When was the last time, for instance, that the Supreme Court struck down an economic regulation on the grounds of unconstitutionality? The extent to which constitutions matter at all remains an open question.¹⁶

The New Zealand experience, in a variety of contexts, illustrates the strengths and limits of procedural reforms. New Zealand procedural reforms typically have focused on accountability, transparency, and clear public information. This represents a recognition that procedural reforms will not succeed unless they also shift the balance of public sentiment and alter the fundamental terms of agreement between politicians and voters. In the area of monetary policy, for instance, New Zealand did not, as is commonly believed, mandate a 0 to 2 percent rate of price inflation. Rather, New Zealand's Reserve Bank Act required the government to announce inflation targets and then accept the responsibility if those targets are not met. In effect, the problem of inflation was redefined in public relations terms. Inability to achieve inflation in the 0 to 2 percent range has now become perceived by the public as something weak, incompetent, or shameful. The actual constraint on government, in legal and procedural terms, is a weak one, but it has succeeded in restructuring the broader political equilibrium. The Reserve Bank Act is commonly regarded as a significant success. The New Zealand government also passed a Fiscal Responsibility Act in the 1990s, which required the government to set out its fiscal targets and assume responsibility for any other deficit that resulted; this was modeled explicitly after the anti-inflation policy. The Fiscal Responsibility Act also appears to have been successful,

¹⁶ Daniel Sutter has several interesting papers on this question. He examines, for instance, whether a "constitutional bargain" is likely to bring about a better resolution than dealing with the relevant issues on a one-by-one basis. See Sutter (1995, 1998). For a further analysis of constitutional solutions to fiscal problems, see "Submission to the Finance and Expenditure Committee of the House of the Representatives on the Fiscal Responsibility Bill" (1994). Buchanan and Congleton (1998) consider some pluses and minuses of constitutional solutions more generally.

although it came later and at a time when the underlying fiscal problems had largely been resolved already.¹⁷

Much attention has been directed at regulatory reform, although with mixed results. Many regulations, such as the requirement for unleaded gasoline, bring significant benefits and in fact can be understood as property rights enforcement (individuals have a right to protect their air from invasive pollutants). But many regulations, most likely the overwhelming majority, have costs that exceed their benefits. If the regulatory process took greater heed of economic costs, Americans could be both wealthier and freer. OMB has estimated that regulations cost the American economy \$200 billion per year and many of those regulations restrict liberties without creating comparable freedom in return. The regulatory situation in many other countries is considerably more onerous, although exact estimates are difficult to come by.¹⁸

Achieving beneficial regulatory reform, however, is more easily said than done. The experience of the Reagan administration illustrates some relevant difficulties. In the first month of his presidency, Reagan issued Executive Order 12291, which called for all regulatory agencies to submit proposed major regulations to the Office of Information and Regulatory Affairs (OIRA), which is part of the Office of Management and Budget, reporting to the president, rather than to Congress). OIRA was then bound to submit all proposed regulations to a cost-benefit test and recommend rejection for those that failed that test; OIRA, however, could not actually veto the regulation. “Major” regulatory initiatives were defined as those exceeding \$100 million in cost.¹⁹

Note that Reagan did not change the regulatory agencies themselves or build up support in Congress, but rather he relied on an Executive Order. The mandate for regulatory reform was never demonstrated or built up. Not surprisingly, opinion polls documented that public support for government regulation increased, rather than decreased, over Reagan’s terms (Friedman 1995, p. 155). Most of the victories won by OIRA were one-time in nature and concentrated on a few highly visible issues. For the most part, the Reagan regulatory reforms did not portend any permanent decline in the regulatory burden. In the later years of the Reagan administration the fight was given up altogether, and the Bush administration took positive steps to increase the number of new regulations. Clinton later issued another Executive Order, supporting Reagan’s initial Order, but again this was accompanied by pro-regulatory policies. Experience has made it clear that agencies frequently ignore the requirement, or simply classify their proposed regulations as not falling under the cost-benefit purview. Furthermore, the cost-benefit study can be “cooked,” if need be, through manipulation of the data and the basic method.

The American deregulatory successes typically have come in “big bangs,” rather than the gradual paring back of new regulations through procedural reform. Airline deregulation, for instance, arrived with the support of the president, Congress, a fair contingent of the regulators, and some of the airlines themselves. The campaign had significant media support, driven by the evidence

¹⁷ On the act, see “submission to the Finance and Expenditure Committee of the House of the Representatives on the Fiscal Responsibility Bill” (1994).

¹⁸ Hopkins (1998) offers a less-conservative estimate of more than \$700 billion in regulatory costs.

¹⁹ Friedman (1995) provides the best historical overview of the Reagan experience with regulatory reform. See also Eads and Fix (1984), Harris and Milkis (1989), and Goodman and Wrightson (1987). Wendy Gramm, currently Distinguished Research Fellow, Mercatus Center at George Mason University, was involved in this process.

that unregulated within-state flights were much cheaper than regulated interstate flights. Most of the relevant parties subscribed to the notion that airline deregulation was an idea “whose time had come.” Furthermore, airline deregulation was a pro-consumer measure in an era that was much consumer-oriented legislation. Similarly, the New Zealand and Chilean deregulations arrived in big-bang style clustered bursts, rather than gradual procedural improvements. In each case, numerous regulations were swept away in relatively short periods of time. Before and after those periods, however, there was no noticeable change in the regulatory climate.

If most improvements come in clustered big bangs, we must reevaluate how we judge strategies for social change. An appropriate strategy should prepare a society to exploit an opportunity for a big bang, if the opportunity comes along. In most periods of time, however, it will appear that nothing is happening and that no major successes are being reaped. In other words, perhaps we should evaluate strategies for social change by their potential at the extreme, rather than by their average or median effects.

The success of regulatory reform is often sector specific. It appears easier to deregulate airlines, for instance, than to deregulate taxicabs. If airlines are allowed to fix prices through force of law, as had been the case in the United States, they will tend to compete away the excess profit margins. Airlines will make the seats more comfortable, increase the quality of the food, make route offerings more convenient, and so on, as we saw happen under regulation. After a while, the price fixing no longer brings significant excess profits. Airlines then benefit less from regulation and will invest fewer resources in fighting deregulation. Taxicab regulation, in contrast, never ceases to offer significant benefits to the taxi drivers, at least if regulation is based on a medallion system. The medallion is a capital asset, sometimes worth more than \$100,000. Most forms of deregulation would make the asset worth nothing, and therefore taxi drivers remain opposed to the change. Regulation, in the form of minimum prices, is self-unraveling in a way that a medallion-based system is not.²⁰

Finally, some procedural reforms suggest bringing greater accountability to government through results-based management. In New Zealand, this technique was used to great effect to pare back unnecessary government jobs, decrease waste, and improve the quality of the remaining governmental services. During the second wave of reform under the National Party, the New Zealand government required its agencies to specify targets of achievement and report on whether those targets were being achieved. This surprisingly simple procedure generated new information and shifted political coalitions. Government agencies had to increase their performance or face budget cuts. The power of special interest groups to defend those agencies was now limited, at least if the agency had failed to meet a reasonable set of pre-specified quantitative goals.

²⁰ For a survey of this line of argument, see Peltzman (1989). Some individuals have suggested deregulating by offering each driver an additional medallion for free, which that driver is then free to sell to another driver. This useful idea may weaken the opposition to taxicab deregulation, although in the limiting case of free medallions taxi drivers still lose the total value of their capital investment. On the role of special interests in politics more generally, see Kroszner and Stratmann (1998) and Stratmann (1998). Robert Tollison has devoted much of his career to this topic, for one sample publication of dozens, see Tollison and McCormick (1981).

The United States has attempted to implement similar procedures with the Results Act of 1993, which passed with bipartisan support. The Results Act requires regulatory agencies to set specific targets for achievement, and report back on whether they have met those targets. To date, however, the Results Act has generated little cooperation from the agencies, and the implementation of the Results Act requirements was postponed in the first place. Some initial reports have now been issued, but the Clinton administration has treated the progress reports as a non-event.

It remains to be seen whether the Results Act will prove an effective tool for improving the quality of government policy. On the critical side, Paul Light (1993) of the Brookings Institution argues that reforms such as the Results Act are unlikely to improve the American system of government. He sees “reinventing government” as usually adding another layer of bureaucracy and in fact decreasing rather than increasing accountability. Alternatively, even if the Results Act is ineffective today, it may increase the chances for successful “big bang” reforms in the future, by putting the relevant machinery of accountability in place. Furthermore, the New Zealand experience suggests that some form of a Results Act can be effective, at least if accompanied with the appropriate amount of political will. A Results Act alone may do nothing, but it may serve as one useful piece of a broader combination of reform steps.

V. Shaping Public Opinion

Given the central role of public opinion in shaping economic policy, it is natural that scholars should turn their attention to the determinants of public opinion. Of all the work surveyed, this is perhaps the hardest area to investigate, despite its great importance. We have no well-formed theory of the dynamics of public opinion comparable to the theories we have for economics. Public opinion involves the disciplines of psychology, cognitive science, sociology, political science, and economics, among others. Furthermore, the literature on public opinion is vast and not susceptible to an easy survey.²¹

I do, however, wish to point out some recent work by Bryan Caplan of interest. Caplan has been developing a theory of “rational irrationality” to help explain the content of public opinion in a democracy. He also is studying which individual characteristics tend to predict informed opinion, and which characteristics tend to be associated with uninformed opinion.²²

The theory of rational irrationality starts by emphasizing the irrational component to human opinion and human decision-making. This irrational component tends to disappear in areas where the costs of individual irrationality are high. To give a simple example, few individuals drive the wrong way on one-way streets on a regular basis. The private costs of this kind of irrationality are high. If individuals hold irrational beliefs in the realm of politics, however, they suffer no direct penalty. An individual is not typically worse off if he or she believes that protectionism increases the rate of economic growth and creates new jobs. Therefore, when individuals are looking for areas in which to “consume” irrationally, politics is one area they tend to choose. Political failure therefore is rooted deeply in human nature, rather than being a matter of poor information alone.

²¹ For a few better works on public opinion, see Sears and Funk (1990), Mayer (1992), and Page and Shapiro (1992).

²² The relevant papers by Caplan are listed in the references.

Note how this approach differs from economists' (e.g. Anthony Downs) usual emphasis on ignorance. It is well known that voters may be rationally ignorant given the small chance that they will affect the final outcome. The ignorance approach suggests that it would be relatively easy to educate voters by sending them free information. Furthermore, mere informational errors are likely to be random and scattered ("normally distributed" in the language of statistics) rather than systematic. The irrationality approach, in contrast, explains why individuals often ignore free information, or even react with hostility when they hear opposing viewpoints. The irrationality approach also accounts for why the least-informed individuals also tend to be most certain of their opinions.

Caplan's work on public opinion is part of a larger vision of explaining American democracy. Some public choice theorists resort to interest group pressures to explain inefficient government policies. Other scholars (i.e., Donald Wittman) argue that democracy gives voters "what they want," and that therefore democracy is efficient. Caplan's work suggests that neither perspective is fully correct. As Wittman suggests, democracy, to a considerable extent, gives voters what they want. Nonetheless, Caplan argues that voters want something irrational. Given this perspective, the question is not why government works so poorly. Rather, it is amazing that democratic government works as well as it does, once we consider the raw material of citizen opinion it has to work with.²³

Caplan's work shows a number of particular findings. Education is the best predictor of whether an individual will hold views in accordance with the opinions of professional economists. Income is a surprisingly poor predictor of "rationality" in this sense. In addition, the rate of change of one's income is a better predictor of rationality than the absolute level of one's income. Individuals with falling incomes are more likely to be irrational than poor individuals, all other things being equal. Indicators of rationality also cut across standard liberal/conservative lines, including political party membership. The evidence also indicates that men are more likely to think like economists and be economic optimists, relative to women.

Additional survey evidence indicates where ordinary citizens are most and least likely to correctly understand purely descriptive features of the economy. The divergence between ordinary opinion and expert opinion is greatest when the question concerns foreigners, such as when people think that foreign aid is a high percentage of the total federal budget when in fact it is a very low percentage. This "anti-foreign" bias also shows up on trade issues. The bias decreases unambiguously amongst well-educated individuals. These results suggest that when individuals misjudge policy questions, they are doing so for partly emotional reasons, rather than because of simple lack of information.

It remains to be seen whether Caplan's research suggests fundamentally pessimistic conclusions, or whether it opens a door towards improving the working of democratic society. The wide variance of observed public opinion suggests that the degree and extent of irrationality are not inalterably fixed. The extent of public irrationality also varies greatly across societies. Exactly how the degree of public irrationality might be improved, however, remains an open question. Caplan's research does suggest that information-based education, taken alone, is unlikely to

²³ For an alternative perspective on Wittman, see Rowley (1997).

suffice. For improvement to occur, individuals need to find some private benefit in public displays of their political rationality. Alternatively, it may be possible for “irrationally held” views in fact to support good policies rather than bad ones. Most U.S. citizens support the American Constitution, for instance, though it is unclear whether they do so for the “correct” reasons or simply out of blind patriotism.

To make further progress on these questions, it may be necessary to consider which kinds of irrationality people find attractive and why. Constant with standard economic practice, Caplan takes the demand for irrationality as given and does not attempt to probe its deeper roots. He focuses on changes in the cost of being irrational for the individual, without examining where the content of that irrationality comes from. Further investigation could examine the social functions of irrationality and how the corresponding demand for that irrationality shifts with objective conditions. Most likely, this approach will have to take greater heed of cognitive science and perhaps evolutionary biology (my colleague Robin Hanson is working along this latter tack) than has been the case to date.

Which social movements are successful?

A related question is which social movements are successful and why. In the last several decades, we have seen a variety of movements reshape American society. This includes the civil rights movement, the feminist or women’s liberation movement, and the environmental movement, to name a few. We also find many “intermediate” movements that have won some successes but have not taken the world by storm. This might include the animal rights movement, the tax revolt movement, the term limits movement, and others. In the category of failed movements we could place the campaign to ban abortion, numerous religious movements, and the Henry George “single tax” movement. Some movements, such as school vouchers, may yet succeed on a widespread basis.

The extant literature gives few guides for understanding why some movements have succeeded while others have failed. There are numerous case studies of particular movements, but few attempts to draw more general lessons. Most of the case studies are not informed by any systematic theory and thus are of limited value.

In the economics literature, the primary contribution is Mancur Olson’s *The Logic of Collective Action*, published in 1965. Despite the pathbreaking nature of Olson’s work, his major hypothesis is inadequate to explain the experience of the last 30 years. Olson postulated that successful lobbies, movements, and interest groups were most likely when the beneficiaries were small in number and thus able to organize easily. Groups and lobbies with larger numbers face a free-rider problem, since all group members benefit from the lobbying of any single member.

While Olson pinpoints one relevant factor in determining the success of lobbies, it may not be the most important factor in recent decades. Olson’s theory, for instance, cannot easily explain the mass participation in the civil rights movement and the environmental movement. Individuals have been willing to join these movements and donate their time and energy even though the effect of their labors will be spread across many millions of fellow citizens. In many cases, individuals appear to *prefer* joining mass movements, as they enjoy doing something in common

with other people. A political movement may be based on a “snowball” or “bandwagon” effect, where many people join once they perceive it will be successful.

These shortcomings of Olson’s theory are now widely recognized, but no one has replaced it with an approach of greater power or generality. It does not suffice to cite altruism as a motive for mass participation, since altruism would not explain the *kind* of political participation or why many of these same participants do not give much money to charity. Some commentators have suggested that television has allowed mass movements to organize more easily and to develop common images and symbols. Individuals might join mass movements to project a certain kind of image to others, and television allows the mass movement to be associated with a commonly accepted image. Alternatively, some individuals have interpreted the environmental movement as actually the product of upper middle-class elites, although I do not find this portrayal illuminating, given the widespread support for environmental ideals. A variety of other contributions, surveyed in Petracca’s edited volume (1992) on interest groups and political movements, move beyond the economic approach and focus on psychological, cognitive, and sociological factors.

The history of the environmental movement shows the difficulty of trying to apply simple stories. In 1960, before the publication of Rachel Carson’s *Silent Spring*, the environmental movement barely existed, even though at that time many environmental problems were more serious than today. Now, in 2000, a clear majority of the American people consider themselves to be “environmentalists.” Dozens of environmental lobbies and pressure groups exist, many of them highly influential and large in size. The Sierra Club and Greenpeace are household words. Environmentalism has proven to be a consistently popular issue with voters, and Republican George Bush promised to be the “environmental president” when he ran for office in 1988. Every wealthy country in the world now has an environmental movement and Germany has an environmental party, the Greens.²⁴

The environmental movement has won numerous political victories, including comprehensive federal regulation for most major environmental issues. Although the federal government usually moves very slowly, environmental regulation has increased rapidly over the last three decades. The Environmental Protection Agency, created by the Nixon administration has become the largest regulatory body on Earth, whether measured in terms of employees or budget. In addition to these figures, we must count the indirect measures of the size of the EPA, such as the number of man-hours devoted to preparing “environmental impact statements” or the number of full-time environmental lawyers, estimated at 20,000 in 1989 (Kline 1997, p. 118).

While the environmental movement has brought many desirable reforms, the movement now possesses a cache that extends beyond its deserved reputation. A significant percentage of the American citizenry will side with the environmental movement on a given issue, regardless of what the facts suggest. A business or government will have automatically lost the public relations fight if it is labeled as “anti-environmental,” even if other facts stand on its side. The question then arises why the environmental movement has enjoyed such successes.

²⁴ On the history of the environmental movement, see Sale (1993). This topic still awaits satisfactory treatment from an analytical point of view, however, much less a definitive one. Hays (1987) provides some interesting material.

The strength of the environmental movements appears to arise from a confluence of several favorable factors. First, many environmental policies have addressed a real need to improve the quality of the environment, even if they have often done so in an inefficient and costly manner. A series of important initial triumphs will create lasting credibility for a movement for a long time. The public often evaluates movements and politicians in terms of a larger “package,” and if they see a small number of significant, highly visible achievements, they will view the entire package favorably for a long time. The civil rights movement still benefits from this kind of halo effect.

Second, the environmental movement has succeeded in associating itself with values that resonate favorably with most human beings. Individuals hold positive feelings about associating with the movement or donating their time or labor. Ralph Nader once noted, “The strongest impulse after survival in the human psyche, I am convinced after years of observation, is not power, lust, greed, jealousy. It is beauty. That’s the strongest impulse....And environmentalism has that going for it” (cited in Shabecoff 1993, pp. 248–249).

Finally, the environmental movement has good stories on its side and is well suited for generating favorable media coverage. The media favor easily presentable stories with clear visuals and a relatively simple moral interpretation (see the discussion of media below), and environmental issues very frequently present stories of this kind. The Bhopal disaster in India, the Chernobyl nuclear reactor catastrophe, Love Canal, the Exxon Valdez oil spill, the French attack on the Greenpeace boat, and the discovery of the ozone layer hole over Antarctica all make for good news copy. Most of these stories possess a David and Goliath element, where the victims are animals or ordinary citizens, and the “aggressors” can be identified with large corporations or governments.

It nonetheless remains an open question how movements rise from obscurity to prominence. Exactly which objective conditions had changed between 1960 and 1975 for the environmental movement? Since we are unable today to predict which movements will succeed in the future, the link between objective conditions and movement success is likely a murky one.

VI. Understanding the Media

The media are of central importance for understanding today’s world and the shaping of public opinion. Today, most people receive their information from the media and arguably a good degree of their opinions as well. The average American is said to watch six hours of television a day. Radio stations, movies, and newspapers reach millions. Internet access has been growing exponentially.

Despite these facts, the influence of media on public opinion is not well understood. Do the media make people more interventionist, more conservative, more individualistic, or something else? In net terms, do mass media make people more or less libertarian? How do various media differ in their effects? What can we expect from the Internet?

Many commentators believe that the media present a biased picture of politics and culture. Individuals on the Left believe that the media is the captive of large corporations, which own most major media outlets. On the Right, many conservatives see a pronounced left-wing bias in the media. The mere fact that both perceptions are possible is itself interesting and suggests the complexity of the problem. Daniel Sutter is writing a book on the economics of media and studying the question of media bias in detail. My remarks owe much to his investigation and to conversations I have had with him on the topic.

It is difficult to prove a charge of media bias, one way or the other, without agreement on what an “unbiased” media would look like. Henry Luce once noted: “Eisenhower was right for the country for a large number of reasons, therefore it was *Time*’s duty to explain why the country needed Ike. Any other form of objectivity would have been unfair and uninvolved.” When many commentators allege media bias, they often simply mean that the media do not share their perspective. Given that most media (radio may be an exception) are hardly in the forefront of the libertarian and conservative movements, market-oriented thinkers have a tendency to be suspicious of media. Furthermore, market-oriented thinkers, like their counterparts on the Left, identify themselves as intellectuals. This reinforced their tendency to be suspicious of communications that are not aimed at the intellectual class.²⁵

We find evidence that support both left- and right-wing perspectives on media bias. If we examine the political views of journalists and television personalities, we find that they identify with Democratic and “left-leaning” causes to a disproportionately high extent. One survey found that 94 percent of journalists voted for Johnson, 87 percent for Humphrey, and 81 percent for McGovern and Carter each (Lichter, Rothman and Lichter 1986, pp. 20–53). It remains an open question, of course, to what extent those views influence the content of their reporting.

Alternatively, looking at the ownership of media outlets supports left-wing charges that media are biased in the conservative direction. CBS, for instance, is owned by Westinghouse. We do not expect Westinghouse to favor an overthrow of the capitalist system, an extreme leftward move, or even a small increase in the corporate income tax. Presumably, the shareholders of these companies wish to maximize profits and would not sue their media assets towards a contrary end. Under this hypothesis, the media tend to be conservative, but in the literal rather than the political sense. These media outlets, especially television networks, hold privileged positions in the status quo and should not wish to push for radical change.

A null hypothesis postulates that the content of media is demand-driven by consumers. Media may be “biased” in the sense of not reflecting the truth, but perhaps they simply broadcast what their viewers wish to see or hear. The demand-driven theory in fact dates back to Plato’s *Republic*. In that work, Plato argued that the Greek poets, such as Homer, wrote to entertain their audiences and in the process distorted important moral truths.

Libertarian or conservative theories of media bias, however media bias is to be defined, must explain how and why the media override the wishes of both consumers and shareholders. Under one possible alternative, individuals with a left-wing slant find careers in the media especially appealing, perhaps for some psychological reason, or perhaps they wish to change the world.

²⁵ Cited in Sutter (2000).

Conservatives may be more likely to end up in business, given their political and attitudinal orientation. The resulting bias may not even be intentional, but left-wing individuals will tend to see or frame the issues in a particular way, which will influence the content of news stories.

Note that profit-maximizing media corporations will not necessarily fight this tendency. Left-wing journalists or television producers will work in media sectors for a lower wage than will others, all other things being equal. Media corporations hire these individuals because they wish to get the best talent at the lowest wage possible. This policy does not contradict profit maximization at the level of the individual firm, even if the resulting intellectual climate tends to be anti-business or anti-profit. The combined effect of all these hires, across all firms, may be a less-favorable environment for business, but no single corporation takes this effect into account when choosing its hires. Thus there may be a collective action or free-rider problem. The media outlets, acting collectively, create a more left-wing climate of opinion than any one of them would otherwise wish to see if it had direct control of the process.

It is difficult, however, to find evidence for this proposition. We do not observe media corporations trying to control their journalists or reporters. Media “bosses,” for instance, seem to be just about as left-leaning as their journalist employees (Sutter 2000, p. 15). Journalists also seem to enjoy a good deal of autonomy and we find few attempts to control the political orientation of their stories.

Most bias hypotheses cannot explain the observed uniformity of opinion on television. We might, for instance, expect there to be “right wing” and “left wing” television channels or news programs. We see this to some extent with newspapers and to a far greater extent with radio and with magazines. No one doubts that *National Review* is a “right-wing” organ or that *The Nation* and *Mother Jones* are “left wing.” But television news programs do not differ so much in their political content. If one network were exhibiting political bias in its reporting, we might expect one of the others to capture the rest of the audience by offering a different political perspective, either on the right wing or simply more mainstream.

The relative absence of political differentiation on television implies one of two possibilities. First, perhaps television viewers do not notice or care, in which case media bias on TV may be unimportant in any case. Viewers may simply look to TV to be entertained, or to receive information passively, but without paying close attention to the informational content. Second, the pressures for bias may be strong and universal, thus affecting all of the networks.

My favored hypothesis generates bias from the preferences of the audience. Audiences do not always watch the news for its informative value. They may be looking to be entertained or looking for something to talk about with their peers. Many audience members are simply looking for stories, which they find in comedies, drama, game shows, and the television news to varying degrees. Media outlets, especially television, therefore tend to supply stories. The accompanying political orientation will be shaped by whatever best accompanies a marketable story.

Borrowing the language of Frederic Bastiat and Henry Hazlitt, we can say that television specializes in marketing the “seen,” rather than the “unseen.” In the context of government policy, the seen refers to the tangible benefits of a given policy. The unseen refers to the

foregone opportunity costs. If the government builds a new dam, taxpayers will end up with fewer swimming pools in their backyards, to cite one possible example, given that they have less money to spend on their personal consumption. It is easy to make a story out of the seen dam, but harder to make a story out of the swimming pools that might have been. In this regard, news reporting will often pay more attention to the benefits of government policies rather than the costs. Government expenditure programs will tend to look good on television. This bias is to some extent ameliorated by non-visual print media, but even then it is easier to report on the tangible benefits of a policy than the intangible opportunity costs. It is hard, on a repeated basis, to write a good story about how people might have spent their money had taxes been lower.

The desire for stories will slant the news in a variety of ways, some left wing and some right wing. News programs will seek out and present human tragedies, which make good stories. Therefore, the average viewer will be highly aware of natural disasters, plane crashes, and poor individuals in difficult situations. At the same time, the average viewer will be highly aware of the crime rate, since crime victims (and criminals) make good stories. Public attitudes towards crime therefore will tend to be right wing, or at least the media will tend to shape those opinions in a right-wing direction. Wartime atrocities, which make good stories as well, will be publicized on television too. This may lead to an anti-war climate, at least if the relevant war involves the death of American soldiers or civilians (how much Americans care about the deaths of foreigners is less clear).

This hypothesis, if expanded, can account for the predominantly left-leaning backgrounds of most journalists and reporters. Left-wing journalists may be better than right-wing journalists at telling stories of a certain kind, given their natural inclinations. This would account for the prevalence of left-wing journalists and other media employees, but without postulating any kind of conspiracy or cartel.

An alternative version of the “stories” hypothesis claims that media, and television in particular, tend to make individuals more cynical about politics and more apolitical (Meyrowitz 1985, Cowen 2000). Television broadcasts images of political leaders on a daily basis. The more we see our leaders, the less likely we are to be impressed by them. We observe their gaffes, their foibles, and their weaknesses. When FDR was president, most Americans did not know that he was in a wheelchair. He had an almost superhuman presence in the minds of many Americans. In more recent times, in contrast, we have seen Nixon sweat profusely in the Kennedy debates, Ford stumble and bump his head, Jimmy Carter wearing a sweater and turning down the thermostat, and George Bush throwing up in the lap of the Japanese prime minister. However much politicians may try, ultimately they will fail at orchestrating each and every media event. We will remember their weaknesses and blunders in detail, simply because the weaknesses and blunders make such good conversation. And even if politicians do not blunder, overexposure will make them ordinary in our eyes. We can see the president on television virtually every night. Over time it becomes clear that he or she is just another person like the rest of us.²⁶

The ability and willingness of the media to “show everything” may contribute to cynicism more generally. *The Jerry Springer Show*, *So You Want to Marry a Millionaire*, and situation comedies may not have any direct political implications, but they may affect individuals’ worldviews more

²⁶ For more general accounts of how media shape ideas, see Innis (1950, 1951) and Dudley (1991).

generally. The audacious and the immoral will, after a while, cease to shock us. Viewers will become somewhat jaded and generally suspicious. On one hand, these attitudes may prove beneficial, as voters will be suspicious of poorly conceived government programs and cynical about political demagogues. On the other hand, the cynicism may undercut some of the values needed to sustain a free society.

These hypotheses, of course, are directly applicable only to television. A richer and fuller account of the media would have to examine what kinds of stories are most appropriate for radio, newspapers, and so on. The Internet, for instance, appears especially well suited for rumor, gossip, and talk of conspiracy. The ability to post anonymously, the rapid spread of news, the capability to “forward” material to others, the difficulty of verifying Internet sources, and the egalitarian nature of the medium all encourage information (or misinformation, as the case may be) of a particular kind.

In many cases the nature of a given medium shifts over time, as we have observed with newspapers. In the 19th century, newspapers were far more numerous than in the United States today; most cities had many commonly read papers, rather than just a single one. These newspapers tended to be explicitly partisan in their political views and did not adhere to current canons of “objectivity.” The difference between “reporting” and “opinion” was one of degree, not of kind. In many regards, these earlier newspapers were like today’s Internet, which also involves numerous decentralized outlets and highly partisan discussions. Today the number of newspapers is much smaller and their perspective is more “mainstream.” While there are more “Democratic” newspapers than “Republican” ones, no major urban newspaper identifies with the radical Left.

The newspaper medium shifted in the late 19th century, although the causes of that shift are murky. At that time, newspapers moved away from subscription financing towards financing through advertisements. Advertising finance may have encouraged newspapers to move closer to the political center and to become more objective. Few newspaper advertisers wish to sell only to individuals of a given set of political views. Rather the advertisers wish to sell to as many customers as possible and to maintain a mainstream image that offends nobody. The newspaper, on its end, wanted to assemble the largest possible audience, so as to increase the value of its advertising space. These pressures contributed to making newspapers less partisan, although it is difficult to sort out which factors are causes and which are effects.

In relative terms, right-wing ideas seem most prominent on the radio, rather than on television or in the newspapers. While radio is by no means an exclusively right-wing medium, many of the leading radio talk-show hosts push right-wing, conservative, or libertarian ideas, with Rush Limbaugh being the most prominent example. Radio, like magazines, requires a relatively small audience and thus enables a diversity of opinion. Radio stations can compete by putting on partisan programming, rather than trying to serve the mainstream. Furthermore, large numbers of relatively educated white males listen to the radio, and these individuals tend to be natural audiences for market-oriented ideas.

The Internet promises to revolutionize communications media. The role of the Internet in circulating rumor and conspiracy theories has already been mentioned, but the broader

implications of the Internet remain an open question. Currently, the Internet appears to encourage minority political groups and radicals of various kinds. These individuals can now get in touch with each other more easily and have new outlets for their ideas. Whether these groups receive a real boost in the long run, however, remains to be seen. It can be argued that the Internet marginalizes these groups from the broader streams of political life. Members of these groups may talk to each other with greater ease, but it is not obvious that they will have a greater impact on policy.

An alternative perspective emphasizes the democratizing nature of the Internet. The Internet may allow the upper middle class, its most frequent users, to communicate with their political leaders more effectively than otherwise and perhaps influence those leaders more strongly. Information about government is now easier to come by, which also may increase the ability of voters to control policy or monitor their representatives.

Most likely, Internet media are still in the midst of a fundamental evolution. The critical event in this evolution may be the forthcoming pricing of bandwidth. Right now, Internet transmissions are free for most users, who piggyback off free local telephone service. The more the Internet is used to transmit information, however, the less likely this arrangement can last. At some point, the current telephone network will be overloaded and it will be necessary to lay an alternative network, perhaps of fiber optic cables. One way or another, these costs may be born by Internet users and Internet posters. The introduction of pricing could make the Internet less decentralized, less radical, and more corporate and mainstream. How these issues will develop, however, remains to be seen and indeed will depend in part on governmental regulations. But most fundamentally we should not expect the future of the Internet to be a linear or exponential extrapolation of the past.

VII. Summary Remarks: Is the World Becoming More or Less Free?

Many classical liberals and market-oriented economists look at the 20th century and react with great trepidation. They see an era where government involvement in the economy has increased significantly. Only in a few of the Western democracies, such as New Zealand, have we seen a significant reversal of policy. These individuals therefore leap to pessimistic conclusions. They often believe that the course of history is against them.

I hold a more optimistic view and believe that history is on the side of the market economy. I believe that market-oriented economies have demonstrated an ongoing ability to out compete the available alternatives and that the market is becoming more popular over time on a global scale. In the last fifteen years alone, communism has fallen and significant parts of the third world have become significantly richer and freer. Many recent technological developments, such as the Internet, hold out the promise of great freedom and prosperity across the world. Francis Fukuyama (1992), in his best-known work, has gone so far as to write of “The End of History.”

Even in the Western democracies, there are fewer reasons to be pessimistic than is commonly believed. Pessimists often focus on government’s growing share of the national economic product or the growing absolute size of government, as measured by number of employees, consultants, or other variables of this kind.

In contrast, I see the government's share of gross domestic product as a misleading measure of economic freedom. If we focus on this measure we will conclude that societies are less free when in fact they are freer. The absolute size of government is increasing with time, but so is the absolute size of the market sector. And as long as the absolute size of the market sector is increasing, people most likely are enjoying more economic freedom. They have more opportunities and are engaging in more voluntary exchanges.

The higher level of tax rates and regulation is a negative drag on freedom, but the higher level of market opportunities is a positive offset. The absolute size of the market already measures the "drag" of government intervention. To whatever extent the government limits our economic freedoms, the absolute size of the market declines. We are double-counting the burden of government if we look first at the absolute size of the market and then look at government as a percentage of gross domestic product. The absolute size of the market already captures the negative effects of government and in that sense serves as a "sufficient statistic" for measuring how much freedom we have.²⁷

So far, in history, the absolute extent of freedom has grown in the Western countries, despite the growth in government. Markets have outraced government, so to speak. This is a befitting perspective for a view that emphasizes the power of markets.

Once the market economy has a chance to operate, it may grow more rapidly than the government can regulate it. The technology sector illustrates this point clearly. For the most part, it has grown more quickly than government has been able to regulate and control it. Of course the government will seek to bring the new sector under its control, as evidenced by the antitrust case against Microsoft or various attempts to Internet taxation and regulation. The government will to some extent catch up. But by that time, markets will have created yet additional new and relatively unregulated means of doing business.

My colleague Robin Hanson, in a series of papers, has argued that we may be on the threshold of extraordinary high growth rates. He believes that economies have periodic "take-off" eras, during which they are able to achieve qualitative improvements in living standards. The agricultural revolution and the industrial revolution were two such take-offs in the past. If another such revolution is pending, markets may be on the verge of outracing governments even more than we might expect. The confluence of the Internet, the semiconductor chip, and genetic engineering, or perhaps nanotechnology, suggest that we may be relatively close to such an era.²⁸

Government as a percentage of gross domestic product is a misleading measure of freedom for another reason. In many previous eras, the government was a much smaller percentage of the economy than it is today. Nonetheless, the real distortions caused by government may have been much greater relative to social product. If government policies are very bad, the economy will be close to subsistence and government will not be able to consume a large percentage of gross

²⁷ Some government interventions (torture is an obvious example) make people less free, without necessarily limiting the size of the market. To this extent the market size is a misleading measure, but in most cases the economic effects of poor government policies are very direct and real.

²⁸ See, for instance, Hanson (2000).

domestic product. In the country of Haiti, for instance, per capita income is about \$250 a year and government consumes about 20 percent of the national product. Haiti, however, is not a very free country in economic terms, despite what the 20 percent figure might suggest. The activities that the Haitian government undertakes are highly distortionary and keep the country at a very low level of poverty. The only reason that the Haitian government is not larger is because most of the population is already hovering at the subsistence level and there is little left to confiscate. The “small” governments in earlier historical times to some extent fit this model. In essence, they were too destructive to become very large.²⁹

A modern government can become large only if it supports freedom to some extent, which may in fact be our saving grace. This optimistic perspective puts social change research in a different light. At least in economic terms (leaving cultural issues aside for the time being), we should not view Western societies as headed off a cliff. In economic terms, those societies are healthier than ever before. Of course we would like them to be healthier and freer yet, but we are not fighting a losing battle. Robert Wright titled his recent and important book *Non-Zero* to represent his view that human history is fundamentally a positive-sum, win-win game. Wealthier, more complex societies benefit those who can build or support them, and Wright sees a general tendency for these gains from trade to be exploited, no matter what setbacks we may experience along the way. I agree with Wright’s perspective and feel that history is on the side of a free society.

²⁹ For some further criticisms of this measure of government size, see the very useful essay by Higgs (1991), “Eighteen Problematic Propositions in the Analysis of the Growth of Government.”

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