
REVIEWS

Old Programs Never Die

Jonathan Rauch, Demosclerosis: The Silent Killer of American Government, Times Books, New York, 1994

Reviewed by Michael James

In the 1970s and 1980s, the critique of government intervention in the US was led by 'conservatives', classical liberals like Milton Friedman and James Buchanan who espoused an agenda of limited government underpinned by constitutional amendments. In the 1990s, the shortcomings of intervention are being highlighted also by 'liberal' commentators who want not so much to limit government as to make it work. Examples include John Chubb and Terry Moe (*Politics, Markets and America's Schools*, 1990), and David Osborne and Ted Gaebler (*Reinventing Government*, 1992). Jonathan Rauch's *Demosclerosis* belongs to this genre. Its analysis of government failure is rendered all the more cogent by the author's conviction that active intervention can in principle be made to work.

Rauch identifies a familiar cause of government failure: the ability of organised lobbies to capture interventions and make them serve their interests at the expense of the public interest. Early democratic theory was grounded in a belief that universal suffrage would enable the people to vote down the minorities that preyed on them. But so many lobbies have since been organised that public scapegoating of 'special interests' makes little sense nowadays. Seven out of ten Americans belong to at least one association, and one in four belongs to four or more. The trouble with special interests is that they are no longer very special. One of the most telling indicators of American 'hyperpluralism' is the spectacular increase in the number of lawyers: up from 1,300 per million of US population in 1970 to 3,000 in 1990.

Rauch's analysis relies entirely on the work of Mancur Olson for its theoretical grounding. In *The Logic of Collective Action* (1965) and *The Rise and Decline of Nations* (1982), Olson shows that it is normally rational to promote one's minority interests at the expense of the public interest, even if total costs exceed total benefits, since whereas the groups' members can monopolise the benefits, they can dump almost all the costs on the general public. Rauch identifies three levels of costs associated with such 'transfer-seeking': 'parasite food', or the immediate costs of lobbying (payments to lawyers, lobbyists and politicians); 'defensive manoeuvring' to offset the effects of other people's lobbying (litigation expenses, liability-insurance premiums, and so on); and, biggest of all, 'subsidy madness', the deadweight costs of the economic distortions and inefficiencies induced by transfer payments and anti-competitive regulations. Rauch estimates that these costs amount to between 5 and 12 per cent of GDP annually, and speculates that they are largely responsible

for America's relatively small annual productivity increases in the last two decades. Yet the process grows relentlessly because a relatively small investment in transfer-seeking can bring returns that are not only huge in themselves but far in excess of the returns on an equivalent commercial investment.

However, the term 'demosclerosis' refers, not to politically induced economic stagnation, but to the inability of government to intervene effectively. For government to be able to solve problems, it must have the means and the scope to *test* its interventions: to implement them quickly and, if they don't work, to replace them equally quickly with better ones. Rauch believes that this was possible in America as recently as the early 1960s. But lobbying has since expanded to the point where it can veto almost all attempts to withdraw programs, however old or unjustifiable, as their beneficiaries ruthlessly deploy their voting power. New programs are being born, but as most old ones never die, the scope for policy experiments is rapidly disappearing. (A recent casualty is the Clinton administration's plan to revive America's productivity with increased investment in public infrastructure.) The results are familiar: government that is at once hyperactive and ineffective, a deep cynicism about politics among a population that has come to expect a lot from government, and a bogus sense of national poverty at a time of record prosperity.

Rauch examines a wide range of responses to demosclerosis. He doubts whether much can be done about it, but he endorses policies that weaken producer lobbies, such as deregulation and free trade. He also suggests some rules of thumb for governments to follow when seizing opportunities to shut down programs: target programs that favour the rich over the poor, organised beneficiaries over diffused ones, the old over the young, consumption over investment, that replace markets rather than supplement them, and so on. The 1986 tax reform showed that it is occasionally possible to round up a mass of tax-breaks and subsidies and kill them off in one hit, to the manifest benefit of the public. But Rauch rejects the conservatives' claim that holding down taxes can help control transfer-seeking, and argues that it has the opposite effect by artificially lowering the present cost of government programs. The 1980s experience of tax cuts followed by rising spending and borrowing certainly bears him out. Yet the conservatives' argument that higher taxes are self-defeating may be right too: President Bush increased taxes, but the budget deficit continued to expand.

Rauch is generally, and often soundly, critical also of proposals from public-choice theorists and others to control transfer-seeking by reforming the political process itself. He favours balancing the budget, but fears that a balanced-budget amendment to the constitution would merely encourage 'creative accounting', and could even make demosclerosis worse by entrenching the best-defended programs at the expense of more justifiable ones. As for simply outlawing transfer-seeking, Rauch correctly notes that no consensus exists on what government shouldn't do: 'there is no middle ground between allowing virtually no government transfers (the original system) and allowing virtually unlimited transfers (the present system)' (p.167). His deeper objection, however, is that strictly limited government would be precluded from doing good with social-security programs and environmental laws.

Yet Rauch is eventually propelled by his own analysis towards limited government. In the final chapter he urges citizens to realise that although government can do good, it can do only so much of it at a time. And 'If demoscclerosis gets worse rather than better, we'll just need to think harder about nongovernmental ways to solve things' (p.238).

It's too early to say whether the Republican victory in the 1994 Congressional elections promises real change. At worst, it merely confirms Rauch's point that Americans are disillusioned with politics rather than government, and have no intention of surrendering their 'hard-won' transfers. At best, it means that they are at last starting to prepare themselves psychologically for the new constitutional settlement that James Buchanan has been calling for, whereby they agree to stop exploiting both each other and future generations. Meanwhile, some signs have appeared that America may already be starting to adjust spontaneously to demoscclerosis. After all, America's public sector is, relatively speaking, considerably smaller than those of most other Western countries; the country's current macroeconomic performance is impressive; and even the growth rate of productivity is picking up again. And although Americans' flair for forming voluntary associations has become one of the causes of demoscclerosis (thus creating some difficulty for advocates of 'civil society' as a bulwark against the state), it originated at a time when government was tiny by modern standards and people had to learn to do things for themselves. But if Rauch wanted to encourage such changes, he would have to abandon his message that government can in principle do good, since this only delays the necessary shift of attitude away from frustration with the system to giving up on it and looking seriously at alternatives. Instead, he should advocate allowing Washington to seize up completely and to stand as a monument to transfer-seeking folly.

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Policies Matter

I. M. D. Little, Richard N. Cooper, W. Max Corden and Sarath Rajapatirana, Boom, Crisis, and Adjustment: The Macroeconomic Experience of Developing Countries, published for the World Bank by Oxford University Press, New York, 1993

Reviewed by Grant M. Scobie

The World Bank continues to be subject to criticisms on many fronts. But one of the things it does well is to undertake research projects and publish the results using its appreciable comparative advantage in both time series and, particularly, cross-sectional data. This book is the outcome of such a study. It offers a synthesis of 17 country studies commissioned for the project. Given the outstanding