The Political Theory of Conservative Economists

Waligorski, Conrad P.

Published by University Press of Kansas

Waligorski, Conrad P.
The Political Theory of Conservative Economists.

For additional information about this book
https://muse.jhu.edu/book/84296
Chapter Seven

Conservative Economists’ Theory of Government

In this present crisis, government is not the solution to our problem. Government is the problem.
—Ronald Reagan, First Inaugural Address, 1981.

Man is by nature a political animal.
—Aristotle, Politics, bk. 1, chap. 2.

It is a political truism that conservative economists want limited government, but it is not clear what that means. Upon what is their argument based? Why should government be limited and to what extent? What may government legitimately do and why? How do these economists propose to limit modern governments and what follows from their limits?

The conservative theory of government is based on the assumptions examined previously. Two are of crucial importance: the conservatives’ picture of human motivation and their distinction between economic and political markets. In the first instance, these theorists portray individuals as utility maximizers who cooperate solely for self-interest in marketlike situations. Pursuit of self-interest in the market produces spontaneous order. In the second assumption, the economists create ideal types of political and economic relations and then employ them to explain and criticize reality. The economic and political markets are mirror images in which market good is reversed into political harm. The spontaneous economic market compensates for human limitations by controlling and channeling self-centered impulses and correcting for limited knowledge and ability. Politics is dominated by the political market, where the invisible hand of self-interest leads to coercive conflict, dominance, and conformity. Political pursuit of self-interest is harmful because there are neither spontaneous limits to potential abuses of power nor systematic checks on self-interest. Vote buying, manipulation, and lack of fiscal restraint create “inherent and fundamental biases” for intrusive intervention which undermines natural economic processes and stability. Governments “are collectivities of utility maximizers” whose freedom from market control permits self-interest to become exploitive.
Conservative Economists’ Theory of Government

Creating an inherent “propensity to truck, barter and exchange” at the expense of the public good. This generates constant growth in public services, so that western political institutions “threaten to destroy the market economy.”

These starting, metaphysical-like assumptions provide the basis for good order and restrict the proper scope and content of political and governmental activity. They create the requirements for politics and government, shape essential government duties, and determine what governments may and should do. They ensure that very little political or governmental activity will be legitimate beyond a narrow range of activities that support the economic market and correspond to the conservative economic view.

A Theory of Government Failure

The conservative model of government is based upon a theory of government failure and private, market efficiency. As in the classical liberal distinction between society and government, the value of government is drastically reduced when people have a natural, spontaneously generated virtue—here the market—which tends to produce order.

This position must be stated unequivocally. The conservative economists are not claiming that government may fail. Rather, government must fail. The certainty of failure is infinitely more important than the remote possibility of success. These authors mistrust both the competence and motives of government. They are in complete agreement that government is inefficient, ignorant, coercive, and driven by selfish passions that necessitate inevitable government failure in any attempt to intervene in socioeconomic affairs, harming freedom in the process. Government failure is always more common and destructive than market failure. The market is inherently stable and self-equilibrating. It needs no intervention, and if it did, governments are incapable of providing it. Even when performing acceptable duties, governments are less successful and efficient than private business performing the same activity. This is not a hypothesis advanced for discussion, but an unassailable, a priori truism, based largely upon anecdotal evidence and definitional presuppositions, uttered with certitude akin to a religious fundamentalist’s belief in God or a Marxist’s conviction in the dialectic. This act of faith provides a powerful explanatory paradigm for rejecting all socioeconomic intervention and drastically limiting the scope of legitimate government activities. The government-failure theory makes four claims: All behavior is self-interested; when free from market checks, self-interested behavior inevitably becomes corrupted; intervention undermines the market; and intervention harms freedom. There are no circumstances under which expansive government can succeed.
To the conservative economists, government must fail because human passion is uncontrollable in politics. Unchecked pursuit of self-interest undermines natural market relations and human freedom, which is ultimately dependent upon the conservative market. Without carefully examining the meaning and manifestation of self-interest, these authors make it the key to government failure. For them, it is inconceivable that public policy can serve anything other than narrow self-interest. If everything follows from individually defined valuations of self-interest, then all intervention must serve self-interest. Thus government cannot achieve publicly stated ends and mythic common interest because it will be subverted to serve the individual self-interest of those running a program.

In this image of political behavior, nothing is done for the public interest because it does not exist in a politically or socially significant sense. To Hayek, "Government cannot act in the general interest." Government, for Friedman, is "literally uncontrollable . . . feeding on itself—and us—and getting larger and larger like some enormous tumor." Without explaining what these emotive terms mean, or suggesting empirical and/or comparative evidence of actual behavior, government is simply "excessive" or, in Gilder's argument, "overweening" or, in Buchanan's frequently repeated term "bloated."  

Echoing their criticism of democracy, the economic conservatives assert that legislative decision making is always "characterized by a short-term horizon."  Popular governments are incapable of long-term thinking or planning but always serve the immediate interest of acquiring and holding power. Without competitive market control, there is no independent test of efficiency, guaranteeing egotistic pursuit of self-interest accompanied by coercive, inefficient, and often corrupt use of resources. Even if people intended to do good, fragmented power, the need for bureaucracy, the large size of government, and concentrated interest groups guarantee the failure of altruistic purposes. Stated colloquially by Friedman and more elegantly by Buchanan, without market controls and cost allocations to identifiable individuals, bureaucratic use of someone else's money ensures that it is wasted. The ostensible purpose of public programs is always subverted to serve the interests of those initiating or administering the program, while taxpayers and supposed beneficiaries at best receive no real benefits and in most cases lose freedom, dignity, and the chance to participate in competitive markets.

The chief conservative indictment of government is that intervention interferes with the operation of the spontaneous market. Conditions in the market are the best that can be because individual self-interest impels people to make the most efficient possible use of resources to further their self-interest. Intervention cannot improve people's lives. Though government may rob some to reward its supporters, redistribution and intervention are harmful and inef-
Conservative Economists' Theory of Government 155

ficient. In all cases, intervention destroys the freedom to use one's property as one chooses, decreases work effort, and destroys resources.

Government is always the problem, rarely if ever a solution. Intervention explains why the market does not operate according to market theory and why the ideal market system does not yet exist. Uncomprehending people demand intervention, which worsens the situation. Failure perpetuates the abusive cycle, as government-induced market failure sparks demands for still more intervention. In all but the simplest cases, government is always the enemy, always serving special interests, always crippling the spontaneous forces which sustain the market and freedom. To Hayek, any interference in a spontaneous order impedes the operation of that order. In a simultaneously empirical and moral claim, he states that intervention must create disorder and be unjust, removing some grievances by causing new ones elsewhere. Buchanan believes that fine tuning the economy or relations within it is impossible. Public policy is incapable of adjusting for differences between people. The market does not require it, and government cannot make such adjustments. The reason, says Friedman, is because public policy forces identical services onto everyone, which is unjust. And services cannot be different because that is also unjust. Hayek believes that giving public officials discretionary power to attempt adjustments between persons subverts the rule of law, freedom, the constitutional order, and the spontaneous economic forces that sustain them.7

Friedman addresses this specific issue more than the others. Once a problem is defined or discovered, government is induced to address it; inevitably the problem grows worse, which is the fault of the government's intervention. The logic is irrefutable, even if the empirical connection is asserted rather than investigated, as in his claim that the quality of education in the United States has deteriorated because of increased federal spending. Whether discussing schools, consumer protection, inflation, labor unions, unemployment, monetary policy, or welfare policy, public intervention has worsened problems by providing resources for self-interested individuals to seek their interests unimpeded by market limits. In each case, taxpayers and the supposed beneficiaries of these programs would be better off—in some ultimate, undefined sense—if the public programs created to address these problems had not existed. Beyond the limited duties noted below, Friedman sees no benefits from government spending. Though he concedes that there are occasional market failures, most instability is caused by government, resulting in more harm than if government had not intervened. Even inflation is a government phenomenon. "The real obstacles to ending inflation are political, not economic."8 In contrast to liberals such as Keynes and Galbraith, Friedman, Buchanan, and Hayek agree that the Great Depression was caused by government failure, not
by any intrinsic propensity or problem in spontaneous market forces, and efforts to deal with it compounded and deepened the crisis.\footnote{9}

The certainty of harmful government failure is a commonplace among other conservative economic theorists. George Gilder, Ludwig von Mises, David Stockman, and William Simon all assert that government inevitably forces a decline in economic progress. It cannot increase aggregate demand, positively aid the private sector, successfully intervene into socioeconomic relations, or permanently increase employment, and it is always at fault when the market falters or economic problems develop. In each case, public intervention is not the answer to problems but the cause of worse ones.\footnote{10}

Each author agrees that the inevitable failure of government means that Keynesian efforts to stimulate aggregate demand and promote employment are bad economics and worse policy advice, necessarily causing more severe problems than they attempt to address. Intervention is harmful not only to the economy but also to government, robbing it of the resources and time required to perform its legitimate functions. Thus these theorists would have no problem in rejecting calls for government aid in, for example, development of high-resolution television: Government is inefficient and must fail; all intervention promotes individual self-interest; all interests are private and only individuals have interests, therefore promoting an industry cannot be in the public interest; and if a profit is to be made, private industry will make the necessary investment. Hayek concludes that with such policies, “decent government is impossible.”\footnote{11}

The damages from inevitable government failure are compounded by the crippling impact on the spontaneous forces that sustain freedom. Intervention is the cause of authoritarian government and is inevitably unjust. If, as Buchanan claims, “abject slavery” is the “pure form” of political relations while economic relations are free and cooperative, then government must always endanger freedom while “markets tend to maximize freedom.” For Friedman, taxes, such bureaucracies as the Securities and Exchange Commission, National Endowment for the Humanities, or the National Science Foundation, and the power to intervene in business are destructive of freedom. Hayek believes that government may be unjust, but not spontaneous order.\footnote{12} Government’s inability to do anything positive to aid freedom reinforces the conservatives’ empirical-like claim of inevitable government failure.

Intervention, regulation, and welfare are distinct policy areas, but if government must fail, all are impossible. Welfare illustrates this argument. Welfare is a broad concept for the conservative economists. It extends beyond aid to families with dependent children or income support to include unemployment compensation, social security programs, all transfer payments, education subsidies, farm price-supports, and any program where people—“special interests”—
receive aid or services outside a market framework. Limited provision for those who fail or are incompetent is acceptable, but welfare must be kept to a minimum. Why? Because any transfer payment violates freedom and individualism. Self-interest and natural economic relations do not allow extensive aid. Political and economic freedom and equality are not enhanced by welfare, which is viewed as morally, politically, and economically destructive.

Welfare supposedly promotes the behavior it attempts to eliminate—dependence—because it is in the self-interest of recipients to not work, of politicians to buy votes by providing welfare, and of bureaucrats to expand the welfare budget. The conservatives believe that in a free market, most welfare measures, especially income support such as unemployment compensation, would be unnecessary. Moreover, Friedman asserts that welfare programs undermine the ability of the United States to finance defense and that “[t]he traditional functions of government have been starved by the rapacious appetite of the welfare state.” He sees the Soviet Union as a lesser threat to the United States; “[t]he real threat is the welfare state.” Friedman and Hayek agree (though Buchanan disagrees) that welfare spending is another guise for collectivism and socialism, destroys initiative, and forces people into identical molds. It causes “loss of self-government and freedom... financial crisis leads to a loss of self-government.”

A major conservative economic attack on welfare, if it can be separated from the political emphasis on freedom, is that social welfare programs are obstacles to equality because they sabotage efficient labor markets and freeze people into inferior status by discouraging initiative. The argument is true by definition. If economic self-interest motivated people, welfare payments discourage work. In a market free of minimum wages and income support, everyone could find a job; there could be no involuntary unemployment. Poverty is caused by personal failure—unwillingness to work and compete—that is compounded by welfare. As with the nineteenth-century liberal Malthus, the greatest kindness is to force people to work, not to give them aid. That is why Gilder attacks the welfare system and argues that “the current poor... are refusing to work hard.” If they did work hard—and to overcome their poverty, they must work harder than other groups—they would not be poor. “The actual outcome of almost all programs that are sold in the name of helping the poor... is to make the poor worse off.” Thus intervention creates conditions that cause more demands for welfare.

In proclaiming one law for all and no special categories of people, the conservatives state that public policy should treat everyone alike and ignore individual differences. Individualism and equal treatment by the law preclude welfare. What can be done? A minimum income floor is acceptable, but charity is superior because it is private, voluntary, local, and discriminatory and re-
duces the need for coercive public involvement.17 (By definition, anything that is voluntary is free and does not involve coercion.) To claim that welfare is a right subordinates individuals to the group, but the group is simply the sum of individuals, each pursuing his or her own interest. Welfare thus subordinates individuals to the purposes of other individuals. People have very different preferences, and community membership creates no obligation to maintain the poor. Therefore, no one can have an obligation to another unless it is freely accepted.18

Friedman proposes a negative income tax as a “transitional” program until welfare and the social security system can be eliminated entirely. This proposal would replace most welfare programs with a direct cash grant. After determining minimum incomes necessary for a family, those who fell below this level would be subsidized for up to 50 percent of the calculated minimum. Thus, if a family had no income, they would receive half of the minimum, with the difference presumably coming from charity. The program would not reduce payments on a dollar-for-dollar basis with earnings until the combined total of earnings and negative income tax equalled the minimum income. This proposal is acceptable to Friedman because it involves less intervention into the market, would be administered by the Internal Revenue Service (reducing the need for bureaucracy) and encourages individual responsibility.19

The conservative argument leads to an inescapable conclusion that if welfare, regulation, and intervention must fail, socialism of any type is absolutely unworkable and undesirable. Again, the reasons focus on government failure, ignorance, and freedom. Goods and services cannot be allocated on any rational, planning basis. Human nature makes socialism unattainable. According to Buchanan, Marxism’s greatest shortcoming is “its failure to construct its analysis within an individualistic frame of reference.” If it had, neither Marx nor socialists could have believed that people who are individual “rational utility maximizers” could “behave so as to further the interests” of their class. Inevitable pursuit of self-interest always overwhelms collective decisions, bending them to the interests of individuals and doom planning, central control, and presumably cooperation.20

Hayek goes further. Planning, mixed systems, and the welfare state inevitably lead first to socialism and then totalitarianism. High ideals do not guide behavior. There is a stark choice: capitalism and limited democracy, or the welfare state and eventual totalitarianism. As with Friedman’s invisible hand of self-interest that always produces harm in politics, efforts to shape the future according to “high ideals” “unwittingly” and relentlessly yield “the very opposite of what we have been striving for.” Both self-interest and human ignorance make successful planning impossible. Planners serve their own interests and can never know enough. Human ability is too limited to make production
and distribution decisions without the autonomous market. Thus socialism is impossible and represents a return to "primordial instincts." Socialism violates freedom, the rule of law, and treats people not according to their worth as determined in the "self-forming" impersonal market but according to unachievable abstract concepts of merit and morality.\(^2\)

This is a common theme. Gilder believes that socialism is morally bankrupt, static, and dead. Capitalism is morally superior, the only creative system and the only form of organization providing the drive to grow and change. Human ignorance and the need to strive for "initiative, sympathy, discovery, and love"—in the economy—prove that socialism cannot fit the human condition, that it is forever a fond dream denying the best in humanity for a faulty insurance against risk and life.\(^2\) Von Mises insists that we must choose between private and communal ownership, but that given human drives and the need for freedom, socialism is impossible. It is a scientific "fact" that conservative capitalism and its requisite, a limited political system, are the only possible form of social organization.\(^2\) Friedman sees "an intimate connection between politics and economics," such that all combinations of political and economic systems are not possible. Specifically, democracy is inseparable from capitalism. Extensive control of economic activities—"detailed central economic planning"—puts "ordinary citizens... in political fetters," produces "a low standard of living," and ensures that people "have little power to control their own destiny."\(^2\) In all cases, the political system is absolutely incapable of managing or successfully intervening in natural market relations.

The Role of Government

Given the political market and human nature as negative limitations and the economic market's positive role in rewarding and organizing people, there is little that government can or should do. If the market is the premier harmonizing mechanism, government should be reduced to the minimum necessary to support the market. The conservative economists propose an automatic political system parallel to their automatic economic system, one without discretion, intervention, or extensive public choice. The market furnishes the unquestionable criteria to determine if "the intended results" of a policy "are ones that it is proper for government to seek and, further, whether the action will in fact achieve these results." The market "defines the role that government should play in a free society."\(^2\)

Adam Smith provides the historical base for the conservative position, though their argument is closer to those of Malthus,\(^2\) William Graham Sumner, and Herbert Spencer. Smith believed that the duties of government de-
pended on the state of economic development, and he did not advocate un-
compromising laissez-faire. A primitive level of development required smaller
expenditures for defense, a legal system, public works, and education than a
more developed society. Though this opened the prospect for more extensive
government as societies industrialized, Smith did not project his observation
into the future, and subsequent laissez-faire writers have ignored this possibility.

On the surface, the duties of government were quite simple and
plain and intelligible to common understandings: first, the duty of protect­
ing the society from the violence and invasion of other independent socie­
ties; secondly, the duty of protecting, as far as possible, every member of
the society from the injustice or oppression of every other member of it,
or the duty of establishing an exact administration of justice; and thirdly,
the duty of erecting and maintaining certain public works and certain public
institutions.

Government was, therefore, instrumental. It had no grand goal or purpose.
Government's primary duty was to facilitate market relations but not to inter­
fere in exchanges with any preference or restraint when individuals were com­
petent to advance their own interests. Defense and justice were valuable to all
members, though some of the expenses of justice could be borne by litigants.
Smith viewed a limited number of public works as legitimate, that is, those
advantageous to the whole society but unprofitable for any individual or group
to undertake. This duty of government depended heavily on the state of devel­
opment—as did the next duty, education. Some public support for education
was essential, especially for the lower orders in a modern society. Specializa­
tion and the division of labor could cripple people intellectually. "A man with­
out the proper use of the intellectual facilities . . . seems to be mutilated and
deformed." Requirement of minimal educational attainments and even some
public provision of educational opportunities could go far toward addressing
the stultifying nature of a modern economy and the rebelliousness of the lower
classes unaware of the real source of their problems. In this argument, Smith
set a pattern for later claims that governments fulfill their primary duties by
protecting property and enforcing basic rules, regardless of who gets what.

The conservative economists accept Smith's policies, if not his observation
that the role of government varies with the level of the social economy. Govern­
ment has little or nothing to do with responding to popular demands, pres­
sures, or wants. Popular will is neither the measure nor the source of govern­
mental duties. There is nothing in the conservative model to indicate that
government is natural to people, as suggested by Aristotle or Aquinas; or that
it is a punishment and corrective for sin, as in Augustine or Martin Luther;
or that it is necessary to curb our worst impulses, as in traditional conservatism—indeed, it magnifies them. Government cannot make society better, and there is none of Smith’s implication that government may successfully achieve important things. Nor is there the liberal economists’ role for government as a corrective to market failures or a counterweight to private power. Beyond re-asserting Smith’s policies, the conservatives, despite their vehement denunciations to the contrary, have not clearly thought out the role of government. Moreover, they add propositions that Smith did not imagine. Where he saw a tendency toward harmony through pursuit of self-interest, they see spontaneous order as established fact. Where he saw problems, they see absolutes: Government must fail, intervention always harms freedom, and the market is always more efficient.

The logical question for the conservatives is, why have government at all? Why not accept a fully libertarian or even anarchist position? Their answer is that although the market is the primary organizing institution, it cannot do everything. For von Mises, “Human society cannot do without the apparatus of the state, but the whole of mankind’s progress has had to be achieved against the resistance and opposition of the state and its power of coercion.” Hayek believes that government should render a narrow range of services which the spontaneous order cannot produce “adequately.” Though it is “conceivable that the spontaneous order . . . may exist without government,” there are insufficient guarantees that people will observe the rules; therefore, “in most circumstances the organization we call government becomes indispensable in order to assure that those rules are obeyed.” However, this does not give government an exalted position. Its role “is somewhat like that of a maintenance squad in a factory”—to oil machinery and clean the floor but not to produce anything, determine what is produced, or intervene in running the productive apparatus.28

It follows that all intervention is not harmful, or at least some intervention is more beneficial than harmful, though how the need for government outweighs its inherent inefficiency is never discussed. The frequently used, emotive word “interference” implies a standard for proper public involvement, a clear demarcation of what is private from what is public. Some intervention is at least useful, and as with all utilitarian or quasi-utilitarian claims, the scope of exceptions to the primary rule—here, no intervention—should be decided by empirical analysis and not by a priori reasoning. Surely, if government is as bad as asserted, these theorists should be willing to give up some market efficiency to have less government. Private police forces and private court systems are conceivable, if the market lives up to its reputation for efficiency. Buried in a tangle of inconsistencies, exceptions to the rule of nonintervention are stated rather than justified. Government’s role turns out to be the same as its
traditional role among such late nineteenth-century theorists as Sumner: It
provides the coercive apparatus to support the market, making the market
into the natural standard by which to judge government.

Every normative political theory contains arguments for the proper role
and structure of government. Conservative economic theory also spells out
the purpose of government: to protect the spontaneous order from coercion
and fraud. Government may do those presumably neutral things which nar­
rowly support the abstract market. It may act where individual self-interests
coincide, such as with road building, but may not attempt to forge a common
interest. It can do nothing positive or anything that benefits specific persons.
Government duties are simple: Get out of the way of the market; protect peo­
ple from crime; dispense justice; maintain national defense; enforce private con­
tracts; and provide limited support for public works, public welfare, and edu­
cation—all things that individuals and voluntary groups cannot easily do by
themselves. None of these elements has any other purpose than to ensure a
framework within which individuals may attempt to pursue their self-interest
through competition in the market.

Von Mises epitomizes an extreme form of this position. Government’s
primary duty is “the protection not only of private property, but also of peace,”
because “the task of the state consists solely and exclusively in guaranteeing
the protection of life, health, liberty, and private property against violent at­
tacks. Everything that goes beyond this,” such as unemployment compensa­
tion or regulation of alcohol and drugs, “is an evil,” in that it is inefficient,
harmful to freedom, and, in attempting to protect people from themselves,
treats them as incompetent.

Hayek potentially allows government a wider range of responsibilities but
in practice restricts legitimate public activity. As with Friedman, Buchanan,
and others, his primary presumption is against government involvement in
socioeconomic relations, with the overwhelming burden of proof placed on
those who favor action. Hayek claims that the important issue is not what
government does but how and how much it acts. An inactive but clumsy gov­
ernment would be a disaster while an active one that remained within its ap­
propriate sphere might be legitimate and useful. He distinguishes between co­
ercive functions, which include any activity that is enforced by the law, and
service functions, where government administers “resources placed at its dis­
posal” merely as one among competing organizations serving the market. Co­
ercive functions, which include all taxation, must be kept to the absolute mini­
num, while service functions may expand if there is widespread demand and
if government makes no attempt to become an exclusive supplier or to use
tax money to provide those services. Exceedingly vague about the specific con­
tent of service functions, Hayek does not develop this possibility.
Hayek distinguishes the state (the created realm of coercion) and society (spontaneous organization). The primary duty of government is to support the right of individual decision making within the market but not to intervene. The state, as one among many organizations, should "provide an effective external framework within which self-generating orders can form." "[M]aintenance of a spontaneous order . . . is the prime condition of the general welfare." Monumental ignorance prevents anything else. Government has no right or ability to attempt to plan for the entire economy, aid specific persons, control prices, limit who can enter a profession, determine the content of normal contracts, or redistribute resources. Such intervention puts human will in place of spontaneous economic relations, makes one person directly subject to another, is inefficient, and attacks freedom. What can government do? Only those activities that promote spontaneous forces: Protect people against force and fraud; enforce laws equally, including antipollution regulations and pure food laws; maintain roads; and provide services the market cannot easily furnish—such as weights and measures, building regulations, limited public works, some enterprises on the same terms as private citizens, education for the young, minimal welfare for the incompetent, and defense. Government issuance and regulation of money may not be required. In all cases, local taxation and decentralized government are preferable to national government, and private provision of services is superior to public provision.\(^31\)

With the possible exception of limited public enterprises that would compete on the same basis as private enterprises and a preference for private monetary systems, there is little or nothing in Hayek's discussion with which Friedman or Buchanan disagree. Friedman also sees government as providing support for the market. Its primary duty is that of "Rule-Maker and Umpire"—something the market cannot do for itself—though the range of rules is narrow, supplementing and modifying custom and tradition. Government is to facilitate "voluntary exchanges," not any specific exchange. Government may do the same things that Hayek allows plus provide a stable monetary system. Indeed, that is its most important activity. Governments may also regulate to overcome the worst effects of "technical monopolies" and spillover or "neighborhood effects," but this power must be as circumscribed as possible. In *Free to Choose*, Friedman accepts government provision of a small number of public works, associating this with protection from neighborhood effects, but states that this "raises the most troublesome issues" of Smith's government duties. Friedman is quick to assert that this duty does not justify very much intervention because of the greater likelihood that government, not the market, will fail. He seems to assume that all harms can be compensated for and that compensation is less detrimental to freedom and the market than prevention. This argument supposes that only individuals can be harmed and that harm must
be specific and readily identifiable, not a long-run statistical probability. If the market cannot identify those who pollute and compensate those who are harmed, government is even less likely to do so. As is usual whenever he concedes a role for government, Friedman trivializes it with a simplistic example to illustrate neighborhood effects or market failures needing regulation. His primary example of air pollution is a dirty “shirt collar.” Such an innocent example misrepresents the health and environmental dangers of pollution, reducing the regulatory need to unimportance. Coupled with reiterations about government failure—government will make matters worse and impose “costs on innocent third parties”—such marginal concessions ensure that little will be done to regulate the market. As always, the overwhelming burden of proof must be on proponents of regulation, and given the incompetence of governments and the superiority of markets, there is little chance that a case for regulation will be made.

If Friedman regards the provision of public works and regulation as the greatest problem in Smith’s government duties, perhaps he should have considered defense more closely. These authors see defense spending as a simple issue. It is not. If their picture of self-interest, human nature, and government operation has any validity, they should be deeply worried about defense spending. It is government spending, allocates a large part of the gross national product, and presumably should present the same problems of government inefficiency, danger to freedom, and failure as every other intervention. Government spending on defense arguably causes more distortion of private markets and has greater direct economic impact than any other government activity. In the United States, it consumes approximately 6.5 percent of the GNP. Because it involves direct public purchases of goods and services, rather than redistribution which allows beneficiaries to buy in the market, it entails authoritative public control—a virtual command as opposed to a market economy—over what will be produced and by whom. The decision to build a major new weapons system not only determines the fate of specific companies but also draws large amounts of resources, including capital, labor, and engineering skill, to an activity that is usually outside market control. In addition, defense spending is under the administrative discretion and direction of those much-maligned bureaucrats whose self-interest, according to conservative theory, impels them to serve interest-group clients, such as labor unions, corporations, military factions, and politicians, in place of the hardly existent national interest. Growing scandals and indictments in 1988–89 over defense procurement, bribery, illegal trading of information between defense contractors, cost overruns, and systems that do not work properly indicate the magnitude of the conservative oversight.

Defense spending, therefore, should be highly distressing for the conserva-
Conservative Economists' Theory of Government

It represents the ultimate form of coercion; consumes large amounts of resources; requires regulation of and intervention into the economy; is a major source of bureaucratic and government growth; is filled with special interests cloaking themselves in an image of the national interest; may undermine freedom in the demand for conformity when confronted with perceived foreign threats; and increases government power, especially the power of control and surveillance. Unfortunately, the analysis these authors apply to welfare spending or regulation of air pollution is never applied to the much larger area of defense spending. On the positive side, defense spending may stimulate an economy, as with Britain during the Napoleonic Wars or the United States during World War II, but this too does not fit the conservative world view and remains unexplored. Hayek, as did Smith, admits that war—which is very different from our current permanent war footing—is the great exception to laissez-faire, but he makes no attempt to analyze defense's impact on his political economy.

Only Friedman discusses defense, and his sole concern is that public provision of defense is more costly than if it could be provided by the free market. According to Friedman, defense spending is not the chief cause of high taxes and deficits. As if it were somehow exempt from having an adverse impact, he makes no attempt to explain why defense spending is less harmful than other public expenditures or why it is unnecessary to worry about its economic impact. He overlooks the possibility that defense bureaucracies and related "private" businesses have a vested interest in expanding weapons systems and military spending, exaggerating threats, or perpetuating tension. Friedman accepts defense claims without subjecting them to even the simplest cost-benefit analysis. As if priority claims either excluded other claims or are self-explanatory, he believes that "defense must take priority over every other function of government" and that it is welfare spending, not the Soviet Union, that is "the real threat to our national security." Friedman would drastically reduce other spending to increase defense—a political decision having no economic justification in his model—and regrets that the private market cannot provide defense, though he does not explore any market organization of defense. Surely, if the market promotes the values these theorists claim, they should be willing to sacrifice some military security for its advantages. They strive to limit the power of government, but they leave its greatest coercive power untouched and unchecked. This failure to address the criteria that presumably distinguish defense spending from other public spending undermines conservative claims about government inefficiency.

Given the generalities that these authors employ and their collective failure to specify concrete examples of legitimate public spending, their description of limited government duties sounds convincing to people raised in the liberal...
faith. That is one source of their attraction. These limiting and radical proposals are wrapped in platitudes and the commonplace of classical liberalism—without its expansiveness and concern for actualizing liberties—and repeated until they become a truth rather than propositions to be examined. It is only when one looks at actual people and the lack of concern for the losers from conservative policy that the full implications of their position become apparent. Instead of reviewing specific policy proposals, my discussion turns to how the conservatives would limit what governments may do. The conservatives intend to make impossible any repeat of the Great Society. They will do this in two closely related ways: by expanding the role of the market, and by stripping government of the resources and ability that allow it to respond to popular demands for welfare, regulation, and intervention.

Prescriptions: The Market as a Substitute for and Limit on Politics and Government

The conservative economists claim that the market is superior to politics and government. The free market is order producing, noncoercive, in accord with human nature, more efficient than government, and less likely to fail than public policy. This assertion has the status of metaphysical truth. The market must be more efficient because, by definition, government cannot test any of its proposals and is not subject to market discipline or limits on self-interest. Governments do nothing creative, neither producing material goods, positively assisting in their creation, nor evolving new arrangements and compromises that develop collective and individual welfare.

The conservative economists offer their market as the substitute for a wide range of current government activities. The market renders three services: It supports freedom, requires limited government, and provides countervailing power to that of government. The market does this by performing functions frequently given to government by people who do not understand their real interest or government's limited ability. It also defines what problems require government intervention (and few or no economic issues qualify) and legitimate policies to address those few problems susceptible to intervention, as well as policies on wider political-social issues. By taking over these tasks, the market can drastically reduce the area of politics and coercive conflict over distribution. Government failure does not doom western civilization. The free market can save it, but we must modify popular behavior and reduce expectations. For conservative economists, the market is omnifunctional. They push the market's frontier far into politics and public concerns. Not only does it explain all behavior, as with the political market, it can solve most public issues that require a solution.
Because government failure is the cause of most intervention demands, its failure and market efficiency encourage market expansion. Only the market can direct, limit, and control greed and self-interest, producing cooperation. Expanding on Adam Smith, Buchanan's market is "a perfectible social organization" that channels self-interest to serve others. To Ryan Amacher, markets allow society to "minimize the need for 'good action' to solve social problems." For Friedman, unavoidable greed does less harm and more good under capitalism than in any other system.39

Whereas political scientists such as Charles Lindblom, Robert Dahl, and Benjamin Barber40 see the removal of economic issues from public debate as weakening democracy, economists such as Dan Usher claim that this has positive advantages. Usher contends that popular governments need a nonpolitical system of equity, such as the market, to save democracy from the politically destructive and impossible task of assigning income. Political systems cannot determine incomes because that supposedly makes every issue subject to majoritarian decision making. The resulting conflict and tension destroy peace, stability, democracy, and the consensus upon which society depends.41

The conservatives expand upon Usher's argument, going far beyond economists' traditional view that the economy promotes peaceful conflict resolution among families and firms.42 Market and government are irreconcilable organizing principles.43 The conservative market has a specifically political function in depoliticizing socioeconomic struggle. The conservatives do not annihilate politics but turn numerous public decisions over to the market, taking them off the agenda of public debate. The market replaces government in many areas and limits it in others. It can order a broader range of human relations than are assigned to it in most existing systems. Reducing the amount and extent of resources allocated by government and relying on the market to solve social and distribution issues decreases divisive conflict and inefficiency and fosters individual freedom.

The market accomplishes this in a seemingly automatic manner, distributing desired goods nonpolitically while avoiding face-to-face confrontation. Buchanan claims that it is perverse to argue for extension of democratic decision making to "previously non-politicized areas," presumably the market, because that will enhance "interpersonal and intergroup conflict." For him, "the principle of spontaneous coordination suggests" that the economy can peacefully reconcile separate interests, drastically reducing the scope of government. Hayek agrees. To even remotely replace "the ordering function of the market," governments "would have to co-ordinate the whole economy . . . from a single central authority." This would require arbitrary judgments in place of impersonal markets. One intervention must lead to another, and another, ending in chaos.45

Friedman is very specific. The market limits government by transmitting
information, providing incentives, and distributing incomes, thereby lessen­
ing “greatly the range of issues that must be decided through political means.”
It diminishes conformity and concentrations of power by “reducing the area
over which political power is exercised” and provides a counterweight to politi­
cal power. By eliminating and distributing power, the market acts as “a system
of checks and balances” upon government that decreases the amount of coer­
cive power in society. “It enables economic strength to be a check to political
power rather than a reinforcement.” He does not explain to whom private
power is responsible if it can check popularly elected government.46

Politics is again seen in zero-sum terms. Unlike the theories of Aristotle,
Thomas Jefferson, and John Stuart Mill, political participation does not enlarge
capacities and perspectives, encouraging understanding and the shared bonds
and moral sensibilities that unite a nation. Political participation has no educa­
tional, citizenship-creating role. Politics means plunder, coercion, and conflict
over basic values because it imposes uniformity upon people. Winners and
losers must accept the same policies, regardless of preferences. As Friedman
claims, “The use of political channels, while inevitable, tends to strain [never
enhance] the social cohesion essential for a stable society.” Instability is in­
creased in proportion to the “range of issues for which explicit agreement is
sought” and decreased when the political system makes few specific distribu­
tion decisions. Because the market requires much less agreement and is by
definition voluntary, it “reduces the strain on the social fabric” by allowing
people to fulfill their separate preferences, reducing conformity and conflict
over conformity. The market relieves government from making decisions which
no minority is willing to grant to a temporary majority, while these minorities
are protected in and by the impersonal market. The choice is simple. Either
limited government through the market or civil war.47 That the market is not
subject to direct popular control becomes a point in its favor.

**Privatization**—private sector provision of public services, including garbage
collection, staffing airport control towers, running prisons, and the sale of
such public assets as Amtrak, Conrail, parts of the National Weather Service,
the loan program of the Rural Electrification Administration, public lands,
parks, and naval petroleum reserves (or, in Britain, British Airways and British
Petroleum)—is an answer that the conservative economists strongly favor. By
definition it is better because the alternative is impossible and undesirable.
Though this widespread proposal has had mixed results,48 privatization simul­
taneously fills three desiderata: It expands the market; it shifts emphasis from
public to private purposes; and it reduces the size of government by stripping
it of the resources that allow regulation and intervention. In each case this
putatively expands freedom while limiting the destructive aspects of the pur­
suit of self-interest.
Hayek argues that while government may provide a wide range of services, we must always look for alternatives to public provision. He quotes Richard C. Cornuelle: The market could produce jobs for everyone, end poverty, eliminate juvenile delinquency, replace numerous government regulations, take over the entire research effort, eliminate air and water pollution, provide efficient education to everyone, and end segregation. He favors Friedman’s voucher plan for schools and argues that it could be expanded to other areas. Even money can be provided by the market. In all cases where government is necessary, the private market must be allowed to attempt to provide similar services.

Friedman finds extensive public concerns that can be left to the market. These include provision of most education at the primary and secondary level and all postsecondary education, old-age security programs, determination of wage rates, industrial regulation, licensure, public housing, national parks, mail delivery, toll roads, consumer protection, and protection from inflation (though he believes that inflation is exclusively a government-caused phenomena). Even crime would be reduced if there were fewer government programs. The overall result will be to decrease government power, which must of necessity increase freedom and efficiency. There will be no long-lasting adverse impact.

Despite its Hobbesian view of self-interest, conservative market theory assumes that competitive markets produce harmony because people must and will learn to accept their outcomes. The expanded market requires that distribution issues and all forms of intervention must always be excluded from political consideration and that people accept market distribution. This shift from a descriptive to a prescriptive statement further implies that the market is, or should be, the only legitimate harmonizing mechanism because it alone ensures and requires voluntary cooperation, not coercion. Peace, harmony, justice, and order through the market would exist if there were no government, no force, no coercion. However, these do exist, and the line between market and government remains undetermined. The market can be a conflict-reducing mechanism in the conservative sense only if people accept its distribution mechanism as natural or make an antecedent decision—or nondecision—to give it precedence over politics. As in the myth that public administration can be nonpolitical, depoliticizing issues requires a prior commitment—a constitutional decision—as to what will or will not be included in political debate. The decision to concede this power to the market, however, is not subject to discussion. It is not a conscious choice. Given human nature, evolution, and the political and economic markets, it follows naturally.

How could any rational person debate the necessity of reducing government in scope and size? The market, guided by the invisible hand of competitive self-interest, will take up the areas vacated by government, thereby eliminating conflict. If it does not, this means they were not problems to begin with.
Prescriptions: Limiting Government Resources

As created, not spontaneous, institutions, governments need to be greatly con­trolled. The conservative economists propose stripping governments of the ability and resources that allow them to respond to popular demands for intervention, protection, welfare, regulation, and aid, thereby placing these issues off limits to public policy. Taking away resources and power expands the market’s role, preventing selfish majorities and ignorant political leaders from intervening.

These theorists claim that all existing political systems and constitutions are corrupt because they escape market constraints and market concepts of political legitimacy. Traditional limits on government power are not adequate, and even separation of powers “has not achieved what it was meant to achieve.” Hayek accepts the aims of Montesquieu and the American founders, but “their means have proved inadequate.” He believes that the “division of power” and modern representative government have failed because they do not protect economic freedom. Buchanan agrees that western democracies and pluralism have failed and that they undermine moral order, threaten freedom, and are headed for destruction. They are an out-of-control “Leviathan,” ruled by “bias” for public spending, that must be constrained. Friedman contends that government power will always be abused. Power exists because “people are afraid to leave things alone.” This causes “Tyranny of Beneficiaries,” “Tyranny of Politicians,” and “Tyranny of Bureaucracy” resulting in a “Tyranny of the Status Quo.” The only way to end abuse of power is to eliminate power.

If ideas, institutions, and constitutional rules are inadequate and destructive, it is not enough to elect good leaders. Friedman had great hopes for the Reagan presidency, seeing its opposition to large government as the harbinger of “a renaissance of freedom and prosperity.” A little later he noted that “[u]nder the best of circumstances, a massive government cannot be reordered and reduced overnight” or “dismantled in one or two years,” but Reagan failed to make sufficiently far-reaching proposals for reducing government. Ultimately, however, it does not matter who is elected. Individuals fall short, and policies cannot be changed unless institutions and constitutional rules are altered radically. Buchanan asserts that the Reagan administration had “a noble agenda, and one partially if not fully met,” but too much had been expected of it. More important, it focused “on a prepared agenda” instead of attempting “a structural revolution” to modify “the basic structure of politics and government.” It failed to change the Federal Reserve system, enact a balanced-budget amendment, or eliminate the Departments of Education and Energy—meaning that “the only opportunity to change the structure of politics” has been “forfeited.” President Reagan’s most important legacy will be deflation of the “Mass
Delusion” that politics and bureaucracy can accomplish great things. His constant opposition to government has illustrated that government is a failure, that it cannot positively improve people’s lives, that Camelot is impossible. Friedman echoes this belief with his claim that the Reagan administration’s policies have “altered [the] political atmosphere” so that the opposition’s “political position” has been modified. 53

Regardless of who is elected, good intentions are swamped by corrupt political pursuit of self-interest. The only hope, as noted in chapter 5, is a constitutional revolution to change the form, structure, function, and resources of government to prevent this corruption from reoccurring. If no passion other than self-interest can be relied upon, institutions to channel self-interest away from its current, politically destructive path must be created. For Buchanan, this requires major “institutional reform” providing “constitutional protection for a morally legitimized sphere of human activity”—market freedom. 54 Hayek calls for “new institutional invention” to replace discredited western governments with a new model of politics “which could be realized by the consistent application” of market principles. 55

In the same way that the Bill of Rights is a limit upon government in the United States, depriving it of resources is also a limit. As with all theories, the proposed constitutional rules enshrine a theory of distributive justice; essentially negative, they forbid government from doing some things and remove the resources to do others. The conservatives expect much from this policy. Hayek sees it as a key to “The Containment . . . and the Dethronement of Politics” because “politics has become much too important . . . costly and harmful.” Friedman wants to reduce the size of government, whether or not deficits and debt are problems. He believes that “[t]here is nothing wrong with the United States that a dose of smaller and less intrusive government will not cure.” Writing in the context of his proposed balanced-budget amendment, he argued “to limit the government in order to free the people” and expounded the “importance of limiting government in order to preserve and expand individual freedom.” 56 The primary idea is to eliminate the means and resources that allow economic intervention. As examples, I will briefly examine proposals for taking away resources, the concept of a fiscal constitution, government issuance of money, and the conservative notion of rule of law.

Taxation and levels of taxation are fundamentally political decisions. They shape distribution and limit public policy and the size of government. Tax rules reflect basic civic principles and help promote those principles. Debate over taxes and budgets is a debate over the philosophy of government—its chief beneficiaries, proper role, structure, functions, duties, and national priorities. Realizing this, conservative economists demand that taxes be reduced. Though the United States is one of the least taxed of industrialized democracies, lower
taxes are more of a political and philosophical than economic issue for these authors. Without the resources for intervention, government can no longer accede to the public's demand for intervention. Friedman confirms that "the relation between taxes and the scope of government . . . reflects a political judgment rather than an economic judgment." Given their preference for consumption that is private—which they claim is more democratic and just—as opposed to public—which must deprive individuals of the freedom to use their resources as they choose—reduced taxation expands the private while curtailing the public sphere. This is important because all taxes are seen as coercive. Thus, Buchanan emphasizes that choosing a tax system is "analogous to the choice among rules or to constitutional choice." Analyzing this option within uncertainty about future individual economic status presumably leads to choosing a tax system that limits redistribution and ensures that individuals keep most of their earnings. Friedman is more blunt about reducing government's ability to meet popular demands. "Truly simplify the tax system and all of a sudden a major source of patronage for politicians would disappear." With fewer resources, temporary majorities can no longer coerce governments into destructive, unworkable, and costly programs. It is so important to reduce the size of the federal government that Friedman would "accept large deficits as the lesser of evils" compared to higher taxes.

Reducing taxes and spending requires a criterion. The market provides the essential constitutional and moral standard through the conservatives' fiscal constitution, discussed earlier. The market is a mechanism for reducing conflict and government power only when a fundamental, constitutional decision has been made to exclude categories of economic issues—as was achieved in the political exclusion of issues respecting religion or the press—from normal legislative and administrative jurisdiction. The conservatives maintain that this decision has been made, though apparently many people who are, or should be, bound by it are unaware of its existence. The fiscal constitution is the rule of conduct, part of the rule of law, that "forbids" deficit spending and high taxes. In an often repeated phrase, the "fiscal constitution" is a "constitutional constraint" that bars such matters as redistribution, deficit financing, and steeply progressive taxation. Principles such as the fiscal constitution are not created but are "culturally evolved rules of fiscal prudence," unwritten rules that are the result of cultural and moral evolution. Adhered to in the past, this evolved standard limits intervention into the natural economy and is "a set of fixed principles antecedent to and controlling the operating institutions of government." A balanced-budget requirement is one of these constitutional norms to restrict intervention. More than separation or enumeration of powers, the fiscal constitution limited the budget and therefore the size of government. Repeatedly violated, it still "had constitutional status. For expenditures in excess of receipts
Conservative Economists' Theory of Government

were considered to be violations of moral principles." Although not written into the Constitution—most of these authors want it included—it represented a customary or unwritten rule having the same status as political parties, "the actual operation of the electoral college," and judicial review. Violation of this constitutional norm, made possible by Keynesian economics combined with democracy, eliminated limits on the size and scope of government, embarking western nations on their current suicidal path.\(^{61}\)

For these theorists, interventionist and/or welfare government is not only impolitic, coercive, counterproductive, inefficient, and freedom destroying but immoral and unconstitutional. Conservative fiscal concerns are prior to and more important than normal political activity. Their economy equals fundamental political rules and values composing the constitutional order. Deficit spending and/or intervention are subversive of fundamental law—of the real constitutional order represented by "The Old-Time Fiscal Religion."\(^{62}\) Reducing government's role implies restoration of a legal order undermined by the irresponsibility, greed, and democracy of the political market. As with Hayek's rule of law, this is spontaneously generated moral law beyond that written by legislatures responsive to temporary majorities. Thus the role of enlightened economists is to return the nation to the higher reality embodied in market relations.

This argument is flawed. The fiscal constitution is not simply a principle employed to explicate positive law but confuses positive law with social norms and what are claimed as moral rules. These theorists convert what they perceive as a fundamental principle to the legally binding status of positive law. It is not sufficient to claim that the fiscal constitution is a tradition or customary behavior similar to political parties; if it were, people would be aware of it. It is a moral rule, generated by the economy, and as noted in chapter 6, there are no exogenous sources of morality that can challenge moral rules generated by the economy. Making the fiscal constitution a moral rule differentiates it from other practices and institutions which custom and usage have elevated to constitutional status. The latter can be changed or modified by statute or constitutional amendment, but the elements that make up the fiscal constitution are prior and superior to the political elements of the constitution and therefore unchangeable—a permanent limit on government. Though supposedly based on the evolution of custom and tradition, no amount of evolution can change these fiscal rules.

If there is, or was, a "fiscal constitution" whose rules are at least as fundamental as human rights and the structure of government, the rest of the system must correspond to it. This claim justifies the demand for constitutional amendments to make government conform to economic rules and needs, allowing the spontaneous economic order to provide most of the goods and services
that people wrongly expect from government. These authors have numerous proposals to limit resources and the power to intervene in order to make the political constitution conform to the fiscal constitution. Their most important shared proposal is a balanced-budget amendment, because it would eliminate deficit spending. As their political faith leads them to assert that democracies are incapable of adequately taxing themselves to pay for services, a balanced-budget requirement reduces the size of western governments, correspondingly expanding the role of markets. Friedman suggests additional amendments to limit government's role that are consistent with the position taken by the others: a flat tax; free trade; a presidential item veto; limitations on the growth of the money supply; forbidding wage and price controls; ending laws requiring a license to practice a profession; elimination of corporate taxes; inflation indexing of contracts; and termination of such policies as public housing and social security.\(^{63}\)

For the conservative economists, these changes in the role of government embody the rule of law. The rule of law is a classical liberal principle designed as protection from arbitrary government action and limitation on the scope of government. It specifies the principles by which other rules are judged. The rule of law includes impartiality, removal of vagueness, nonarbitrariness, neutrality, and advance notice of new rules and rule changes. It refers to treating people by known standards and to constitutionalism—adhering to basic limits and rules. The idea of rule of law is favored by each of these authors but elaborated most by Hayek—and then more through repetition than detailed analysis of content and consequences. Moreover, this ideal is given a peculiar twist by these writers, to emphasize their version of proper economic relations as the key to freedom, limited government, and the good life.

Hayek and Friedman both express the desire for general rules and law to guide action and limit human will and discretion in politics, especially where it impacts on economics. Along with Buchanan's "fiscal constitution," which is the functional equivalent of Hayek's rule of law or "rules for just conduct," general rules are the essential means to maintain freedom and prevent excessively responsive governments from giving in to what these theorists call special-interest pleading for intervention. The rule of law is a standard superior to the mere will of majorities embodied in statutes, to written law, even to the written constitution, in that it provides norms of conduct to protect the conservative market, based on an underlying economic reality that orders other behavior.\(^{64}\)

Hayek's rule of law limits what government and majorities may do. It stresses methods and procedures in the belief that these produce the best outcomes over time, not results to specific individuals or classes. It is another example of either/or thinking: People must choose between his notion of rule of law
or tyranny. Hayek's rule of law offers general, established, unvarying rules, "fixed and announced beforehand," that allow virtually no discretion—the essence of tyranny—to government and no differentiation between people. Prohibiting discretion excludes intervention in economic or social relations because such intervention treats some people differently from others. Rule of law assumes that government and public policy can be impartial and neutral if they treat people identically and do not benefit any identifiable person. To do this it must follow those general rules which support the abstract market order. Governments are precluded from legislating for specific problems or persons. If it is possible to see the effects of a policy on specific persons, that policy is illegitimate, a violation of the rule of law. In no case is it legitimate to differentiate between people in the name of justice, equality, or freedom, because such differentiation must destroy freedom, justice, and equality along with the spontaneous market order upon which these depend.65

Formal equality before the law—identical treatment regardless of differences—is, therefore, the essence of the rule of law. "[E]quality before the law is in conflict, and in fact incompatible, with any activity of a government deliberately aiming at material or substantive equality of different people" (i.e., any aid or reward given outside the structure of the market) or at "distributive justice," which must destroy the rule of law and free markets. The market-based, natural-law-like character of this position is illustrated by Hayek's claim that constraining rules, like the fiscal constitution, need not be written or even apparently known to be binding. They include "not only articulated but also not yet articulated rules which are implicit in the system or have yet to be found." As in the development of capitalism, when people followed rules without expressing or even knowing them, evolved rules of the market set the limits to political possibility and legitimacy.66

In claiming that public policy cannot benefit identifiable persons, Hayek is referring to the impact of specific rules—say, welfare legislation, where it is possible to identify who will benefit. He wants general rules, like stop signs, which everyone must equally obey and of which everyone may attempt to take advantage. He is not referring to the socioeconomic environment where property owners, children of the affluent, or white males have built-in advantages in market competition or competition resulting from general rules. Hayek insists that such context must be ignored. Law cannot take cognizance of individual differences or circumstances. In short, it is not a violation of rule of law if, based on socioeconomic characteristics, one can identify beforehand particular likely winners. But it is a violation of rule of law if government attempts to aid likely classes of losers, that is, those people who lack the resources or ability to effectively compete.

As an abstract concept, the rule of law does not specify the content of rules
but rather the form they must follow. To conservatives, however, the rule of law does have specific content: the rules of conservative political economy. It follows from spontaneous order and human ignorance, requiring that people comply with a form of rule utilitarianism produced by market needs. Anything that violates these canons, even if applicable to all, violates the rule of law. The measure of the rule of law becomes conformity to these economic rules (which specify the principle of neutrality), not its conformity to abstract rules of procedure, which to be made operational must be informed by moral judgments. Yet people and philosophers insist on such judgments to ensure that a decision that is impartial is acceptable. Their judgments might distinguish between people because of their different position in the socioeconomic lottery and would have to be justified in exactly the same way that conservative rules need justification.

Circumscribing government’s ability to issue money is also an effective limitation on its scope and power. Friedman and Hayek differ on the best means—Buchanan does not discuss this option—but agree that the public ability to issue money must be constrained. Friedman’s monetarism removes public discretion, so that issuing money becomes a seemingly administrative task, innocent of political involvement. Monetarism assumes that the money supply (quantity of money), not fiscal policy, is the key government support for the economy. Monetarism claims that long-term prosperity and stable prices can be ensured by creating an automatic monetary system under which the money supply grows 4 to 5 percent a year. Friedman believes that this rate will prevent inflation by not providing money to finance higher prices and will have no undesirable consequences, at least in the long run. Creation of a fixed monetary rule ends the possibility of discretionary intervention into economic affairs and supposedly removes the means of financing intervention and welfare. To be successful, monetarism requires an additional politically difficult policy: wage and price flexibility.

Hayek’s proposal to reduce government’s monetary role reflects his mistrust of government and his concurrent belief that the private market is superior to and is an effective limit upon government. Whereas Friedman supposes that government can be efficient enough to adhere to a fixed rule of monetary growth, Hayek doubts this. Instead, Hayek wishes to denationalize money; that is, take away government’s exclusive power to issue money and allow private firms to issue alternative and competing currencies. Hayek claims that government has always abused its money-issuing monopoly. “[G]overnment power over money facilitates centralisation,” allowing it to deliberately squeeze resources out of the public. “[T]here is every reason to mistrust government . . . there is no reason to doubt that private enterprise whose business depended on succeeding in the attempt could keep stable the value of the money it
issued." A detailed discussion of this proposal is unnecessary. It is another example of attempts to remove resources which allow extensive welfare, regulation, or intervention. It is the corollary of the belief that the market is always more just, fair, and efficient than politics and that people must learn to passively accept market outcomes.69

Proposals to remove resources from government control require a radical change in the structure of government, its operations, and the public to whom government presumably responds. Politics becomes an adjunct to economic theory. The market restricts and defines the scope of government and the public sphere and introduces greater purity into politics. For example, public choice theory, which Friedman applauds, "offers the normative understanding necessary to lay down 'better' rules." Such theorists "should begin to advance their own versions of the ideal constitution for society." This includes "institutional reform" to fit man's "moral-ethical capacities" and "genuinely constitutional rules that will, to an extent at least, be immune from ordinary political pressures.70" Change will take a fair amount of time, since the perceived corruption has sunk deeply into the political fabric.71 But change will come, even though "new institutional invention is needed."72 Hayek's proposals include a new legislative structure, with much reduced power for the branch that is subject to regular elections. To Friedman and Buchanan, there should be more local and less national government. For Hayek and Friedman, structural changes such as the line-item veto will shift more power to the executive.

The reasoning is simple. Either we have a free market and limited government or total government and a command economy. There are no intermediate possibilities. Inefficient and coercive, government must be limited to its essential duty of protecting the harmonizing market mechanism. Despite acceptance of a limited welfare system and Friedman's demand that government maintain a stable money supply, government duties are no greater than those listed by Adam Smith and, given vast socioeconomic changes since Smith, are proportionally less: internal and external security, a judicial system, defense of private property, enforcement of contracts, and provision of limited public works and minimal support for public education.

This model can operate best in a system that has little popular political participation, a passive or docile population, and few resources to support protest. Some of the possibilities and dangers implicit in the conservative position are illustrated by Friedman's comments on Hong Kong and Chile. Despite its limited local self-rule or political participation, Friedman considers Hong Kong as "[p]erhaps the best example" of government kept to its proper duties. It is a paradigmatic market society with neither tariffs, minimum wages, nor limits upon buying and selling, entering a business, or hiring practices. Though tiny, it is an example for the United States.73
Friedman’s discussion of Chile is more naive and ominous. Friedman’s initial support for Gen. Augusto Pinochet’s dictatorship illustrates the conflict between his notions of freedom and the purpose of government and wider concepts of freedom, democracy, and legitimate government. Friedman visited Chile in March 1975, eighteen months after a military coup overthrew the elected president, Salvador Allende. The exact nature of his six-day visit is controversial, but while in Chile, he met a number of government officials—some economic advisers to the ruling junta were either former students or close adherents of the Chicago School of Economics—gave talks, and subsequently wrote a paper recommending spending cuts, sale of nationalized industries, and other steps to curb inflation. Friedman did not ask if Latin American conditions made it difficult to apply his advice, or if cultural, political, social, and religious circumstances might affect a supposedly universally valid monetarist model.

Friedman saw in Chile what the United States and Britain can become if they continue to expand intervention and welfare. Thus, “[t]he present state of Chile [1977], in my opinion, is the end result of an expansion in the role of government” in socioeconomic problem solving, especially “an increase in government spending.” Presumably this is the ultimate cause of the 1973 coup. Because of his presupposition about the inevitably destructive impact of government, he was slow to attack brutality and violations of human rights and quick to praise the junta’s efforts to return Chile to a “free” economy. Friedman advised what came to be called the shock treatment to curb inflation: drastic cuts in public welfare, services, and subsidies; reduced employment; a slower rate of growth in the money supply; and so on. His “only concern” was “that they [the junta] push it long enough and hard enough,” though their method of doing so seems at first to have escaped his notice. He believed that “the economic policy adopted by the Chilean government has been well adapted to the problems it inherited from the Allende regime.” That the policies he supported required political repression in Chile and could be imposed only under an authoritarian, antidemocratic regime seems not to have troubled him. Friedman said that though he deplored the political situation, the economic solution was absolutely necessary. In response to critics, Friedman initially claimed that Chile was an exception, that strong government cannot normally impose a free economy, and that critics of Friedman and Chile are inconsistent in not also criticizing communist states. In the end, after much censure, he admitted that preservation of the free market requires restoration of political freedom.

There is moral and political callousness in Friedman’s early association with and later partial repudiation of the Chilean junta. Despite his protestations, Friedman’s argument illustrates greater concern for the conservative version
of a free economy than for politics or political freedom. I cannot attribute Friedman's position on Chile to other conservative economists, even if their starting economic and political assumptions are similar. They did not comment on Chile, and one expects that they too disapproved of the junta's political repression. Yet Friedman epitomizes a potential in the conservative economic contempt for government and politics: the belief that political and social relations must conform to economic theory, regardless of costs. The economist's purpose is to enforce the economic limits to politics, unlike the Keynesian claim that economists should attempt to find workable means to meet popular demands and reduce economic pressures on political stability.

Politics as an Adjunct to Economics

The message is always identical, repeated with persistent regularity. Politics is inferior to economics. Politics is a self-serving exchange mechanism. Politics is coercive. Politics is uncontrollable. Government is the enemy. Government power is always abused. Government always fails. Government failure is always worse than any imaginable market failure. Public support for correcting market imperfections through regulation, intervention, welfare, labor unions, most health and safety regulations, and so on must be terminated. In a caricature of Marxism, the political constitution must conform to the underlying economic constitution.

The conservatives' free market requires a particular political system, though not necessarily a minimal state. For example, Buchanan accepts some of Robert Nozick's arguments but considers the possibility of a minimal state to be a dream. Hayek leaves open the possibility of active though limited government. Potentially, this state is minimal only in terms of its nonintervention in the "spontaneous" market order. A strong state may sometimes be necessary, but one responsible to a higher value than popular demands. Given the conservative view of self-interest and their failure to explain why people will accept losses when interventionist-regulatory-welfare government is dismantled, a strong government—and possibly a revamped, centralized educational system to teach acceptance—may be needed to control unrest and contain or ignore redistribution demands if consensus breaks down.

The conservatives seem to believe that all that is necessary is to remove the source of what they consider abuses, yet there will be losers from their proposals. Entitlements, most welfare, a wide range of business, price, and environmental regulations will disappear. There will be fewer opportunities for advancement, aid, and education for groups and individuals who fare poorly in the market. The conservatives' own picture of human nature warns that
losers will not go quietly to their reduced position and status. Thus when an
economic policy requires ignoring popular fears and demands and reducing
popular impact on decision making—given the conservative picture of the
political market and the place of self-interest in politics—suppression of dissent
is probably inevitable. Losers must be forced so that they can be truly free
in the market.

Moreover, the limitations these authors place on democracy and popular
control of government and the deliberately reduced responsibility of govern­
ment to respond to popular demands would leave modern governments un­
challenged in foreign and military policy, areas that have increased the power
of government more than have demands for welfare or economic regulation.
A further result of limiting access to government would be to increase the in­
fluence of those who now have ready access that does not depend on popular
pressure or voting, such as business executives who must be placated to fulfill
much government policy. This could lead to a greater asymmetric relation
between groups to government than now exists. These theorists believe that
their limits on the power of government will end all economic intervention,
but the more probable result will be expansion in police powers, a shift in the
beneficiaries of public policy, and more inequality, where traditional business
claimants for public aid will become even more dominant than at present.
There is, therefore, a potentially large role for government in maintaining in­
ternal order and other supports necessary to the market.

This possibility of a particular kind of strong state may not, however, be
the entire story. As with all elitist theories, the conservatives assume that there
is an elemental reality to which behavior must conform for justice and har­
mony to be realized. Despite conventional wisdom and the conservatives’ own
claims, two points support this contention. First, the system as a whole is de­
termined, operating virtually as a natural order, and individuals have little im­
 pact on outcomes. Second, the conservative market is not a proposition put
forward for debate and analysis but a true and objectively correct standard to
which people should adhere. It functions for the conservatives in the identical
manner as natural law and objective truth asserted by other systems. As in Pla­
to’s Republic, the criterion of good government is not political. Existential
reality is inadequate. Mass wants reflect ignorance and are irrelevant to what
should or must be. People must be made to conform to the disciplining/liberat­
ing spontaneous order. They must adopt a political system which reflects this
reality beyond their desires; the political-economic system cannot conform to
what people desire or how they actually behave. The underlying reality is not
Plato’s transcendent forms; these authors are good enough liberals to doubt
the validity of that intellectual enterprise and to realize that it requires a morality
different from their own. Instead, the foundation is the market, which is to
be the arbitrator of politics and government. Polity must conform to economy. In the same way that a cancer patient must comply with a medical regimen (against his/her will?) to be cured, modern governments must observe and be limited by market discipline for order, freedom, and efficiency to prevail.

This rationalist picture is sorely lacking. Buchanan and especially Hayek defend the market as the result of evolution, but apparently only the market can evolve. Since it has evolved in conformity with fundamental human drives, there is little or no likelihood for further evolution to social market systems or successful, close government-market partnership. Governments are created, and though they are also human institutions and important for solving problems and overcoming conflict, they are not capable of evolutionary growth or improvement. As government is a constructed system, these authors discount the possibility of political evolution. Thus it is no defense to say that the present range of public activities is the result of popular demand, or to claim that duties have evolved over time. That is irrelevant, because only the market provides the mechanism—competition—to propel evolution and curb both appetite and the natural political disposition to plunder whomever one can. If government evolved—in a sense, Buchanan's contractarianism, if it allowed other possible contracts—then it would have equal claim to consideration with spontaneous orders such as the market. But this would undermine the idea that the market is natural and politics destructive.

Conservative evolution operates in and through the market, having as its goal protection of the market. It is employed as a descriptive and prescriptive concept. Evolution can proceed according to only one pattern: individualistic competition in spontaneous orders such as the market. Any other pattern is a blind end, a return to primitive emotions and organization and harmful to freedom. Institutional evolution of markets has stopped in that no amount of change or evolution can make the free market more free or efficient.

All evolution of tradition arguments share a common problem: Either one must be morally neutral and accept everything that develops, or one must abandon the argument in order to criticize recently developed political and social forms. The conservatives accept neither of these alternatives, leaving them with several problems they fail to address. First, if, as these authors believe, survival is the criterion of success, what is the time frame in which success is measured, within which one can determine if a practice is or is not the newly evolved norm? The welfare state is more than fifty years old in the United States and a century old in democratic Europe. Is it the path that social evolution is currently following? If procedures have simply evolved, it is not legitimate to argue for reinstatement of previous procedures because they evolved. Can there be dysfunctional evolution, and if yes, what are the criteria? It cannot be found in the process of evolution. Second, the conservatives seem to be asserting that
history has ended, that evolution stopped with their political economy, that for example, the nineteenth-century fiscal constitution is the limit of sustainable evolution, given human nature. Why and how can this be? Are not the democratic practices and institutions these authors criticize also the result of evolution? Third, why and how has change occurred outside the acceptable evolutionary path? The answer—bad men and desires—does not address the failure of their tradition. Fourth, discussion of political, economic, and institutional evolution is of course a metaphor, because unlike nature, social evolution is not the result solely of chance. Even if people are as ignorant as the conservatives claim, reason, goals, purposes, and planning—as well as the force, power, and predatory practices ignored by these theorists—shaped and continue to shape the development of human arrangements. They may not produce the results people wish, but results are not independent of purposes. If people can understand the process, they may be able to direct or at least deflect it. Then the evolution argument ceases to be a naturalist argument and becomes a purely rationalist one.

All that is desirable is promoted through the market. What cannot fit will be ignored or suppressed. Because there are only individual interests, they can be made to mesh together in the market where an extended view reveals that the world is harmonious, orderly, coherent, and at bottom, one. This position fails to appreciate the sociopolitical dislocation that results from rational individual decisions that are harmful in the aggregate. It may be perfectly rational for an individual to ignore the long-term impact of actions but disastrous for society; examples include toxic waste disposal, use of chlorofluorocarbons, pollution, refusal to serve in the armed forces, discrimination, selling secrets to an enemy, ignoring interests of future generations, or Garrett Hardin's "tragedy of the commons." Even if the market can address such issues, future generations cannot participate in our market and are therefore unprotected. The theory is unable to address harm that flows from sole dependence on markets when costs cannot easily be allocated to individuals or when people cannot adequately be compensated for harm but are protected only if the harm is prevented, as with acid rain or disease. The conservatives rightly insist that government failure is too often ignored in calls for regulation of market failure, but that should be a caution against expectations of perfection, not a reason for doing nothing. Instead, for these authors, that simple observation is magnified into the basis for an entire theory of government, one where government and politics are to conform to market theory, never to interfere into spontaneous order.

Because these theorists see politics and government as coercion, neither government nor politics have anything other than narrow instrumental value. They cannot accomplish great things, there is no creativity in politics, there
is no value in unity or participation, and humanity will never share a common image of a common future. Government is condemned for being centralized and for failing to impose uniformity on public policy. Power has no moral justification, except as it contributes to market efficiency. Legitimacy, legitimate authority, and ultimately popular control—despite claims that the market is the true realm of democracy—are missing. Traditional political concern with what is rightful, as in legitimacy, is reduced to individual rights largely in a market context. There is no attempt to account for obligation. The citizen is gone. Politics and participation are the pursuit of self-interest as determined outside a social or collective context, without debate, deliberation with, or concern for fellow citizens. High politics is never addressed. There is no sense for, reference to, or understanding of diplomacy, war, and peace, those concerns which a slightly older generation referred to as the great issues of politics. They are not missed, because the market will satisfy most issues formerly left to politics.

By limiting expectations, the market supposedly reduces conflict and solves problems that the democratic masses foolishly expect government to address. If people are convinced that the market is neutral, that inequality is necessary to its operation, that market outcomes are the best individuals can attain given their resources, and that such outcomes are natural, they may feel disappointed but not discontented. If, however, the power to affect outcomes does exist; if people are unwilling to believe that the market is neutral between men and women, black and white, poor and rich; if many people have little or no equal and effective choice about important exchanges; if inequality undermines efficiency; if welfare and intervention are the price of social and political stability; if large numbers are unwilling to remove issues important to them from the public agenda, then the market does not limit conflict but becomes a pivot for expanded conflict.

Leaving aside the rich tradition in normative theory that man lives not by bread alone but becomes fully human through participation, popular protests demanding democratization in South Korea in June 1987 and the subsequent election there (as well as popular demands for more democracy in the People’s Republic of China in June 1989) illustrate that economic growth alone is not enough to satisfy popular aspirations, that people want a sense of control over their futures, that demands for political reform and some sort of democratic participation cannot be satisfied by the phrase that the market is the real realm of democracy because people can choose to buy whatever they wish, if they can. This reality will be lost on the economist theorists. With their preference for theory over existent reality, for making behavior conform to their economic model rather than altering their assumptions to reflect behavior, and for a unified solution to all dilemmas, they are unconcerned with
the problems that confront individuals and governments. All that the conserva-
tive theory of government has to offer is the promise that in the long run, 
things will be right with the world; on the average, people will be better off 
or at least living as they should without handouts, intervention, or regulation 
to cripple their freedom; and that there will be more economic efficiency, de-
finite as whatever results from their natural market process. Much is missing 
from this attempt to find a single answer for all public concerns.