

The Economy in Perspective

Ex uno plura ...Voters in Quebec recently indicated their opposition to seceding from the rest of Canada. The outcome of the referendum was extremely close, however, and the separatists vow to continue their campaign until they are successful. Commentators report that an actual separation would require extensive negotiations over borders, treaties, claims to natural resources, and a host of other property-rights concerns. Discussions surrounding this issue elicit deep emotional responses: People clearly have strong feelings about living in a place whose values reflect their own sense of identity.

The Canadians are not the only people re-examining the meaning of government in their lives. Citizens of regions that formerly made up the Soviet Union are exploring new forms of government and new relationships with Russia. Though some of these situations are being handled peacefully, others have involved protracted military conflict. And in places like Northern Ireland and the Middle East, blood has been spilled over questions of boundaries and sovereignty for decades or centuries.

Two aspects of this soul-searching merit attention. There are many examples of large countries splitting into several smaller ones, with Germany being the notable exception. Whether the process is called secession, separation, or partition, the catalyst is largely the same. Within a country, a group of people begin to feel alienated from a government they believe is treating them unfairly, and they yearn for a new regime that will respect them and protect their values. To reduce the tensions that can arise from having to share a common government, one group begins the process of separating from the other.

A second trend can be seen in nations where pressures exist to limit the role of all levels of government, but especially the central government. Here, the frustrations are less a matter of one group against another than of widespread discontent about government itself. In the United States, Congress is considering eliminating or reducing the constraints it now places on states and local governments as conditions for receiving federal funds. The ascendant philosophy holds that government decisions should be made at levels closest to the citizen. One-size-fits-all programs invented in Washington are

giving way to customized local solutions.

All of these developments — from dissolution to devolution — should cause us to ponder what we expect from government in the twenty-first century. What is left of our concept of government after we outsource street cleaning, park services, and the like? After we replace public education with a voucher-driven system of competitive schools? After we privatize prisons and Social Security? Once we vent our frustration about how poorly governments perform, what exactly do we want our governments to do? There is genuine confusion about the answer, because governments are no longer the most obvious solution to some of society's economic problems.

The essence of government authority is the ability to force people to follow the law. Ironically, though, the state's coercive power is a double-edged sword. One side of the blade can be used to promulgate regulations and policies that transfer wealth from some people to others, but that do not enhance society's welfare as a whole. Some view these activities as legalized theft, while others regard them as a source of social equity.

The other side of the state's coercive blade can be used to provide public goods that markets would not provide on their own. Traditionally, these have included lighthouses, bridges, public health services, and national defense. But governments that worry about caring for sick or destitute citizens could also force people to join health care groups, or to pay into unemployment insurance funds, in ways that truly diversify the risks of catastrophe. That is, governments can force risk-sharing in situations where private insurance markets may not function well. These are welfare-enhancing activities.

Government's role in society has two distinct dimensions. When governments provide goods and services, including risk-bearing services, they may improve the nation's social welfare. But what made sense for a government yesterday may not make sense tomorrow. Governments also manifest a set of values regarding the rights of their citizens. Here, too, we should expect change. But isn't it odd that as the nations of the world move toward more openness in their relationships, groups of citizens within countries seek more distance from one another?