

## *The Economy in Perspective*

*Whither government?* ... Welfare as we know it is ending. The same can be said for agriculture, national defense, health care, and (though few public officials will openly admit it) Social Security. After many decades of vigorous expansion, big government has become politically discredited. What next?

Voters call on government to participate in economic life in various ways. Private-market transactions cannot always provide the right amount of what economists call public goods, like national defense or a space program. These goods and services benefit all, and excluding people from them is difficult. But we also ask government to provide such nonpublic goods as school lunches, grants to artists, highway and airport construction, and loans to small businesses. We use the tax system to channel benefits to particular groups without spending money directly. For example, home mortgage deductions benefit homeowners who itemize on their tax returns, but do nothing to help renters or homeowners who do not itemize.

Americans also use government to transfer resources among people through tax and spending programs. The largest component of Social Security, for instance, transfers resources from younger, working people to older, retired individuals. Insurance programs form another class of government activities. Most employers and employees are obliged to purchase workers' compensation and unemployment insurance, and most banks are forced to carry deposit insurance. The government provides insurance only when it thinks that private companies will not (or cannot) insure the risk at a reasonable price.

During the past several decades, we have increasingly asked the government to use transfer, insurance, credit, and direct-spending programs to alter private-market outcomes. Current public disaffection with government appears to stem primarily from a belief that too many goods and services are being provided, that the beneficiaries of some transfer programs are receiving more than they deserve, and that the distorting effects of these myriad government programs on the private economy have become too large. Voters now seem more willing to allow private firms to supply many of the goods and services traditionally provided by government agencies. At a minimum, this competition motivates government to operate more

efficiently. At the extreme, it calls into question all government participation.

Other developments have also forced serious consideration of private-market alternatives. Many people do not recognize how changes in capital markets and risk management are extending the scope of private enterprise. The U.S. space program illustrates the confluence of these forces. In its early years, the space program was a purely governmental affair, with government committing the funds and bearing the risks—both of which were substantial. Later, after the R&D costs were paid, commercial ventures became more practical. Now that global capital and insurance markets have developed, enabling private companies to send satellites and other cargo into space and to hedge against the risk of launch and equipment failure, the government's role has diminished.

Highways provide yet another example. The traditional method of funding a new state highway requires voters to approve the sale of long-term bonds to be repaid through either general tax revenues or toll charges. But private companies are perfectly capable of raising highway construction funds in capital markets. Motorists using the highway can be billed automatically after a scanner records their presence. Furthermore, with private funding, voters need not worry about the state using tax dollars to build unnecessary roads. California and Virginia have already granted permission to private firms to build and operate segments of state highways.

These developments point to the wide range of options available to the American public as it reconsiders how government should fit into the nation's economic life. It will be interesting to see whether the public wants to circumscribe the *size* of government or to reduce the *role* that government plays. There is a big difference. The government can stop doing many things and allow private markets to become more active. But it can also instruct the private sector to do what it wants done. The government can order businesses to pay a minimum wage, tell broadcast companies to provide children's programming, or force companies to purchase insurance from private carriers. The government can—and does—influence resource allocation without spending taxpayer funds or employing people.

So *whither* government? It's too early to tell. But government *wither*? Not necessarily.