

Losing Freedom Costs a Lot

by John Semmens

Over the last fifty years, the federal government in the United States has taken on behemoth proportions. Six new cabinet departments have been created (Education, Energy, Health and Human Services, Housing and Urban Development, Transportation, and Veterans Affairs). Twenty new “independent establishments and government corporations” have been added to the thirty that existed in 1945. Nine new mini-bureaucracies now report directly to the President (there were none in 1945).

The creation of new bureaucratic fiefdoms, robust as it has been, understates the expansion of the federal government. Bureaucracy, new and old, has been extending its reach into more and more facets of daily life. The federal government may require your child to be bussed to a school across town in order to achieve racially “balanced” student bodies. The federal government may dictate what you can and cannot say in a classified newspaper ad seeking to offer or obtain services, rent property, or acquire a roommate. The federal government may prevent you from improving your property (or saving your house from burning down) in order to protect the habitat of the kangaroo rat.

Congress has authorized an army of bureaucrats to invent a plethora of new rules and regulations. Each year, nearly 100,000 pages of new rules and regulations are issued. Almost all of these accrete on top

of, rather than supplant, previous rules and regulations. Consequently, it is not uncommon for the victims of these rules and regulations to be required to engage in contradictory actions. For example, to protect workers from being run over by vehicles used in the workplace, the federal government mandates that vehicles be equipped with “beepers” to warn of their approach. To protect workers from hearing damage, the federal government mandates that they wear earplugs.

This enhanced meddling has not come cheaply. In 1945, the federal government spent \$10 billion on nondefense outlays. By 1994, nondefense spending had risen to over \$1,200 billion. This is nearly a 12,000 percent increase. Of course, inflation has something to do with the apparent size of this expansion in federal spending. (Although, even here, the federal government is neither a passive nor innocent victim of inflation.) There also has been population growth to contend with. If we put aside the government’s complicity in creating inflation and adjust spending in 1945 to the 1994 purchasing power equivalent, we find that the federal government was laying out about \$590 per person for nondefense spending in 1945. By 1994, this figure had ballooned to over \$4,600 per person, nearly a 700 percent increase.

Fortunately, a growing private sector was able to offset some of this increasing burden on the nation’s economy. Still, the federal government has taken increasingly larger bites out of the nation’s wealth. In 1945, the

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Growth in Federal Government Spending Since 1945

Year	Non-Defense Spending (\$ in billions)	Spending As a % of Gross Domestic Product	Spending Per Capita	Transfer Payments (\$ in billions)	Transfer Payments Per Capita
1945	\$ 10	5%	\$ 69	\$ 2	\$ 14
1950	\$ 29	10%	\$ 190	\$ 14	\$ 93
1955	\$ 26	6%	\$ 155	\$ 15	\$ 90
1960	\$ 44	9%	\$ 244	\$ 26	\$ 145
1965	\$ 68	10%	\$ 348	\$ 37	\$ 188
1970	\$ 114	11%	\$ 555	\$ 75	\$ 367
1975	\$ 246	15%	\$1,138	\$173	\$ 802
1980	\$ 457	17%	\$2,007	\$313	\$1,376
1985	\$ 694	17%	\$2,909	\$472	\$1,978
1990	\$ 953	17%	\$3,815	\$619	\$2,478
1994	\$1,204	18%	\$4,618	\$880	\$3,375

federal government's nondefense spending consumed about 5 percent of the Gross Domestic Product (GDP). That is, the federal government confiscated and spent 5 percent of the wealth created by the economy in 1945. By 1994, the federal government was confiscating and spending 18 percent of the GDP.

The Growth of "Income Transfer" Programs

While infesting society with new rules and regulations has imposed substantial costs on the economy, most of these costs are borne by businesses and individuals, and thus, do not show up in the aforementioned figures. What does show up in these figures is the tremendous expansion of "income transfer" spending. Government "income transfer" programs have institutionalized the "robbing Peter to pay Paul" concept. Dissatisfied with the mutually agreeable and voluntary exchanges between "Peter" and "Paul," the federal government has undertaken an array of schemes to impose involuntary, and frequently disagreeable, exchanges. A considerable portion of the population has thereby been persuaded that it is not a disgrace to adopt the mind set of beggars, whiners, and thieves when it comes to debating public policies.

In 1945, "income transfer" programs accounted for only \$2 billion of federal spend-

ing. By 1994, this type of spending had increased to nearly \$900 billion. In 1945, 20 percent of the federal government's nondefense spending was of the "robbing Peter to pay Paul" variety. By 1994, nearly 75 percent of federal government's nondefense spending was of this type. If this \$900 billion in "income transfer" spending were distributed evenly over the entire population, it would amount to over \$3,000 per person. Of course, this spending is not distributed equally. Some receive much larger shares of the "loot." Others receive less. Still others must have their pockets picked, their bank accounts embezzled, and their earnings diverted to provide the "loot."

What Might Have Been

All of this government intervention was supposed to have improved the "security" of the average guy. Nonetheless, the current American economy seems lethargic by past standards. Real wages appear to have stagnated for the last two decades. Between the inefficiencies inflicted by excessive regulation and the oppressive burdens of taxes extracted to support the massive spending increases of the federal government over these last five decades, the economy has fallen far short of its potential. To get an inkling of how far short of its potential the economy has fallen, let's consider the question of opportunity cost. That is, what the situation might be today if a different path

**Alternate Inflation-Adjusted
Federal Government
Spending Scenarios**
(in 1994 dollars)

Year	Actual Non-Defense Spending (\$ in billions)	Spending at 1945 Levels (\$ in billions)
1945	\$ 83	\$ 83
1950	\$ 180	\$ 90
1955	\$ 144	\$ 98
1960	\$ 223	\$107
1965	\$ 321	\$115
1970	\$ 439	\$121
1975	\$ 684	\$127
1980	\$ 830	\$134
1985	\$ 965	\$141
1990	\$1,092	\$147
1994	\$1,204	\$154

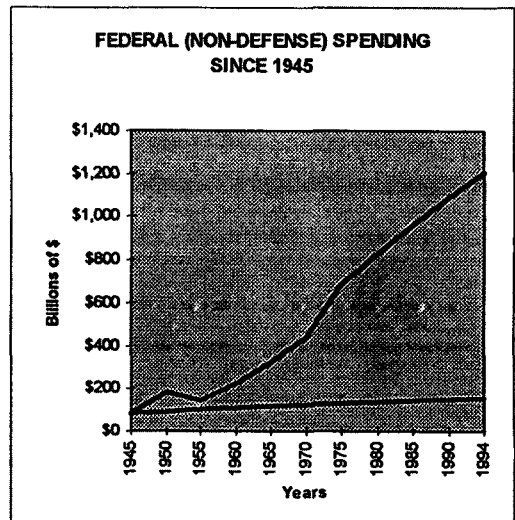
had been chosen in 1945. While measuring the opportunity cost of excessive regulation would be difficult, if not impossible, we can get a glimpse of what the magnitude of such an opportunity cost might be in the case of excessive spending.

For our thought experiment, we will consider what might have happened if the federal government's per capita nondefense spending had remained at the level in effect in 1945. Remember, 1945 was after President Franklin Roosevelt's "New Deal" had already substantially increased the government's role in our society. For this experiment we will also convert all money figures into their 1994 purchasing power equivalent.

In dollars of 1945 purchasing power, federal nondefense spending was \$10 billion in 1945. In dollars of 1994 purchasing power, federal nondefense spending was \$83 billion in 1945. In the history that did take place, federal nondefense spending rose to \$1,204 billion by 1994. If per capita nondefense spending had been held to 1945's inflation adjusted levels, population growth would have boosted this spending to only \$154 billion by 1994. That is, the federal government could now be spending over a trillion dollars less per year than it now spends.

If the government were spending a trillion dollars per year less, the private sector would have a trillion dollars more to spend. This is more than \$4,000 per person per year. Consumers could satisfy more of their needs and wants. Businesses would have more resources for expanding operations, acquiring more equipment, and inventing new technology. If only 5 percent (the average post 1945 savings rate) of this difference between actual federal spending and the lower levels projected in our thought experiment had been invested at a 3 percent per year rate of return (the long-term average rate of real growth of the American economy), there would be more than a trillion dollars of additional capital available to support employment opportunities and wages. Since it currently requires about \$50,000 in capital to support each job, this translates into a hypothetical additional 20 million jobs. Inasmuch as the number of unemployed workers is only one-third of this amount, this additional capital would likely have also resulted in higher wages. To the extent that a less burdensome government might have permitted even higher rates of saving and returns on investment, the material abundance available to the average American would be several times what it is at present.

So, not only have our freedoms been eroded, we have also paid a heavy price



in terms of sacrificed material well-being. Since a major announced motivation for the expansion of government has been to ensure our "social security," we have not gotten what we have "paid" for. Instead, we have confirmed Ben Franklin's fear that a nation willing to trade freedom for security will end up losing both.

As bleak as the preceding analysis appears, we are not without hope. While the momentum of government has carried it far down the road to turning us all into serfs, the intellectual support for this direction has been severely compromised. The socialist premise upon which the massive expansion of government has been based has been undermined by the relentless efforts of those

dedicated to promoting a freedom philosophy.

The Foundation for Economic Education has been a continuing force in promoting this freedom philosophy in the post-1945 period. Founded when the idea of freedom was at its lowest ebb in American history, FEE has contributed to the revival of the appreciation for the value of a free society. Cutting government "services" is now a respectable, perhaps even dominant, policy option in public debate. Governments around the globe are actively seeking ways to "privatize" government operations, cut taxes, and return liberties to the people. FEE has served and will continue to serve as an illuminator of the path to a better, freer world. □

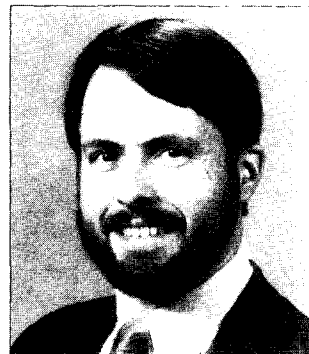
"Fellow FEE trustee Bill Dykes and I, along with others we had recruited, put together a discussion group that continued for many years. Eventually formal meetings stopped. Then when I returned to Canton ten years ago, we started a similar group that meets every Tuesday. Consequently, we have introduced many people to the FEE philosophy. Both Bill and I also wrote numerous articles for The Freeman and other publications. Many people have taken the time to write us — especially after attending a seminar — saying that FEE has changed their lives."

— John C. Sparks
Canton, Ohio

"In 1975, Lucy Eisenhower (a good friend of FEE) told me, 'You should go to the Mont Pelerin Society which meets at Hillsdale College this year.' I went, and got acquainted with Leonard Read and several others. Result? The founding and organization of the Free Enterprise Education Center. I spent 16 of my retirement years as founder and president.

The organization, now known as The Free Enterprise Institute, is still going strong. It's a good example of the influence FEE has been to many people many miles from its home base."

— Rolland Storey
Houston, Texas



Fifty Years of Statism

Historian Paul Johnson has called the twentieth century the “age of politics,” the era in which people increasingly turned to the state to solve any and all problems. That is no less the case in America than elsewhere around the globe. In the early 1900s Progressivism and Woodrow Wilson’s messianic international crusade helped set the U.S. government on its ever-expanding course.

The growth of the state has been particularly spectacular this past half century. Since FEE’s birth in 1946, the federal Dr. Jekyll has turned into the most odious version of Mr. Hyde. Over that time Washington has become the redistributive state, the Santa Claus for any interest group with a letterhead and mailing list. It has become the nanny state, the paternalist determined to run every American’s life. It has become the militarist state, the guarantor of a veritable global empire at the expense of freedom at home. There is, in fact, little that political acolytes have not sought to entrust to the state—medicine, child care, and even spiritual fulfillment through something called “the politics of meaning.”

The necessity for FEE was obvious enough in 1946. The national government had been swollen by America’s participation in World War II and inauguration of

various New Deal schemes intended to bring the nation out of the Great Depression. But for those less prescient than Leonard Read, 1946 might also have looked like the peacetime apogee of government. After all, America’s great economic and security crises, which had caused government’s dramatic and rapid growth, were receding into history. And for a time government actually did shrink. Federal outlays ran \$55.2 billion in 1946, five times the last year of peace, 1940, but down from \$92.7 billion in 1945. Expenditures fell to \$29.8 billion in 1948. Then the trend reversed, however, and within two years the federal government was spending more than it had in 1946 (though outlays still lagged once adjusted for inflation).

The march of statism seemed to slow during the Eisenhower years: federal expenditures actually fell for a time and grew only slowly thereafter. But by 1966 real outlays had rolled past those of 1946. Uncle Sam was bigger and more intrusive than in the aftermath of economic depression and global war.

Government continued to grow steadily if slowly—1969 was the last year that the federal government balanced its budget—before the go-go years of the late 1970s and early 1980s. By 1985 the national government was spending twice as much in real terms as it had in 1946. Today, at a time when America is secure economically and militarily, the real federal budget is running nearly thrice that of 1946.

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