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Cato Looks at Why Government Fails

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This is the first of two articles on studies by eminent scholars who take a relatively constructive look at the role of government. They attracted me from a contrarian standpoint as an opportunity to take a closer look at the arguments advanced in the intensifying debate over the merits of government intervention in markets.

Peter Schuck, a self-styled "militant moderate," presented his book Why Government Fails and How It Can Do Better recently at Cato Institute, with commentary by Arnold Kling, a Mercatus Center–affiliated senior scholar at George Mason University and economist at Cato Institute who is a self-styled low-key libertarian. Kling has worked for entities cynics might nominate as examples of government failure, including Freddie Mac and the Federal Reserve.

Schuck acknowledged at the outset that to question the efficacy of government at Cato was like "carrying coals to Newcastle," but he thought it useful to catalog the reasons for these failures and to consider how they might be remedied, whereas a cynic might consider this exercise, especially at the level of detail Schuck provided, a monumental waste of time.

Schuck engaged his audience by citing polls showing that confidence in government among Democrats declined to 41 percent in 2014, a 10 percent drop even before Obamacare took effect, and Brookings Institution found that 56 percent of Democrats consider government to be mostly or completely broken.

He noted that Tom Edsall, a journalism professor at Columbia University, had written the previous day in his New York Times column that Obamacare is going to hurt Democrats for at least several election cyclers.

Other startling points emerged from the author's findings that it is a myth that the United States has a small public sector as compared with other prominent countries. The U.S. government continues to grow in good times and bad, unrelated to the Keynesian cycle. The debt/GDP of the United States exceeds most EU countries as well as the average for Latin America, in part because the public share in the United States may be understated because of government-directed activities of contractors and nonprofits. The bulk of the book consists of chapters on 14 reasons for the endemic failures of government, and one of these, the political culture established in the United States, has 10 subparts.

Schuck holds out hope that better analytical work can produce better results, and he cited a few examples that readers may or may not find convincing. I was dismayed that such an erudite and busy scholar pointed to the lagging implementation of the Volcker rule as an excess of government because it impinges on the ability of community banks to go on investing in collateralized loan obligations, vehicles related to those that caused the 2008 episode of the ongoing financial crisis. Somehow Schuck seems to have gotten lost in the rhetorical fog laid down by highly paid banking lobbyists.

In his engaging critique, Kling suggested that the book may be transitional for Schuck and that a tighter analysis and higher tolerance for innovation might cause the author to climb further up the mountain toward libertarianism.