

The Dead End of Small Government

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June 16, 2020

Suspicion of centralized power has deep and wide roots in American political culture, but the modern small-government movement originated during the middle decades of the 20th century in response to the rise of socialism globally and the New Deal's creation of the activist regulatory and welfare state here at home.

To simplify a bit, it began as an intellectual movement with four major channels of development: (1) the *a priori* laissez faire of Ludwig von Mises, combined with Ayn Rand's revival of Lockean natural rights, with the fusion of the two systematized in the anarcho-capitalism of Murray Rothbard; (2) the Chicago School defense of markets, and critique of government intervention, on efficiency grounds; (3) Public Choice economics and its focus on the incentive problems of government; and (4) F. A. Hayek's celebration of "spontaneous order" and diagnosis of the information problems faced by government.

These channels combined and their contents swirled together into a stream of thought variously known as libertarianism, classical liberalism, small-government conservatism, or free market economics. Across a variety of contending schools and factions, its adherents coalesced around a few basic ideas that defined their challenge to the status quo: commitment to "economic freedom," understood as the absence of government "interference"; valorization of private enterprise and profit-seeking; belief that markets have a high capacity for self-regulation so that profit-seeking conduces naturally to consumer and worker welfare; deep skepticism about the competence and motives of government officials, typically referred to as "bureaucrats"; and an abiding suspicion that taxes discourage hard work and innovation while government subsidies encourage dependence and indolence. For those equipped with this intellectual toolkit, the correct answer to most questions of economic and social policy was smaller government: lower taxes, less spending, fewer regulations. (Note that here I am focusing exclusively on economic libertarianism and its views on taxation, government spending, and regulation. Libertarian positions on civil liberties, the scope of the criminal law, immigration, and foreign affairs are beyond the scope of this essay.)

Although principled commitment to this worldview has never attracted more than a tiny minority, those devotees have exerted enormous influence on the truly mass movement of conservatism and the Republican Party for which conservatism eventually became orthodoxy. This influence began with brilliant and widely heralded expositors in the

academy – most notably, Robert Nozick in political philosophy and a slew of Nobel Prize-winning economists, including Hayek, Milton Friedman, George Stigler, Ronald Coase, Gary Becker, and James Buchanan – and was amplified and adapted to issues of the day by a well-funded, media-savvy network of think tanks and advocacy groups.

Libertarian and free-market intellectuals and activists typically bridle at any suggestion that their views have come to dominate the thinking of the American right. How can that be, they ask, when government is bigger and more intrusive than ever? This entirely sincere disclaimer of responsibility reveals a remarkable blind spot, since in other contexts libertarians are quite insistent that unintended consequences are an inevitable result of interventions in complex systems. And when you seek to intervene in the complex system that is the political culture of a large and heterogeneous nation, it is a safe assumption that “success” will end up looking very different from what you originally had in mind. On the long and circuitous path from academic scribbling to public opinion and party platforms, much is lost or refracted or mixed up along the way. But the path of influence, however winding, still exists.

The libertarian influence on the shape of right-of-center thought has of course been selective, as the rigorous, principled anti-statism upheld by the movement’s leading intellectuals has always been wildly unpopular as a practical political program. However, particular elements of small-government ideology do jibe with the interests and predispositions of important and powerful constituencies. Accordingly, politicians and policy entrepreneurs seeking to appeal to those constituencies and reliant upon their support have gravitated over time to the broader ideology as intellectual justification and rhetorical cover. I don’t mean that they necessarily do this in a calculating, mercenary way, though some certainly do; many are sincere adherents of that ideology even as they apply it inconsistently, in the same way that many sincere believers in this or that religious faith are hit-or-miss in putting their beliefs into practice.

The most obvious and durable contribution of libertarian thinking to right-of-center orthodoxy has been on the subject of taxes. “Taxation is theft” has long been a favorite slogan among radical libertarians who see all government as illegitimate. But a strong aversion to taxes has also characterized libertarian intellectuals who view the issue through the prism of efficiency, not natural rights, as exemplified in Milton Friedman’s line that “I am in favor of cutting taxes under any circumstances and for any excuse, for any reason, whenever it’s possible.”

When Ronald Reagan broke with traditional GOP fiscal conservatism to advocate across-the-board tax cuts, he was responding pragmatically to a real source of widespread public discontent: The Great Inflation of the 1970s had resulted in widespread de facto tax increases through “bracket creep.” But over time, free-market intellectuals developed a multilayered case for “no new taxes” as a permanent position. The “supply-side” movement of policy entrepreneurs played an important role by arguing that tax cuts at least partially paid for themselves because second earners would work more and the rich would invest fewer resources in tax avoidance. As it became clear that, notwithstanding these dynamic effects, big tax cuts still led to big budget deficits, the idea of “starve the beast” served as a

backstop argument that tax-cutting was actually fiscally conservative: According to this thinking, the best way to roll back the size and scope of government over time is to deprive Leviathan of its sustenance. This theory has proved **not only incorrect, but the opposite of correct**, as tax cuts have reduced the perceived cost of government and thus raised rather than lowered demands for its assistance. But no matter, the final line of defense, that all taxes are bad per se, has held the line. Here we go back to libertarian first principles – either that it is wrong to rob Peter to pay Paul, or that by taxing “wealth creators” we disincentivize and thereby discourage wealth creation.

The problem of bracket creep was solved long ago with the indexation of tax-rate thresholds, the consistency of a permanent “no new taxes” position with fiscal conservatism has proved illusory, and those libertarian first principles cannot hold up under scrutiny – as I will discuss in due course. But for all that, Republican enthusiasm for tax cutting remains unflagging, as evidenced by the only significant domestic policy accomplishment during the current administration. The reason for this constancy is that the position is popular – not with the broad public of course, which strongly supports raising taxes on the rich, but with the rich themselves, whose donations are essential to the continued good fortunes of Republican politicians and free-market think tanks and activist groups.

Libertarian hostility to regulation also became part of conservative and Republican orthodoxy, but here a good deal was lost in translation from theory to political practice. When Republican politicians inveigh against excessive government regulation, what they typically have in mind is only a particular kind of regulation – namely, the kind that imposes costs on business in order to advance some social objective such as protecting health, safety, or the environment. Of course, it just so happens that this is the kind of regulation that aggrieves business lobbies. When they complain about the “cost of regulation,” they are talking about, not the overall effect on social welfare, but rather the direct impact on their bottom lines. Although there are plenty of excesses and misguided impositions to be found, in broad brush such regulations are necessary for markets to function properly: They help to ensure that companies make money by serving their customers better, not by inflicting harms on others.

As a matter of theory, libertarians recognize that the law should not allow businesses to harm other people or their property with impunity. But when it comes to practice, aversion to “big government” remedies can make it difficult for libertarians to recognize that harms are taking place or, alternatively, that effective remedies are possible. This dynamic has played out to disastrous effect on one issue in particular where libertarian influence on the right has been unmistakable: the looming, slow-motion catastrophe of climate change. Here the dominant “free market” position, and ultimately the overwhelming view among Republican politicians, has been that the threat of climate change is either nonexistent or overstated and all the leading policy responses are cures worse than the disease.

Meanwhile, there is another broad domain of regulatory activity with a very different character: Instead of imposing costs on business to further a social purpose, these rules impose costs on society at large in order to aid business. This is the dark side of the regulatory state that my colleague Steven Teles and I examined in *The Captured Economy*,

and whose ongoing abuses the Niskanen Center documents and analyzes on **this website**. Sometimes, as is the case for the financial sector, the regulatory apparatus connives to funnel taxpayer dollars to industry; more often, regulations subsidize incumbent businesses by erecting barriers to entry that discourage or prohibit competition.

Libertarian intellectuals have long been alert to the problems of rent-seeking and regulatory capture: A young Milton Friedman examined the effects of medical licensing in his doctoral dissertation! But because reform here challenges rather than serves prominent business interests, free-market policy entrepreneurs and Republican politicians have rarely focused on these aspects of the regulatory code. Overall, the clear upshot of libertarian influence has been to push the conservative and Republican posture toward regulation in a pro-*business* rather than a pro-*market* direction. In actual political practice, the usual “free market” position has been to look the other way when regulations artificially inflate businesses’ bottom lines – but to raise the hue and cry when regulations aim to protect persons and property from injury at the hands of business.

Attitudes toward the welfare state are another important area where conservative and Republican thinking has been shaped by libertarian anti-statism. The purist libertarian line, of course, is to reject all tax-and-spend redistribution as a case of – to use a favorite metaphor – two wolves and a sheep voting on what’s for dinner. But middle-class social insurance – Social Security, Medicare, unemployment insurance – has proved stubbornly and overwhelmingly popular: The high-water mark of the libertarian campaign against such programs, George W. Bush’s 2005 proposal for partial privatization of Social Security, flopped ingloriously. As a result, sweeping rhetoric about the evils of taxing and spending is deployed by Republican politicians mainly in opposition to means-tested programs that assist people with low incomes.

Libertarian purists believe that private charity will suffice to take care of those who are truly unable to take care of themselves. This is **manifestly untrue**, if by “take care of themselves” we mean something more than avoiding starvation. Yet in a dynamic similar to the one that undergirds climate denialism, opponents of the welfare state have managed to convince themselves that, since “big government” is the only viable solution, there cannot really be a problem. They reach this conclusion by recourse to the intellectually threadbare but ideologically convenient concept of “dependency.”

The basic idea is that most of the poverty we see today is actually caused by government: Receiving money you didn’t earn and goods you didn’t pay for is addictive, and over time that addiction sweeps through whole communities, fostering social pathologies inconsistent with self-sufficiency and perpetuating those pathologies from one generation to the next. The best way to help the poor, then, is to cut off their supply of addictive government support. Through this bit of intellectual legerdemain, small-government advocates are able to portray cuts to social programs, or the imposition of additional requirements that make it harder to qualify for those programs, as a win-win: a victory for freedom and fiscal responsibility, and also a reduction in the dependency that plagues low-income communities and keeps them down.

Republicans' libertarian-tinged hostility to taxing and spending has succeeded in ensuring that the American social safety net has plenty of gaping holes for the nation's most vulnerable to fall through. But it really hasn't had much effect on the overall level of social spending: When tax-favored private social spending is added to public spending, and public spending is adjusted for how benefits are taxed, the **United States ranks second** among the rich countries of the OECD in net social spending as a percentage of GDP. The heavy U.S. reliance on tax preferences in lieu of on-budget taxes and transfer payments is a testament to both the potency and misguidedness of libertarian ideology. In the prevailing libertarian view, tax deductions and credits don't count as government intervention because their effect is to leave more money with its rightful owners – never mind the fact that there is no economic difference at all between lower taxes for some and higher taxes for everyone else and uniform taxes combined with payments to some.

For all their talent at fooling themselves, libertarians have been unable to convince people struggling to tread water that a life preserver thrown their way is really a diabolical trap. And so, demand for social protection continues unabated. By holding the line on taxes and social-program budgets, all that libertarian opposition to the welfare state has accomplished is to ensure that this demand is met poorly and inefficiently. By relying so heavily on tax preferences, the American welfare state has become a bloated **kludgeocracy** that showers unneeded benefits on the well-off (tax deductions are much more valuable to people in higher brackets) while all too often leaving people in need to sink or swim on their own. The ultimate reason for the deformed structure and regressive skew of the American welfare state is the **nation's ethnic heterogeneity and long history of slavery and racial oppression**. As a result of this history, the poor in America are disproportionately black and brown, which allows the white majority to see the poor, not as an unfortunate part of "us," but as an undeserving "them" – hence less public support for helping them. The libertarian intellectual campaign against the welfare state has "succeeded" to the extent that it has by appealing – usually unwittingly – to racial resentment and providing it with rhetorical cover. Finally, the influence of libertarian anti-statism is visible in the contemporary American right's profound – but selective – hostility to the government and denigration of public service. From the standpoint of radical libertarian ideology, all tax-supported government is based on coercion and therefore illegitimate, morally indistinguishable from the protection rackets of organized crime. This is a deeply misguided position (more on that later), but one fully embraced by only a tiny smattering of full-bore anarchists. Anti-statism on the right carves out big exceptions: Ironically enough, skepticism toward government gives way to uncritical cheerleading precisely in those areas where government is most coercive – the police and the military. (See the final paragraphs of the **first essay** in this series.) But for the other activities of government – the provision of public goods and social insurance and regulatory oversight – conservatives and Republicans have come to adopt a withering and indiscriminate scorn. The mindless waste and Machiavellian machinations of "power-hungry bureaucrats" (or, more recently, the "deep state"), the insidious indoctrination of our kids by teachers' unions in "government schools," all of government as the Post Office and Department of Motor Vehicles writ large – this is the corrosive acid of derision and mistrust with which conservatives and Republicans have been pressure-washing the country's governing institutions for decades now.

The Swiss cheese shape of these anti-government attitudes reflects the intersection of libertarian ideology with the grievances and resentments of socially conservative white Americans. As already mentioned, the disproportionate incidence of poverty among people of color leads to the perception that the welfare state exists to help “them” at “our” expense – never mind the actual facts of the matter. Furthermore, the cultural dominance of social liberalism since the 1960s, anchored in America’s cosmopolitan big cities and world-leading universities, has created in white residents of small towns and those with less schooling and more traditional attitudes about religion and sex the sense that the country they once knew has been taken away from them. This sense of cultural alienation carries over to the government, especially the federal government seated in distant and imperious Washington. Federal employees “inside the Beltway,” overwhelmingly college-educated and thus more likely to be socially liberal, are lumped together with members of the entertainment industry and the mainstream news media as nefarious “coastal elites” who disparage “real Americans” as “deplorable” while they remake the country in their own image.

Populist anti-elitism has been an integral part of American conservatism from the beginning: William F. Buckley launched his career with a polemic against irreligion and socialism in the ivory tower, *God and Man at Yale*. But in the period when conservatism rose to power, in the 1970s and ‘80s, that populism was married to a powerful and intellectually sophisticated critique of liberal governance failures. It was then, in that distant and now almost unimaginable past, that Republicans became known as the “party of ideas.”

By the George W. Bush administration, things had changed. The real problems that conservatives had been confronting – soaring crime rates, stagflation, military weakness in the wake of the Vietnam debacle – had been mastered, at least in part due to conservative policies. But after the failure of Bush’s tax cuts to boost the economy and the fizzling of plans to privatize Social Security, it became apparent that the small-government policy cupboard was bare. As Hurricane Katrina and then the financial crisis underscored the point, a free-floating anti-government animus was really the only thing left that small-government conservatism had to offer the mass electorate (tax and regulatory “relief” remained popular among the donor class).

Unmoored from any policy substance or credible promise to govern more effectively, libertarian anti-statism grew increasingly vacuous and performative. This turn was captured by the Tea Party movement, which many libertarian intellectuals pathetically mistook as the first stirrings of a mass movement to roll back the state. Yes, the Tea Party featured lots of libertarian-sounding rhetoric along with tricorne hats and Gadsden flags, but the rigor of its commitment to small government was well captured by the demand to “keep your government hands off my Medicare!” The rhetoric and 18th-century props were expressions of, not a coherent political program, but cultural alienation and resentment – along the same lines as the Birther movement that arose at the same time.

Thus did vulgarized anti-statism in the 21st century merge seamlessly into mindless conspiracy theories and indiscriminate rejection of expertise. In the halls of power, its primary manifestation was the obstructionist nihilism of the Tea Party Caucus. The party of ideas had become the party of whatever brain-rotting garbage Rush Limbaugh, Roger Ailes,

Andrew Breitbart, and company saw ratings in peddling. And let me stop there: Since it is all still so painfully fresh in the reader's mind, I will refrain from detailing the right's further intellectual and moral collapse since Donald Trump took his infamous escalator ride.

Here then is what the ideals of free markets and limited government have come to stand for after small-government ideology was filtered through American political realities for a few decades:

- **A dogmatic attachment to tax cuts, especially tax cuts for the rich, as the appropriate response to virtually any conceivable circumstance;**
- **A strong pro-business, as opposed to pro-market, tilt on regulation, too often attacking needed pro-market regulations because they impose costs on business while ignoring anti-market regulations that benefit favored constituencies;**
- **A focused hostility toward government efforts to help the poor, pursued with much greater vigor than any opposition to subsidies for the middle class and rich or government policies that injure the poor;**
- **A general aversion to government transfer payments that has resulted, not in significant reductions in social spending, but in the redirection of social spending through tax preferences to provide lopsided benefits for the well-off;**
- **Incessant bashing of the public sector and public service as inherently dysfunctional and dangerous, while attention to how public policy might actually make Americans' lives better has dwindled toward zero.**

This is actually existing small-government conservatism, and it is not a pretty picture. I know this is not what a lot of smart and talented libertarian and free-market intellectuals and activists stand for personally. This certainly wasn't what I saw myself standing for during the more than two decades I worked as a professional libertarian at the Cato Institute. But as libertarians are always fond of reminding us, good intentions aren't enough. Efforts to influence politics must ultimately be judged by their consequences, not their motives, and the fruits of libertarian anti-statism have grown rancid and unhealthy.

The move from word to flesh always comes with some corruption in this fallen world, but the enormous gap between small-government rhetoric and reality is evidence of a deeper problem. The rise of libertarian anti-statism as the reigning economic orthodoxy of the American right has brought such disappointing and often perverse results because libertarian anti-statism is fundamentally misconceived. This body of ideas is incapable of leading us to thriving free markets and effectively limited government because its understanding of free markets and limited government is fatally flawed.

The root of the problem is to conceive of free markets as phenomena that occur in the absence of government "intervention." Libertarians imagine that "economic freedom" is a condition that exists prior to the state and independent of the political realm. At their most simplistic, they believe all the rules needed for a free-market order can be deduced from a single "nonaggression principle" – basically, don't hurt people or take their stuff. Even when their thinking is considerably more sophisticated, they still envision as their ideal a pristine and "unregulated" free market described only by the common-law rules of property,

contract, and tort – with these rules seen as somehow “natural” and apolitical because they evolved through case law rather than being imposed through legislation. All government policies that supplement or amend common-law doctrines are thus seen as “artificial” interference that “politicizes” economic decision-making. For a pithy encapsulation of the view that markets are free when all “artificial” government intervention has been eliminated, see Ayn Rand’s call for **“a separation of state and economics, in the same way and for the same reasons as the separation of state and church.”**

This core belief that the free market is somehow natural and apolitical is utterly and completely wrong. Yes, we can say that the propensity to “truck, barter, and exchange” is natural and crops up everywhere. But the vast, impersonal markets that unite and coordinate enormous numbers of strangers and make possible large-scale, long-term investments for mutual gain are profoundly unnatural – and deeply and inescapably political.

As I have argued at some length in an **earlier essay**, the idea of a natural or “pure” free market is a fantasy. There are countless possible variations on the theme of a market order, and each is just as “natural” as the other. Even if you accept as natural and politically neutral the fundamental principles of libertarian justice – self-ownership, private property created initially by homesteading, and free exchange – you are in no way compelled to support a minimal “night watchman” state or anarchy with private security services. To get from those basic principles to a functioning legal order that guides behavior and resolves disputes, a dizzying number of inescapably political decisions await at every turn – decisions whose answer is in no way dictated by the underlying principles themselves.

For example, the right to private property entails both the right to use property freely and the right to peaceful enjoyment of property – rights that conflict on many margins. Depending on the relative weights you assign to freedom of action versus security of rights on these margins, wildly different legal orders and economic systems can result. If you consider freedom of action more important, entrepreneurs may sometimes be free from liability when they cause nuisances or otherwise inflict harm on others, or liability may take the form of relatively modest money damages (so that violating others’ rights is now simply a cost of doing business). But if you lean strongly enough in favor of the sanctity of rights, you may establish highly restrictive regulations to ensure that persons and property remain inviolable.

This kind of wide-open indeterminacy extends to many other basic questions. In securing rights, is the primary threat from above (overweening central authority) or below (unchecked private aggression)? How do we adjust property rights to reflect past injustice – i.e., the fact that chains of title frequently begin in conquest or theft? Property rights are generally recognized to bow to “necessity”: How do we adjust property rights to deal with both foreign threats and threats caused by the fact that large numbers of residents of a polity may consider the current dispensation unjust?

There is no “right” or “natural” or “apolitical” answer to these questions. You can begin with the same principles that radical libertarians claim as their starting point and still argue

plausibly that the best way to institutionalize them is through extensive regulation and an elaborate welfare state.

The fundamental libertarian misconception, then, is that there is an economic realm that is somehow independent of government and politics. From this error flows the misinterpretation of free markets and limited government as anti-government principles: ideals whose realization is measured as the inverse of the size and scope of government.

This misguided antagonism toward government, seen as a matter of basic principle, influences who is attracted to the ideals of free markets and limited government and who is repelled by them – which in turn influences how these ideals are applied to issues of the day. Black Americans, women, and the LGBTQ+ community, and other minority groups, who have long been victimized by private and local coercion and who look to the federal government for vindication of their basic rights, are understandably unimpressed by a worldview whose starting point is seeing government as the enemy of liberty. Which explains why these groups are so poorly represented in the libertarian and free-market movements.

The rich and comfortable, who have the resources to provide for themselves even when government doesn't, are by contrast much more likely to sympathize with a view that holds that taxes are evil and government is a money pit whose costs are to be minimized. The same goes for business owners and managers, especially those whose activities can threaten harm to workers, consumers, or third parties: The message that less government is always better serves their bottom line and so can be counted on to appeal to them. And hostility to the state also resonates with populist resentment of elites – and, in particular, white working class resentment of elites perceived to be more attuned to the needs and interests of ethnic minorities than to their own.

With an intellectual framing of free markets and limited government that appeals strongly to the rich, incumbent businesses, and those inclined to populist resentment – and not so much to anybody else – the priorities of actually existing small-government conservatism are unsurprising. High taxes are anathema to the wealthy and sustenance for “the beast,” so anti-tax absolutism is no mystery. And with a “private sector good/public sector bad” mindset, it's easy for criticism of the regulatory state to focus on charges that the government is victimizing business by saddling it with unnecessary costs – with much less attention to instances in which regulations subsidize existing businesses at the expense of would-be competitors and consumers. Finally, given the white working class constituency for an anti-state message, the hostility to anti-poverty programs that disproportionately benefit people of color is understandable, as is the turn away from substantive governing and toward merely performative elite-bashing.

We didn't get here by accident – or all at once. The deep-seated intellectual errors made by champions of free markets and limited government didn't matter much when an uncritically expansive view of government was the reigning orthodoxy and the rapid growth of government had piled up a series of puzzling and disappointing failures. New ideas and new perspectives were needed to shake things up, and the small-government movement answered

the call with both intellectual rigor and moral passion. But as the movement began to exert increasing influence over people in power, its latent flaws were gradually exposed.

Now, with the arrival of the coronavirus pandemic, we have reached the point where the shortcomings of libertarian anti-statism have become glaringly obvious. In the face of government failures that have cost tens of thousands of lives and plunged the economy into crisis, the need for more effective government has become a pressing matter of national security. A movement dedicated to denigrating government clearly doesn't have the answers; it's not even asking the right questions.

The ideals of free markets and limited government are too important, and too relevant to meeting the challenges that now confront American society, to leave things here. We need to revive those ideals by reestablishing them on a sound intellectual foundation. I'll present some thoughts on how to proceed in the next and concluding essay in this series.