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BOOK REVIEW: Driving a nation toward insolvency

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WAR, REVENUE, AND STATE BUILDING: FINANCING THE DEVELOPMENT OF
THE AMERICAN STATE

By Sheldon D. Pollack

Cornell University Press, \$69.95, 328 pages

Reviewed by Doug Bandow

One of the hallmarks of the new American nation was the weakness of its government. But Washington eventually developed into a strong state and then a global colossus. It did so primarily by creating an efficient revenue-raising system - much to the detriment of the American people.

Public finance spawned some of the bitterest political debates in the Colonies as the Colonists sought to overthrow rule by Great Britain and establish a new nation along the Atlantic Seaboard. The subsequent Articles of Confederation bestowed no power to tax on the new continental government. Effectively dependent on the charity of the states, the national government was of little consequence.

In contrast, the Constitution invested Washington with the power to tax. Still, the result was an institution with little power. However, writes Sheldon D. Pollack, a professor at the University of Delaware: "In a relatively short time, the American state developed from a weak, highly decentralized confederacy ... into the foremost global superpower."

Mr. Pollack argues that money was the key. America's "remarkable institutional transformation would not have been possible but for the revenue raised through a particularly efficient system of public finance." It took the Civil War to begin bringing this system into being, and only such a system could have "facilitated an extraordinary expansion of the apparatus of the American state - in particular, the military forces and social welfare programs of the American state."

All governments tax, but not all governments raise money efficiently. "Getting money out of the pockets of citizens and into state coffers remains an arduous task even for the most skilled rulers of the most wealthy nations," Mr. Pollack notes. Pre-revolutionary France and Russia did badly in this regard, dooming those regimes.

He explains: "In contrast to Bourbon France and Czarist Russia, the English state beginning in the eighteenth century provides a compelling example of how the 'plucking' [of the goose] can be done discreetly so as to minimize the hissing, even while maximizing the harvest." The United States now "provides the foremost example of how fiscal efficiency and state power can be effectively combined."

Making this achievement, such as it is, even more noteworthy is the fact that America's Founders generally wanted a weak state. Writes Mr. Pollack: "Even the most ardent nationalists sought to build a state with extraordinarily limited powers by the standards of late-eighteenth-century Europe." Today, a national government established with only limited and enumerated powers claims the authority to regulate the fall to earth of the sparrows about which God has expressed his concern.

The state has become the dominant single institution in most nations. Its power is most complete where it most effectively possesses a monopoly on the tools of force. Classical liberal political theory presumed a social compact, but Mr. Pollack suggests that the state is more like a Mafia protection racket: "[W]e must always remember that the state is an organization that dominates society through force and uses its domination to fill its coffers." That certainly describes Uncle Sam today.

The driving force behind the development of the European state was war. Writes Mr. Pollack: "[I]n its ancient origins in medieval Europe, the state was used almost exclusively as an instrument of warfare." War requires raising militaries, and raising militaries requires collecting money.

Now, however, European nations also must find cash for other purposes, such as financing

a generous welfare state. In fact, social welfare has dramatically increased pressure on governments to raise revenue. Notes Mr. Pollack: "[T]he high cost of operating social welfare programs coupled with the great expenses associated with maintaining a modern military force is driving even the most prosperous democratic states of Western Europe and North America toward long-term financial insolvency."

The United States has followed, somewhat belatedly, the European model. The Founders did not want a European-style central state. Reports Mr. Pollack: "The inability of officials of the national government to raise sufficient revenue reflected the peculiar constitutional design of the early American state in which political power was preserved at the local level to a degree unknown in Europe. This extreme decentralization of political power remains the distinguishing structural feature of the American state."

However, that feature has come to matter less over time. America's "non-state state" largely persisted until the Civil War. That war had two major impacts: freeing the slaves and creating a dominant national government. Notes Mr. Pollack, "[P]olitical leaders in the North mobilized resources and built a new state apparatus in response to the secessionist challenge."

Then the post-Civil War constitutional amendments effectively created a second Constitution, enshrining national supremacy. Larger, deadlier wars in the 20th century led to a sizable permanent military and far more intrusive tax system, or "a modern fiscal-military state," as Mr. Pollack puts it. He calls the income tax, created to be a minor fiscal supplement, "the cornerstone of the revenue system of the American state."

European-style social benefits came last. With its welfare/warfare state, the United States matches the European states. Despite the best efforts of the Constitution's Framers, America has gotten a government that mimics the sort of states from which the Colonists sought to escape.

This large, revenue-efficient government has come at a high price, however. Mr. Pollack points to the "fiscal imbalance" that threatens seemingly endless deficits in the future. He warns:

"In recent decades, the rising cost of social welfare programs of the American state has even outstripped spending for the military. ... Whether state officials can continue to raise enough revenue through taxes and borrowing to finance both the expensive military and social welfare programs of the United States remains to be seen. The continued development of

the American state depends on it."

In short, Americans may soon find their strong state to be bankrupt. Perhaps only then will they understand the wisdom of the Founders in attempting to keep American government limited.

Doug Bandow is a senior fellow at the Cato Institute. A former special assistant to President Reagan, he is author of several books, including "The Politics of Plunder: Misgovernment in Washington" (Transaction, 1990).

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