The Modern Growth of Government Springs More from Ideas Than from Vested Interests

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Adam Smith famously argued that the creation of opulence comes in the natural course of things, provided that the state does little more than ensure peace, easy taxes, and a tolerable administration of justice, and later economists have reached a considerable level of agreement that in the normal state of affairs, markets work better when government leaves them alone and focuses instead on maintaining order and administering justice. Robert Barro (1997), in a cross-country analysis, finds that smaller government consumption and the rule of law help economic growth; Xavier Sala-i-Martin (1997) finds that the rule of law and openness of the economy contribute to growth; and Simeon Djankov and his colleagues (2002) show that complex business regulation restrains growth. These studies are empirical, but as Ludwig von Mises ([1949] 1996) pointed out, there is no need for extensive empirical research to determine how humans respond to incentives. When left alone to pursue their own goals and plans, individuals do well and create prosperity that spreads to everyone else in the society. Institutional structures that enable individuals to follow their personal goals are most likely to result in widespread economic prosperity.

In practice, however, government intervention in market affairs grew in the twentieth century to unprecedented levels and remains persistent. The governments

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of the developed Western countries started the twentieth century spending less than 10 percent of their gross domestic product and ended it with spending much more—from approximately 35 percent in the United States to more than 50 percent in many European countries. More important, although the share of government consumption stabilized after World War II, the scope of government regulation and government's overall involvement in private choices continued to grow. At the same time, however, in the political realm, democracy blossomed in multiple dimensions. It was consolidated in places where it was formerly fragile, and where it had already existed, suffrage was extended to erase boundaries of race, sex, and property ownership. The development of civil society and mass-media technology worked toward a greater inclusion of the masses in political affairs and enabled information of greater quality and depth to reach an increasing number of people. These changes arguably should have contributed to the improvement of collective decision making and increased government accountability. We might have expected that governments would have answered these developments with improved representation of public preferences and their more faithful translation into formal institutions and policies. All of the changes, however, did not result in a reduction of government involvement in the economy, but rather in an increase of it. Why did this increase happen?

Public-choice theorists have developed a number of useful concepts to explain the motives for government intervention in the economy. At the core of public-choice theory is the assumption that public officials, like other people, respond to incentives and pursue their own interests, which naturally leads governments to shape legislation and policies in ways that maximize politicians' power. Public-choice analysts also assume an uninformed, gullible voter, which logically follows from the premise of the poorly motivated voter, as described by Anthony Downs (1957). The individual cost of voting is greater than the possible benefit of any individual vote, and unless political information is acquired for its own sake, voters do not acquire it because gathering it does not serve their interest. The resulting ignorance allows politicians constantly to cheat on voters not only by being corrupt or shirking on responsibilities, but also by adopting legislation that voters might not want or would oppose if they knew about it. Landmark concepts in public-choice theory—such as log rolling, rent seeking, budget-maximizing bureaucracy, and powerful interest groups (Buchanan and Tullock 1962; Olson 1965; Tullock 1967; Niskanen 1971)—rest on the assumptions that individuals are rational and selfish and that voters are deeply ignorant about political issues.

The public-choice explanation is widely accepted among economists today. A survey by William Davis and Bob Figgins (2009) shows that a large majority of the members of the American Economic Association believes that special interests play a major role in policy formulation.[1] However, although public-choice scholarship

1. The survey question states: "In the United States special interest groups typically have more than a negligible impact on public policy formulation." On the scale 1 to 5, where 5 shows total agreement, the average answer among professional economists was 4.55.

explains the role of private interests in policymaking, it fails to explain other important forces that define the structure of institutions. The interest groups and rent seeking that public choice takes on were known long before governments started to grow rapidly. James Madison warned as early as 1787 that "the regulation of these various and interfering interests forms the principal task of modern legislation" ([1787] 1937, 56), clearly pointing to the dangers of interest groups' activities to the operation of limited government. Throughout the eighteenth century and a large part of the nineteenth century, however, the government's role in the United States remained largely unchanged. Predatory interest groups alone, therefore, do not suffice as an explanation. If anything, with the rise of democratic control and political transparency, their role should have been diminished, and the government should have shrunk. In practice, the opposite has happened.

What Public-Opinion Surveys Tell Us

Instead of looking for a political conspiracy in every piece of legislation that seems unreasonable to economists, an alternative approach to understanding the rise of big government is to examine the ideas that underlie the actions of voters and politicians alike. Public choice usually focuses on the supply side of government growth, but the demand side is at least equally important. A glance at politicians' behavior in electoral campaigns indicates that people not only tolerate but indeed actively seek government involvement in many different areas. If we consider what voters actually think, it is less clear that politicians are cheating them. It seems that the demand for government involvement in general and for flawed policies in particular has been underestimated.

This claim is by no means an attempt to explain comprehensively the causes behind big government. The point is not that special interests are unimportant, but only that their direct impact on policymaking is commonly overstated. They may act in alternative ways, such as by influencing public opinion to become amenable to their interests. Also, the relationship between public opinion and government policies is not simply that of an independent and a dependent variable. Political elites may autonomously introduce policy changes that consequently launch path dependences in mass opinion. Once a government program is in place, people exhibit a status quo bias and a tendency to follow default options rather than to consider alternatives.[2] The true causes of big government, therefore, range from special interests and politicians' instinct to grab increased power to the general public's passive acceptance and status quo bias and to the elites' influence in what Walter Lippmann (1922) called the "manufacturing of consent." I do not seek here to explain all of these

2. Robert Higgs (1987) explains how once a change has been introduced, the public more readily perceives the change's visible benefits than its invisible opportunity costs. Therefore, many expansions of government power that politicians introduce as temporary measures in times of crises become, in effect, irreversible.

elements, but rather to point out that the impact of some of them, especially rational self-interest, have been overestimated at the expense of the impact of others, especially the honest beliefs of both intellectuals and the general public.

Consider the public's responses in two surveys of the preferred general level of government involvement in the economy. The most striking impression one gets from public-opinion surveys about the size and scope of government is that people want significant government involvement in many areas of life. One poll pertaining to different areas of the economy and society asked respondents whether they would like more, about the same, less, or no "federal government involvement in that area."[3] When we add the percentages of the respondents who think the government should continue to operate at the same level of activities in certain areas and those who think that it should do even more, the results are remarkable: 86 percent for "ensuring access to affordable healthcare"; 65 percent for "promoting values and morality in the society"; 95 percent for "making sure that food and medicines are safe"; 83 percent for "reducing poverty"; 92 percent for "providing a decent standard of living for the elderly"; and 81 percent for "setting educational standards for schools."

The same survey asked respondents whether the amount of government regulation in various areas is not enough, the right amount, or too much. When the "right amount" and "not enough" answers are added, the results with regard to the following categories are: 86 percent for automobile safety; 77 percent for prescription drugs prices; 63 percent for cable TV access and cost; 78 percent for health care; and 90 percent for food and drug safety.

Another survey shows that Europeans have similar attitudes. A 1990 International Social Science Programme (IPSS) survey asked citizens of different countries what they think government responsibilities should be.[4] The exact question was: "On the whole, do you think it should be or should not be the government's responsibility to . . . ?" with the alternative answers being "definitely should be," "probably should be," "probably should not be," and "definitely should not be." When results giving the first two answers are added, the mean percentages of respondents in five European countries (Germany, United Kingdom, Italy, Ireland, and Norway) who think that government definitely or probably should have responsibility are as follows: 98 percent for "provide health care"; 98 percent for "provide for elderly"; 83 percent for "provide for unemployed"; 75 percent for "provide jobs"; 88 percent for "control prices"; and 77 percent for "assist growth of industry."

Statist attitudes are evidently not difficult to document. People on average want government to be involved in issues that can be matters of private choice, such as employment, health care, education, and market prices. It seems that governments

3. National Public Radio, Kaiser Family Foundation, and Kennedy School 2000. The results are based on a telephone survey conducted May 26-June 25, 2000, among a nationally representative sample of 1,557 respondents eighteen years of age and older.

4. The results of the survey are reported in Huseby 1995.

do not fool people by increasing intervention and involving themselves in the market and other private matters; more often than not, large majorities invite them to do so. It is important to notice, however, that general attitudes toward government involvement are not merely a normative issue. Because policies that rely on excessive government intervention often turn out to be counterproductive, these beliefs have much to do with positive economics. Consider only the basic epistemological challenge to government intervention on the market. Coercive meddling in the market process, whatever its intended goals, distorts the price system, causing the misallocation of resources and inducing far-reaching unintended consequences that we cannot conceive of beforehand. A general belief in government solutions on the ideological level therefore turns into bad economic reasoning and counterproductive policy proposals on the policy level.

For example, the cited IPSS European survey shows that citizens overwhelmingly favor such policies as administrative price controls and subsidies to failing industries. Based on a direct question about price controls (in addition to the general answer cited previously in regard to whether controlling prices is the government's responsibility), for Germany, the United Kingdom, Italy, and Norway the average citizens' support for direct price controls is a staggering 65 percent. Also, on average, 61 percent of the citizens think that the government should support declining industries. Perhaps the level of government involvement in issues such as health care and provision for the elderly falls into the domain of values and normative preferences. Thus, people may disregard pure economic reasoning about the best ways to provide health care and rely instead on normative attitudes, emotional considerations, and psychological reasons. In contrast, however, the preferences for price controls and the principled support for declining industries are difficult to connect to any emotional considerations or values. As policy propositions, these preferences are wrongheaded from the point of view of the standard economic theory. The issue therefore is not merely the preference for big government, but the preferences for specific misguided policies that are subsumed under this overarching preference.

Some recurrent patterns of the popular bent toward government intervention translate into misconceptions and fallacies on the policy level. Bryan Caplan (2007) analyzes the *Washington Post*, Kaiser Family Foundation, and Harvard University Survey Project (1996), and by comparing opinions of the general public to those of professional economists, he points to the public's suspicion of the free market and bias toward government intervention. If the views of professional economists are taken as reference points, the general population is considerably inclined to favor interventionist policies and to oppose the free market. The survey itself shows interventionist attitudes on a more specific policy level. Thus, 73 percent believe that oil industry profits, rather than supply and demand, are the reason behind the increase of oil prices, and 54 percent of respondents think that trade agreements between the United States and other countries result in the net loss of U.S. jobs.

Other surveys show similar attitudes toward trade. A Pew Research Center (2006) survey finds that 44 percent of the U.S. general public thinks that free-trade agreements are a good thing. According to this poll, 11 percent think that "the free trade agreements make the wages of the American workers higher," and 44 percent think they make the wages lower; 12 percent think that free-trade agreements create jobs in the United States, whereas 48 percent say they lead to job losses. In reality, free trade is beneficial for both sides in the exchange: this proposition is one of the issues on which a large majority of economists agrees. According to Robert Whaples's 2006 survey, 87.5 percent of professional economists, members of the American Economic Association, think that the United States should eliminate remaining tariffs and other trade barriers. A similar systematic public bias exists in estimates pertaining to the distribution of taxation. Not only do people not realize how much tax different classes of citizens pay, but they regularly underestimate the fraction paid by the rich. Their error in estimating the proportions is systematic: very few people overestimate the proportion paid by the rich, whereas a great many of them underestimate it.[5]

Statist Beliefs and Economic Misconceptions

Considering the importance of public attitudes in the formation of societal rules and institutions, it is surprising how little attention economists have given to this topic. Public-opinion surveys show both significant public support for government involvement in the economy and poor public understanding of the market's workings. These phenomena are two sides of the same coin: the government's appeal on the ideological level is the flipside of the distrust in the free market's ability to produce superior results in a spontaneous, unordered way. Perhaps because of the generally favorable attitude toward a central managing authority and the distrust of spontaneous, seemingly chaotic markets, the principles of economics are largely counterintuitive. The lack of economic knowledge rarely, if ever, manifests itself in a belief in market forces and spontaneous coordination among people. Economics does not come naturally to people, and unless laypersons have been otherwise instructed or have made a concentrated effort, most of them fail to understand the principles of economic reasoning. In contrast, many common misconceptions and fallacies are intuitively appealing to and immediately accepted by most people and, as a result, are very easily spread. Economics achieved the status of social science in the first place by reaching some of these counterintuitive conclusions, and, for economists, counterintuitiveness remains one of the most appreciated properties in any new economic hypothesis.

That misguided beliefs about the economy may be pervasive in the general public has been recognized for a long time. In the early nineteenth century, John

5. See "IDB/TIPP Poll" 2008. A preference toward material equality may skew people's judgment when they estimate the proportion.

Stuart Mill (1831) wrote about people's readiness to hold firm beliefs about political economy without feeling a need to gain special expertise in the subject matter. Frédéric Bastiat ([1845] 1996), probably the most articulate writer of all time on economic principles, exposed a number of persistent fallacies held by the general public, misguided economists, and public officials in nineteenth-century France. Why does the general public have markedly different ideas than professional economists, who put effort into understanding economics? Simon Newcomb (1893) posed this question more than a century ago and identified some popular fallacies that are at odds with professional economists' opinions, such as the notion of a balance of trade, the related idea that a nation benefits by exporting, but not by importing, and the notion that the benefit of industry is job creation rather than the production of goods.

Therefore, once we recognize the general preference for government activity, the fallacious beliefs about particular policies follow in a straightforward manner. People clearly believe in centralized solutions provided by the presumably knowledgeable and well-intentioned power wielders, and their particular policy opinions spring from such general attitudes. But why do people prefer government action over the spontaneous market order in the first place? Deirdre McCloskey (2000) points out that children grow up in a socialist command economy that we call "the family." When grown-up persons have been formed in this way, it is difficult for them to make a mental switch to the spontaneous extended order of market economy and to understand how it works on a large scale. Psychologists have shown that the traits that define our collectivistic attitudes are most likely natural rather than learned, although the family situation is not the only environment that matters for personal development (Harris 1998). Daniel Klein (2005) argues that people search for shared experiences. People foster collectivistic feelings and want to see themselves as part of their society, and government provides a focal point for individuals to find something they have in common with others. They are willing to sacrifice some freedom in order to get a sense of community in return. James Buchanan (2005) identifies a preference for "parentalism" as a possible source of government intervention. Parentalism is a bottom-up demand for paternalism. Not everyone accepts personal responsibility easily, and, in fact, most people want a certain amount and kind of government authority to be exercised precisely because it releases them from self-responsibility. Paternalism is therefore not fully forced from above, but rather demanded by the people, who seek controlling overseers and safety and who in many cases even want to have values imposed on them. If organized religion does not play these paternalistic roles as it once did, people in need of guidance often turn to another authority, the state. Moreover, collectivistic sentiments and a preference for authority are in part cultural phenomena (Lal 1998). Although some cultures are more authoritarian and collectivistic than others, legislation based on the popular vote has led to a substantial increase in the demand for government even in the most individualistic societies with a Western liberal tradition and a high valuation of individual liberty. Thus, popular demand for government intervention clearly transcends culture. The roots of authoritarian and collectivistic feelings must lie in traits of human nature that we all share.

Evolutionary psychology provides more profound answers. Many of our social preferences may be related to the fact that most of the evolution of the human mind happened before people began to live in large societies. During the few million years of human development before the biological formation of *Homo sapiens,* the main form of social organization was the small roving band. The mindset that emerged in that primitive society was essentially collectivistic, and the human mind developed models of thinking that are appropriate to the primitive, hunter-gatherer society. By this interpretation, a large part of the blame for misunderstanding the workings of the complex modern market economy should be placed on our natural instincts. Our natural understanding of society is that we get goods and services because society is cooperative, not because it is competitive. For that reason, Adam Smith had to explain that "it is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own self-interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages" ([1776] 1994, 15). Such a statement and similar explanations by writers such as Bernard de Mandeville, who went even further in connecting general prosperity in society with individuals' self-interest and even selfishness, were considered revolutionary. Smith's statement has become one of the most quoted excerpts of all time in the social sciences because it is a surprising conclusion that runs counter to our common understanding and intuition.[6]

Unlike modern society, the hunter-gatherer society was a zero-sum world with a fixed amount of resources. There was no production of new wealth; instead, the main concern was the distribution of existing resources, and one could get rich only at the expense of others. The situation is exactly the opposite in a modern society: one gets rich by making one's services useful to others. The human mind, developed in the world of fixed resources, does not naturally understand the dynamic market order and wealth creation, and this lack of understanding explains a great deal about popular attitudes toward economics, wealth, and redistribution in modern society.[7] Most people do not naturally appreciate the signaling and allocating role of prices, and the common attitude is that prices are all about the distribution of wealth. Therefore, the argument against government intrusion in the price system is not immediately persuasive to them. Exchange was not common in primitive society, and when it took place, it was based on strict exchange reciprocity rather than on

6. Smith and Mandeville share the same basic idea of cooperation through competition, but Smith also heavily criticized Mandeville's view of man as a selfish creature. Smith's concept of self-interest does not exclude a sincere interest in others' well-being (see Smith [1759] 1790).

7. Edmund Burke anticipated the argument long before evolutionary theory appeared: "I know, that it is but too natural for us to see our own certain ruin in the possible prosperity of other people. It is hard to persuade us that everything that is got by another is not taken from ourselves" (letter to merchant Samuel Span in 1778, qtd. in Peddie 1918, 229).

market pricing. That condition may explain people's scant sympathy for merchants' activities through history, in contrast to the value they readily see in production and industry. Likewise, few people understand that commodity speculation is not a form of fraud, but a socially useful activity that helps to distribute resources and their prices more evenly in time. Speculators have come under attack ever since the dawn of trade, and such attacks continue nowadays: whenever the price of oil or other resources increases, politicians routinely accuse speculators, and the public calls for measures to curb their actions.[8] Another peculiar attitude present in the human mind is opposition to interest and usury. It is external to the human mind that interest is a normal return to capital because in primitive society borrowing and lending were solely means of survival in times of dire need. Virtually all major religions at one point or another either legally or morally condemned or prohibited the charging of interest—or usury, as all lending with interest was called. Many early Western philosophers, including Plato, Aristotle, Cicero, and Seneca condemned usury. In the contemporary Western world, usury, now meaning an excessive interest rate, is still commonly frowned on, and many states have specific antiusury regulation. In the Islamic world, any interest remains largely prohibited, which forces banks and businesses to find ways of circumventing the proscription.

It seems, therefore, that the general public's predisposition to favor interventionist policies that run counter to basic economic principles is deeply ingrained in human nature. Abstracted from vast cultural differences that developed later in history, the evolution of the human mind itself served as a fertile ground for the emergence of interventionist legislation in democracy. Libertarians and other proponents of minimal government often make the mistake of assuming that people seek to maximize individual freedom and that the government, political elites, and interest groups unfortunately push in the other direction. In fact, as various public-opinion surveys show, there is a genuine popular demand for government to meddle in many areas of life.

The nature of mass voting allows these evolutionary features of the human mind to overcome rational deliberation. Unlike transactions in ordinary markets, in which people bear the full costs of their decisions, holding abstract ideas about society and voting accordingly are inexpensive, so the ideas relevant in the voting booth receive scant consideration.[9] Even if on the most general level the bias against markets can be explained by evolutionary features of the human mind, these features are all the more important because in the political sphere the incentives to hold

8. Greek orator Lysias sought punishment for grain speculators for making grain expensive in times of extreme need: "When you chance to being in the greatest need of corn they heap it up and refuse to sell that we may not dispute about the price, but may think ourselves lucky if we manage to buy from them at any price whatever" (Lysias 2004).

9. Joseph Schumpeter makes this point, foreshadowing evolutionary arguments developed much later: "Thus the typical citizen drops down to a lower level of mental performance as soon as he enters the political field. He argues and analyzes in a way which he would readily recognize as infantile within the sphere of his real interests. *He becomes a primitive again*" ([1942] 1975, 262–63, emphasis added). See also Brennan and Lomasky 1993 and Caplan 2007.

correct ideas about economic principles, the functioning of markets, and public policy in general are weak.

These conditions foster the bottom-up demand for government intervention. The significance of this demand is visible in the practice of political campaigning around the world, from the type of platforms to the electoral promises. Save in extreme cases, such as the aftermath of communism, politicians rarely run on a shrinking-government platform. Evidence from public-opinion surveys shows that the widespread demand for bigger government reflects not perceived benefits, but rather genuine interventionist policy preferences. Populism does not succeed because groups of voters believe they will gain much from populist policies, but because these policies make so much sense to them.

The Irrelevance of Special Interests

Besides the general evidence of the public's favorable attitude toward government intervention, there is evidence that popular demand is a far stronger force than that of special interests. A Princeton economic issues survey, reported by Alan Blinder and Alan Krueger (2004), inquired into respondents' knowledge about economic policy issues. Survey respondents were also classified by demographic characteristics, income, and political ideology, according to which three additional variables—self-interest, knowledge of policies, and political ideology—were constructed to contrast with the policy opinions. As Blinder and Krueger point out, the respondents' policy opinions do not seem to be aligned with their self-interest. In fact, political ideology turns out to be the most accurate predictor of policy opinions, which are less significantly correlated with the level of knowledge; self-interest appears to be the least important factor. These findings strengthen the case for the theory that economic policy choices in a democracy result in decisions based more on voters' casual ideas and theories than on the careful deliberation of self-interest. Blinder and Krueger do not have a theory to explain why self-interest does not play the role that would be expected from rational individual, but they guess that the results may reflect individuals' confusion about their self-interest or the generosity of spirit that puts collective national interest before the individual. However, the finding that self-interest does not play a big role should be read as evidence that voting is really about personal beliefs and opinions and therefore is not necessarily in agreement with the individual's self-interest narrowly understood.[10]

Cases abound in which cost-benefit or interest-group-based explanations are not sufficient to explain support for policies that are probably ineffective or counterproductive but nonetheless long-lasting. The appearance and endurance of such policies actually springs from the popular support they enjoy in most cases. Some enduring laws go directly against the interests of the pressure groups that are normally

10. Leif Lewin (1991) lists more evidence for this particular point.

thought to be strong and influential, although at the same time no clear winner or electoral group benefits from such policies.

Led by the belief that the number of jobs in the economy is somehow fixed, the French government, with a large popular approval, in 1998 mandated a shorter work week in order to reduce unemployment. The effort naturally failed—instead of redistributing a constant amount of work, it reduced overall economic activity. The amount of investment is often similarly conceived as a fixed sum rather than as a dynamic response by rational investors to market incentives. In recent years, the German, the French, and other European country governments reproached the Irish and Swiss governments for their low rates of corporate-profit tax, which supposedly presented unfair competition to the other European Union (EU) countries.[11] The underlying idea of these public accusations is that investments are a fixed spoil: if they do not go to Ireland and Switzerland, they will go to France and Germany. It is not readily understood that the sum of the investment game is not zero, so that if Ireland increases its tax rate to the German level, some investment might well disappear, and if Germany reduces its rate, new investment may be generated. If business interests were as strong as the theory of collective action presupposes, one would expect them to argue in favor of lower corporate tax rates, which are undoubtedly in their immediate interest. And the general public should not be opposed to this change because the majority would benefit from greater overall investment. However, a different popular conviction, which politicians aptly identify and follow, prevails. At least in countries such as Germany and France that do not lower taxes in spite of attracting less investments than Ireland and Switzerland, popular opinion based on the assumption of zero-sum benefits is apparently stronger than business interest groups' opinion or influence.

Another example of the insufficiency of interest-based explanations is the persistence of agricultural subsidies. Few arbitrary government policies have been as lasting and universal across the economically advanced countries as agricultural subsidies. These subsidies may reflect the activity of concentrated interest groups, as the theory of the collective action implies, but that explanation cannot be the full story because organized interests are hardly unique to agriculture. If farmers can organize pressure for subsidies, other even more concentrated industrial or interest groups should also be able do so.[12] Throughout the advanced economic world, however, agriculture consistently gets better treatment than other industries.

The puzzle is resolved by the fact that agricultural subsidies are actually rather popular with the public. Contrary to the common presumption that politicians and interest groups are cheating ignorant voters, empirical evidence suggests that voters

11. As of 2007, the German corporate tax rate was 38.2 percent, whereas the Irish rate was 12.5 percent, which certainly helped Ireland to attract nearly ten times more foreign direct investment per capita than Germany did, according to Organization for Economic Cooperation and Development (2008) statistics.

12. Sometimes they do, as in the case of financial bailouts, but that success occurs only after extensive fear mongering and efforts to convince the public that the alternative is a complete economic collapse.

largely approve of agricultural subsidies. We may speculate that agricultural subsidies get more support from voters than do subsidies to other industries because of the way in which human reason evolved to perceive self-sufficiency in food production as having great importance. The rational economic argument nowadays is that food, like other commodities, is produced best in a free-market system, with forces of supply and demand determining prices and quantities, and that less-expensive food may easily be imported from the countries that produce it more efficiently. But for one reason or another, the general population looks favorably on wasteful agricultural policies.

A 2004 Program on International Policy Attitudes and Knowledge Networks poll on farm subsidies sampled 1,896 respondents throughout the United States, of whom 736 lived in the seventeen farm states (respondents from the farm states presumably have a greater interest in maintaining agricultural subsidies). Two major conclusions may be drawn from the results: first, an overwhelming majority supports agricultural subsidies; and, second, respondents in farm states and those in nonfarm states do not differ significantly in their support. Asked whether they "favor or oppose the US giving subsidies to small farmers, who work farms less than 500 acres," 77 percent nationally and 81 percent in the farm states favored the subsidies. Respondents were given a choice between two statements: *(a)* "Family farming is an American way of life that should be maintained; subsidies are the only way that small family farms can compete with large agribusiness and imports from low wage countries;" and *(b)* "There are many ways of making a living that are part of the American way of life; it is unfair to subsidize farmers and not subsidize other equally American ways of making a living." Seventy percent nationally and 67 percent in the farm states agreed with the first statement. The same attitude is expressed in the answers to the other survey questions.

Agricultural subsidies therefore enjoy surprisingly favorable treatment in society, and voters are in fact not cheated by farm subsidies: they want farmers to receive these subsidies. In addition, the similarity of the views of the general sample of respondents and the farm-state respondents suggests that the answers are dominantly based on honest beliefs, not on the respondents' presumed vested interests in promoting agriculture. Voters in states that pay for but do not receive the subsidies support them nevertheless.

Europeans have similarly positive attitudes toward agricultural policies. The survey "Europeans, Agriculture, and the Common Agricultural Policy," published by Eurobarometer (2007), presents citizens' opinions on the EU's Common Agricultural Policy (CAP).[13] The public clearly endorses the existing share of agricultural expenditures in the EU budget. Respondents were asked: "The EU budget for

13. The survey was carried out in 2006 with 24,732 respondents in twenty-seven member states. Note that these subsidies are European Union subsidies. On the country level, where people feel stronger community spirit, the support would probably be even greater.

agriculture and rural development represents around 40% of the total EU budget. Do you think that this amount is insufficient, adequate or too high?" Sixteen percent consider it insufficient, 45 percent about right, and only 15 percent too high. Asked whether over the next ten years they would like to see "an increase, decrease or no change in the amount of the total EU budget allocated to the CAP," 26 percent of the respondents favored an increase, 32 percent the same level, and 17 percent a decrease.[14]

Therefore, if EU politicians in the next ten years ignore the organized farmers' interests and follow only their constituents' wishes, we will see an increase in agricultural subsidies. Like its U.S. counterpart, the CAP enjoys a safe level of support, and no dissatisfaction with agricultural spending can be identified, contrary to many economists' speculations. Agricultural policy—including various subsidies, interventions, restrictions, and quotas—is not a product of clandestine deals between politicians and rent seekers, but rather a political response to a popular demand.

Dealers in Ideas

Even if the general public is the ultimate source of the demand for government intervention in the market, intellectual elites also for the most part support and reinforce this public attitude. Political scientists have forcefully claimed that public opinion is highly moldable and susceptible to influence by intellectual elites (Zaller 1992). Also, as is well known, intellectuals tend to belong to left-wing political camps.[15] Therefore, we might ask: If the general public demands paternalistic authority and does not have a reason to put much effort into discovering sound economic policies, why do intellectual elites for the most part favor big government?

One idea helpful in explaining the intellectuals' tendency to favor government intervention is the concept of *motivated reasoning,* the rationalization of preferred opinions, or our tendency to reach, by seemingly purely rational argument, the opinions that we prefer for other motives (Kunda 1990). Intellectuals naturally esteem the value of intellectual work, but free markets do not reward intellectual work as much as they reward improved allocation of resources on the market by virtue of entrepreneurship, innovation, and risk taking. So, in Mises's ([1956] 1972) view, intellectuals are prone to socialism because they tend to overestimate their own value, and they often believe that they deserve greater rewards than business people. Other elites likewise tend to see the market system as not valuing certain kinds of contributions enough. Cultural elites reject mass preferences and believe that

14. The remainders of 24 percent in the first question and 25 percent in the second are those who answered "do not know."

15. Daniel Klein and Charlotta Stern (2005) surveyed six national social science associations in the United States and found that the ratio of Democratic voters to Republican voters among their members was fifteen to one. David Horowitz and Eli Lehrer (2003) report that the same ratio for U.S. university departments is approximately ten to one.

their high-brow cultural goods should be valued more highly. Their argument seems to be working in practice because most governments subsidize not only science and education, but also theaters, the film industry, literature, and the like. Robert Nozick (1987) compares socialism with a school system, claiming that intellectuals prefer an ordered society that reminds them of school—the place where they were held in the greatest esteem. Once in the real world, intellectuals, used to excelling in their original school world, feel that the market-dictated order is somehow wrong. They believe that they deserve greater rewards and that somebody should ensure that they receive them.

General hostilities toward capitalism are not the same as policy fallacies, but each affects the other. In theory, one may favor both income redistribution and free trade. However, these apparently separate issues are surprisingly closely associated in people's minds, probably because our preferences influence our ostensibly unrelated opinions. The lack of comfort that intellectuals feel with the market order, spurred by motivated reasoning, may define their opinions on the role of government in the economy. Led by their own preferences, intellectuals tend to rationalize their longing for regulation as stemming from an imperfection of the market order. Because free markets do not result in the outcomes that the intellectuals themselves want or that they think best, they believe that the market order needs to be steered toward perfection.

This observation brings us to another framework for understanding why intellectuals show a bias toward regulation and government intervention in general. This idea is best summarized by what Friedrich Hayek (1988) calls the "fatal conceit": the intellectuals' exaggerated belief in the superior faculty of human reason and, more to the point, in the power of organized scientific knowledge. The conceit consists of the trust in the power of scientific knowledge in regulating social affairs, an attitude that at the same time implies a certain disregard for other types of knowledge—in particular, the knowledge that practical people generate in piecemeal discoveries of market opportunities (Hayek 1945). The intellectual roots of this exceeding trust in reason may be traced to Cartesian rationalism and from that origin through the French Enlightenment thinkers and the French revolutionaries to the Progressive Era thinkers and, in its direst extreme, all the way to socialist thought and practice in the twentieth century. Essentially the same outlook, although with far less grave consequences, remains prevalent today in developed market democracies. The notion that the state can improve the market, which most economists endorse, is the offshoot of this inflated belief in scientific knowledge. The idea that a bureaucracy can run the economy by means of central planning has been discarded, but the still dominant notion in neoclassical economics that the state can "correct" market outcomes—sometimes described as "market failures," thus enhancing a perception of the bureaucracy's efficiency—rests on the same belief in the power of superior expert knowledge. Similar outlooks prevail in other areas of social life, where the findings of biology, medicine, psychology, and other fields of study are taken to justify increased government control over individuals' choices.

This conceit may also have psychological sources. Behavioral economics rightly points out that our rationality is bounded, and it calls attention to many cognitive illusions that influence our behavior on the market (Shleifer 2000; Barberis and Thaler 2003). However, by focusing on the anomalies in our market behavior, it generally neglects the similar shortcomings of human reason in the theoretical formulation and practical implementation of public policies. Cognitive illusions lead government regulators and intellectuals to believe that they understand the workings of the market better than they actually do (Tasic forthcoming). A particular form of overconfidence—established in the psychological literature, where it is labeled the "illusion of explanatory depth" (Rozenblit and Keil 2002)—helps us understand what lies behind the fatal conceit: the illusion that we understand complex phenomena better than we really do. Political economy deals with such phenomena. Immense subtle interdependencies in the market process and in social coordination in general make socioeconomic affairs complicated, hard to understand, and difficult to predict. Multiple, largely unknown interdependencies create enormous potential for external intervention into the market process and social coordination to produce unintended consequences. However, as in our dealings with many other complex phenomena, we exhibit cognitive overconfidence. We tend to believe that we understand the political economy of markets, comprehend its inner mechanisms, know about the most significant interdependencies, can predict outcomes, and can formulate measures and policies that will with high certainty move the political economy toward desired outcomes.

People are therefore simultaneously suspicious of the "chaotic" market and convinced that they know enough to control it. The general population tends to believe in the government's extraordinary ability and benevolence, by and large because it is hardwired to do so and because it does not think about these issues hard enough. Intellectual elites are well motivated to think deeply, but even then they only arrive at the same opinion as the public. Because they are the ones who stand to benefit the most from increased, centralized, socioeconomic control in terms of their personal importance and influence, the meaning of their work, and even their material welfare, they may be inclined, according to some well-established psychological findings, toward a belief in the necessity of such control. In addition, overconfidence, the illusion of knowledge, and overestimation of their own mental abilities work in the same direction.

Thus, we may conclude that government intervention in the market is best explained as the result of efforts both by an unprincipled coalition of voters who are motivated by collectivistic feelings, parentalistic instincts, and the evolutionary predispositions of the human mind as well as by political and intellectual elites who readily respond to the popular demand for control by concocting the requisite rationales for it.

Bruce Yandle (1983) first used the expression "bootleggers and Baptists coalition" to describe silent alliances of two very different interest groups that accidentally share a common end. Both Baptists and bootleggers want to see the prohibition of alcohol—the Baptists because they seek to have the government act in accordance with their own purely moral preferences and the bootleggers because they will profit from the illegal production of alcohol. Even though the two groups' causes are different, their preferred policy outcome is the same. The quest for government intervention has a similar nature, involving an unintended coalition of intellectual and political elites, on the one hand, and the general public, on the other, with both factions seeking a common end. Intellectuals and political elites have their own reasons to believe in the special role for government intervention, ranging from psychological forces that drive their reasoning toward the conclusion that government is an essential corrector of the market to the honest intellectual conceit reflected in the overestimation of the ability of reason and social-scientific knowledge to shape extended orders, such as the market economy. The general public believes in similar government solutions for different reasons. People do not spend time learning economics or studying the effects of government policies, and thus they fall under the influence of the most intuitively appealing ideas.

A simple example of the confluence of bottom-up demand and intellectual supply for government interference points to the single greatest episode of government growth in the United States: the rise of government intervention between the two world wars. The dominant ideology of progressivism at the time was rooted in two main ideas: the democratization of politics and the use of science in shaping society. Both ideas fit perfectly into our account of the growth of government. The larger scope of democracy—including not only extension of the franchise, but also direct election of senators, the movement toward greater judicial restraint in the economic domain of the Constitution, and the development of the "rhetorical presidency," with help from radio—worked toward giving a greater role to public opinion and mass preferences in policy formulation.[16] The progressives envisaged a greater role for social scientists in reforming established institutions—a trend in economics, politics, and even the judiciary. Uninformed members of the general public and well-informed but overconfident intellectuals worked together toward a common goal of greater government control over society. Although numerous special interests certainly have benefited from newly introduced government programs and abrupt changes in the rules of the game, they are not so much causes as by-products of the government's expansion.

Conclusion

In an often cited statement, John Maynard Keynes (1936) asserted that ideas, not vested interests, make the difference for good or evil. Evidence on public opinion suggests that in regard to the general level of government involvement in the economy, Keynes may be closer to the truth than the public-choice theorists. The general public

16. On the "rhetorical presidency," see Tulis 1987.

in democratic countries seems to think that the government should be at least as big as it now.

Even everyday political campaigning should tell us enough about the nature of people's attitude toward government, but public-opinion surveys also reinforce the impression that the rise of government intervention in the economy has occurred predominantly in response to popular demand. Proponents of small government should be aware of this fact and perhaps structure their efforts accordingly. Politicians should no more be blamed for excessive spending and unwarranted intervention than fast-food chains should be blamed for selling less-than-nutritious food. In both cases, we are dealing with entrepreneurs who have simply identified and responded to the existing demand. For those who wish to see the government diminished, this fact indicates that improved democratic accountability will avail little. Accountability and transparency may help in fighting pork-barrel spending, but the pork barrel is insignificant in comparison with the ineffective spending and harmful intervention that the public actually wants. Resources will therefore be better used if effort is directed toward reducing the demand for these things. Even if little can be done in changing the public's favorable attitude toward government authority in general, it may be possible to improve people's understanding of market principles.

As for the intellectuals, my account implies that those who wish to see a decline in government should concentrate on discrediting intellectual pretentiousness and promoting greater humility. Some progress has been made. Since the socialist calculation debate in the 1930s, economists have learned that our computational abilities are smaller than we thought. In monetary policy, we have learned that modest rules are superior to experts' discretion. Granted, in other areas, such as global warming and health policy, the trends have run in the opposite direction. In either case, however, my account of big government's most important sources of support suggests that in the ongoing battle of ideas, those who favor smaller government should argue for greater intellectual modesty and against intellectual arrogance. Rather than wasting energies on endless exposures of vested interests operating behind the scenes, we should be focused on intellectually defeating the fatal conceit among those who place great trust in their intellectual power to draw the blueprints for "perfecting" economies and societies.

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