WHAT IS THE ROLE OF GOVERNMENT?
Political–Economic Systems, Snags in Private Solutions, and Remedies with a Role for Government

During the time men live without a common power to keep them all in awe, they are in that condition which is called war. . . . In such a condition there is no place for industry; . . . no arts; no letters; no society; and which is worst of all, continual fear, and danger of violent death; and the life of man solitary, poor, nasty, brutish, and short.

—Thomas Hobbes¹

That government is best which governs least.
—Often attributed to Thomas Jefferson, used by Henry David Thoreau²

Because I [keep hostile possession of the sea] with a petty ship, I am called a robber, whilst thou who dost it with a great fleet art styled emperor.

—A pirate speaking to Alexander the Great in Saint Augustine’s City of God

THE MAKINGS OF GOVERNMENT
Saint Augustine points out that in perilous times, the principal distinction between a government and a gang may be a matter of scale. Strength and acceptance also con-

¹ From The Leviathan (1651), Chapter 13. See http://oregonstate.edu/instruct/phl302/texts/hobbes/leviathan-contents.html.
vey authority, and a government is a body with the authority to lead and govern. Any
type of authority can stray from economic and social goals, although democratic elec-
tions help to provide incentives for even the most selfish leaders to serve their con-
stituents’ interests. Political-economic systems parade in myriad forms. These systems
determine how markets operate and how resources are allocated in nonmarket con-
texts. This section and the next provide a (necessarily simplified) juxtaposition of sev-
eral prominent systems and philosophies so that fundamental differences and similar-
ities can be readily identified.

Under a market or capitalist system, land, capital, and other factors of production
are owned predominantly by individuals and corporations. Business owners make in-
vestment decisions and compete in the pursuit of profit. As explained in Chapter 3,
buyers and sellers come together in markets that determine prices on the basis of sup-
ply and demand. When supply is low relative to demand, high prices motivate self-
interested entrepreneurs to innovate, take risks, and organize businesses that help sat-
sify the interests of consumers. Wages are determined by negotiations between em-
ployees or labor unions and management. Within most market systems, government
has the power to protect rights, regulate businesses, and provide tax-supported social
benefits.

Communism and socialism are command systems, meaning that decision making is
centralized. The intent of these systems is to eliminate material inequities via the col-
lective ownership of property. Under communism, legislators from a single political
party—the Communist party—establish wages, oversee production, and divide wealth
for equal advantage among citizens. The pitfalls of communism include a lack of in-
centives for risk taking and innovation. The critical role of the central government in
allocating wealth and setting production quotas makes this system particularly vul-
nerable to corruption.

Socialism shares with communism the goal of fair distribution and the stumbling
block of inadequate incentives. However, in contrast to the practice under commu-
nism, a single political party does not rule the economy, and wages are not controlled
by the government. Under the most basic socialist system, economic decisions are
made collectively by groups of citizen participants, including general assemblies and
councils of workers and consumers, sometimes in cooperation with a centralized gov-
ernment. For example, the distribution of revenues from production processes is de-
termined by workers’ councils. Quasi-socialist systems exist in Britain, Canada, and
Sweden, among other countries.

IS GOVERNMENT NEEDED?

Debates over government’s role have long divided political philosophers. The opening
quote expresses philosopher Thomas Hobbes’s sentiment that government is essential.
Karl Marx contended that government is simply an instrument of class domination
and would “wither away” with the abolition of distinct classes under communism. To
generalize several broader philosophies for the purpose of comparison: Authoritarians
question the practicality of self-government and look to centralized government for the
advancement of society. Conservatives express concern about government’s size and ef-
CHAPTER 26  What Is the Role of Government?

ficiency. Libertarians call for self-government, believing that government's role should be limited to protecting citizens from coercion and violence. Anarchists believe that all forms of government are oppressive and should be abolished.

Classical liberalism is a political philosophy that espouses freedom from church and state authority, free-enterprise economics, and individual freedoms. It was the foundation of parliamentary democracy in Britain and the dominant philosophy among the founders of the United States. The Ludwig Von Mises Institute\(^3\) in Alabama is a modern incarnation of circles of economists and others who subscribe to classical liberalism. In contrast, modern liberals are sometimes characterized as favoring more government rather than less and as advocating a mild form of socialism or populism.

Advocates of a laissez-faire, or free-market, approach have long trumpeted the virtues of a market unfettered by government intervention. Classical conservatives, such as Edmund Burke, believed that classical liberals placed too much faith in human rationality. Noting that people are prone to bouts of unreasonable behavior, irrational passions, and immorality, classical conservatives called for adherence to societal traditions and standards, the institution of government, and the church to resist what they saw as the inevitable result of freewheeling human impulses—chaos.

The nineteenth century brought with it amplified problems with monopolies, fraud against consumers, gross economic inequities, and the exploitation of workers. Modern liberals, like classical conservatives, became leery of the laissez-faire approach. They believed that without the influence of regulations and liability, firms would not take adequate precautions to ensure the safety of their products; they also believed that without greater incentives, pertinent information held by firms was less likely to be passed on to customers. Led by Thomas Hill Green in the late nineteenth century and by the likes of Woodrow Wilson and Franklin D. Roosevelt in the early twentieth century, modern liberals championed organized labor, education, the environment, freedom of speech, and freedom of the press. As a result of their efforts, government took on significant new roles in regulating markets, tempering market power, requiring the dissemination of product information, and managing externalities (side effects that are experienced by people other than those causing them) and free-rider problems.

WON'T YOU BE MY NEIGHBOR? THE THEORY AND PRACTICE OF PRIVATE SOLUTIONS

Even neighbors (perhaps especially neighbors) have disputes that drain away sizable amounts of time, happiness, and expense. Neighbors scream, create smells, have barking dogs, cut down trees, erect walls, neglect their lawns, house farm animals, select offensive colors for roofs and walls, and in other ways annoy each other on a grand scale. The Web site www.theneighborsfromhell.com documents many such disputes. The site was created by the Gapski family, whose neighbor's dog drove them out of the neighborhood but not before eliciting the construction of a $1,000 fence and allegedly driving the asking price for their home down by $25,000.\(^4\)

\(^3\) See www.mises.org.
Nobel laureate Ronald Coase put forth the popular theory that private negotiations can lead to efficient outcomes under the right circumstances. For example, Coase would expect the Gapskis to negotiate with the neighbors about their dog. If the dog caused the Gapskis $25,000 worth of harm, it would be rational for the Gapskis to be willing to pay the neighbors up to $25,000 to get rid of the dog. If the dog was worth less than $25,000 to the neighbors, say $15,000, any payment between $15,000 and $25,000 would make both parties better off than the noncooperative solution of the Gapskis moving away. As one possibility, if the Gapskis paid the neighbors $20,000 to get rid of the dog, the Gapskis would lose $25,000 − $20,000 = $5,000 less than if they moved away, and the neighbors would gain $20,000 − $15,000 = $5,000 over the value they place on keeping the dog. This Coasian bargaining, therefore, would make everyone better off than the noncooperative solution, and the efficient outcome—removing a dog that causes more harm than good—would be reached. Notice that if it was efficient for the neighbors to keep the dog because they valued its presence by more than the value of the harm to others, the efficient outcome of keeping the dog would also result from Coasian bargaining. For example, if the neighbors received $27,000 worth of happiness from the dog, they would refuse the highest payment that the Gapskis would be willing to make—$25,000—and the dog that caused less harm than good would remain.

If Coasian bargaining could indeed yield efficient outcomes in a broad range of cases involving externalities, there would be little need for government taxes, subsidies, and restrictions conceived for the same purpose. However, efficient private solutions such as those proposed by Coase are less likely in the presence of several complicating factors. In reality, multiple sources of an externality (as with exhaust fumes from thousands of automobiles) make it difficult to know with whom to bargain. Multiple victims make it difficult to organize and collect funds from the affected parties. Incomplete information about the costs or benefits of an externality makes it difficult to know how much to pay or accept in negotiations. Arguments over exactly how much money should change hands doom the bargaining process. Time lags between the cause and the effect of externalities can make it difficult to identify externalities and their sources. The location, availability, and opportunity costs of time for the parties involved can make it difficult to assemble the parties for negotiations. And cultural norms make it strange and uncomfortable for the creators and victims of externalities to come together and negotiate financial payments.

Although many of these complicating factors are common, existing social mores may make the other factors moot. Our society has developed few efficient private approaches to financial negotiation over the behavior of others. It is awkward enough to ask one’s hall mates to stop playing music while others are studying, much less offering them money to do so. Have you ever offered someone a bribe to stop smoking in a restaurant? Neighborhoods are replete with residents who are bothered by each other, but do the complainers ever knock on their neighbor’s door with an offer of $100 in exchange for a less offensive color of house paint? When development or industry threatens a natural habitat, the difficulty of organizing those involved and negotiating an agreement makes a private solution even less likely.
REMEDIES WITH A ROLE FOR GOVERNMENT

In support of the very existence of markets, government can establish property rights, maintain law and order, and enforce contracts. If others could freely take what is yours, ownership and the transfer of property rights via market transactions would have little meaning. Issues of market failure provide additional rationale for government involvement. In Chapter 11, it was explained that externalities, imperfect information, imperfect competition, and public goods can impede the efficiency of markets. In this section, government solutions to market failure, among other problems, are explained.

The Enforcement of Property Rights

In the context of externalities, the benefits of enforced property rights go beyond allowing people to keep their purchases. The second type of benefit stems from the human instinct to be self-centered. With some exceptions, humans take better care of things that belong to them than of things that belong to others. People are unlikely to litter in their own yards, to dump toxins into their own ponds, or to overhunt their own forests. Americans spend almost $40 billion each year tending to their own lawns and gardens, whereas publicly held lands frequently fall victim to abuse. Biologist Garrett Hardin called this problem the tragedy of the commons, citing the tendency for herders to overgraze their cattle in “common” (community-owned) pastures where the herders receive all of the benefits but the damage is borne by the broader community. If there were no government to enforce property rights, disputes over land would become more problematic and fewer places would receive the level of respect granted by private property owners.

Pigou Taxes and Subsidies

Everyone makes decisions on a daily basis that unintentionally affect others. For instance, in the United States we obtain 86 percent of our energy from fossil fuels, the burning of which releases carbon dioxide and contributes to global warming. As one of many repercussions of a warmer planet, tropical storms draw their strength from warm ocean water, and warmer oceans result in more, and more intense, storms. However, the devastation caused by Hurricanes Katrina, Wilma, and Beta in 2005 had little to do with the 30 percent increase in atmospheric concentrations of carbon dioxide that has occurred since the Industrial Revolution. To the extent that fossil fuels contribute to air pollution and global warming, it is a role of government to seek an efficient level of fuel consumption.

Efficiency in gasoline consumption can be achieved if consumers are required to bear both the private marginal cost (what they pay) and the marginal external cost (the external cost imposed on society) of each gallon of gasoline they purchase. Social marginal cost is the term used to describe the sum of private marginal cost and marginal

6 See www.sciencemag.org/cgi/content/full/309/5742/1807.
7 See www.ecn.ac.uk/education/climate_change.htm.
external cost. The private marginal cost of gasoline to users is the price they pay at the pump—say, $3 per gallon. Consumers will continue to purchase gasoline until the marginal benefit from the last gallon consumed falls to $3. If the marginal external cost of a gallon of gasoline is $1, making the social marginal cost $3 + $1 = $4, then, by purchasing until the last gallon is worth only $3, consumers will overconsume and purchase some gallons of gasoline that cause more harm than good.

Most estimates of the marginal external cost of gasoline, including health and environmental costs and subsidies received by the oil industry, fall in the range between 40 cents and $15 per gallon.\textsuperscript{8} The government can impose taxes that bring consumption closer to the efficient level. Taxes meant to fill the gap between private marginal cost and social marginal cost are called Pigou taxes. The federal gasoline tax is currently 18.4 cents per gallon and the average state tax is 22 cents per gallon, so if the conservative end of the externality estimates is correct, the average combined gasoline tax of 40.4 cents brings consumers to fully internalize the cost of their fuel use and to make efficient choices regarding fossil fuels. If the higher estimates are correct, gasoline is overconsumed, and somewhat higher Pigou taxes would result in a more efficient level of use.

Governments can also address positive externalities. Consider the market for immunizations against measles, polio, whooping cough, diphtheria, and other contagious diseases. The benefit to an individual of getting immunized is that he or she will not catch the disease. There are also external benefits because no member of society will catch the disease from the immunized individual. Without intervention, the individual would purchase immunizations until the private marginal benefit no longer exceeded the marginal cost. Because the private marginal benefit of another shot falls below the social marginal benefit by the value of the marginal external benefit (the benefit to others), individuals will choose to purchase less than the efficient level of protection against disease.

Is it true that people would not protect themselves adequately against diseases without government assistance? Probably. In fact, large numbers of children don't even get the mandatory, government-subsidized immunizations currently available. For example, the Illinois State Board of Education reported recently that 37,425 children in that state were out of compliance with immunization requirements in at least one disease category.\textsuperscript{9} With hopes of reaching more efficient levels of performance, the U.S. government currently subsidizes immunizations, along with education, scientific research, alternative energy, the arts, and public transportation, among other sources of positive externalities.

The Provision of Public Goods

Chapter 11 introduced public goods as nonrival and nonexcludable goods and services that would be over- or underproduced if private individuals were left to their own devices. Police and fire protection, national parks, the military, and public schooling are among the services that would be underprovided without government assistance.

\textsuperscript{8} See www.distributiondrive.com/Article4.html. For a survey of many different estimates, see http://www.vtpi.org/cca/ccs0512.pdf.

\textsuperscript{9} See www.isbe.state.il.us/research/pdfs/immun_03.pdf.
because "free riders" would misrepresent their interests and seek benefits from the purchases of others. Government's role here includes the provision of public goods, the collection of taxes to pay for them, and the enactment and enforcement of regulations designed to protect them. For more on public goods, see Chapter 18.

Laws and Regulations

Government systems that create, interpret, and enforce the law can restrict market power; mandate information sharing; and impose limits, taxes, or subsidies on behaviors that cause externalities. Garrett Hardin favored legislation beyond property rights as a solution to the tragedy of the commons. Like the nineteenth-century economist Thomas Malthus, Hardin believed that overpopulation would lead to starvation and disease. He dismissed technical and scientific solutions as essentially "too little, too late," and he argued that governments must regulate population size. In his words, "To couple the concept of freedom to breed with the belief that everyone born has an equal right to the commons is to lock the world into a tragic course of action." Later in the twentieth century, the Chinese government tried Hardin's solution, limiting couples to having at most one child. This degree of regulation is extreme, as the United Nations indicated in its Universal Declaration of Human Rights. However, less invasive regulations provide meaningful protection for the public. Examples include limits on occupational noise exposure, mandated information labels on food products, and requirements that the repair histories of pre-owned cars and homes be disclosed to prospective buyers.

Education and Moral Leadership

So many people throughout the world look to the United States for a lead on the most crucial issues that face our planet and indeed the lives of our grandchildren. Truly the burden of the world rests on your shoulders.

—England's Prince Charles to President George W. Bush

Education and moral leadership are desirable means of spreading information and promoting societal goals, in part because they elicit social consciousness and wise decisions without unpopular taxes, laws, or coercion. Government leaders serve as role models, and government actions set examples for others to follow. When a president prohibits road construction on 40 million acres of national forest, as Bill Clinton did; erects solar panels on the roof of the White House, as Jimmy Carter did; resolves international disputes with force, as George W. Bush did; or asks citizens to focus on community service, as John Kennedy did, that action sets a tone for the country, and sometimes the world.

Government is also the principal provider of education, with public schools educating 88.5 percent of all secondary school students in the United States. Positive externalities are among the benefits of schooling. Education is a means of affecting the skills and attitudes of society. Education can teach students to be aware of the cost-

---

11 See www.fao.org/Overview/rights.html.
sequences of their actions and to think creatively about solutions to the world’s problems. And education creates more productive workers, more informed voters, and citizens who can share their wisdom with others. Given these external benefits, we should expect that, as with immunizations and solar panels, too little education would be purchased in the absence of government subsidies.

Dispute Resolution

Government can work to limit the expense, incivility, and uncertainty of dispute resolution. Courts have little influence without the backing of a stalwart government, and international conflicts reveal the dangers of limited authority. With no worldwide enforcer of civilized resolutions, eight major wars and up to two dozen lesser conflicts were ongoing as of mid-2005. The United States has lost 693,930 citizens to international conflicts since 1775. And as a result of a shortfall of the strength and acceptance that convey authority, the International Court of Justice administered by the United Nations has a checkered history. For example, Argentina rejected a 1977 ruling by the court to grant possession of the islands in the Beagle Channel to Chile, and the United States refused to follow through with proceedings when the Sandinista government of Nicaragua alleged misdeeds by the U.S.-supported Contra rebels in 1984. Government-backed judicial systems typically achieve more civilized resolutions to disputes than are seen on the global scale where there is no accepted authority.

Governments eliminate some of the disputes that would otherwise occur—for example, zoning laws clarify where businesses, farms, and homes of different types can be situated. Governmental bodies, including neighborhood associations, also place restrictions on boats and cars parked on lawns, unkempt yards, unsightly buildings and fences, livestock, and other sources of externalities. Cities such as Sedona, Arizona, go so far as to enact codes that limit the size of commercial signs, prohibit light pollution at night, and require buildings to have color schemes that match those in the natural surroundings. Even the McDonald’s in Sedona matches the reddish-brown rocks around it. Governments also set up strict procedures for dispute resolution, sometimes requiring the parties to make attempts at mediation or arbitration and, when necessary, to proceed to trial and appellate courts.

CONCLUSION

The efficiency with which resources are allocated depends largely on who controls the resources. There are possibilities for market failure under both public and private systems of control, and strengths can be drawn from models that vary from libertarian to authoritarian. Free-market mechanisms can allocate resources to those who value them the most, encourage the production of goods until the marginal benefit equals the marginal cost, and price goods to reflect a combination of value and scarcity. As a resource becomes relatively scarce, its price will rise, inducing greater efforts to supply that resource or to find viable replacements. This pricing mechanism goes on dis-

13 See www.globalsecurity.org/military/world/war/.
14 See www.infoplease.com/ipa/A0004619.html.
play every time rising oil prices motivate research into alternative energy, energy conservation, and new discoveries of oil.

Free markets have a harder time allocating resources efficiently in the presence of imperfect information, imperfect competition, externalities, or public goods. Some goods, such as air and river water, have no formal markets to address their allocation. When markets are inefficient or nonexistent, government can sometimes provide needed remedies. If markets are mismanaged, government can also bring excessive bureaucracy, ineptitude, misguidance, and corruption.

Being the product of human will, government is both potent and pliable. History has seen some of the most malevolent, domineering regimes replaced with relatively benign assemblages of authority. This was the case in many Eastern European nations during the 1990s and in several African nations in the early 2000s. The message is that people with courage and insight can indeed shape government. In a democracy, if voters and leaders understand the potential virtues and blunders of government, they are better prepared to exercise collective authority and to generate the efficient public policy so crucial in the many contexts in which government plays the starring role.