

Neo-Mercantilism and the Unmet

Social Need-ers

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THE AMOUNT of discussion of "the private versus the public sectors" is a tribute to the power and pervasiveness of propaganda. For the phrase represents no specific substantive issues. Its frequent occurrence in discussions of economic and social policy reflects the susceptibility of intellectuals to hidden persuasion by phrase makers who seek status and affluence in our society or aspire to overpower the elite through flamboyant, imaginative, entertaining, and "gliberal" glowering.¹

When I say that no specific substantive issues are involved I mean two things. First, the facts are not as they are portrayed. Second, even if the facts were as they are portrayed, the implications and significance of those facts would not be as represented. I would concede readily, of course, that attempts to discuss the phrase seriously should lead directly to age-old questions of great moment about relations between the individual and the state.

The discussions, written and oral, of the

public versus the private sector that have drawn attention to this issue—or, rather, that have created the impression that there is a specific issue here—picture a society in which expenditures on schools, sanitation, care of the indigent, public health, highways, communication systems, churches, science, and the higher forms of art, music, drama, and literature, are in squalid decline as a consequence of serious reductions in the funds available. The facts are just the opposite. There has been tremendous acceleration in the past decade in building schools, increasing teachers' salaries, building superhighways, supporting science, aiding the needy, conquering disease, clearing slums, building hospitals, building churches, publishing books, performances by symphony orchestras, attendance at art galleries, and innumerable other worthwhile public activities. Growth of public expenditures since the Korean War has been great and the growth has been mostly in public services—in the "wel-

fare state," not in national security.

Part of the misrepresentation is achieved by casual neglect or cavalier distortion of facts. Part is achieved by spurious definitions of what services are "public" and what are "private." Part is achieved by statistical prestidigitation.

I will not comment on outright prevarication and downright error, except to say that both are considerably more common than prevailing canons of good taste permit one to recognize publicly.

What is the distinction between a "public" service and a "private" service? Included in the list that I just gave, of activities which are alleged to have declined but actually have grown, are a number which those who argue the "public" versus "private" issue would ordinarily not class as "public." Their classification is made not according to whether the facilities are available to the public, but according to whether the costs are paid by the public through governmental agencies using money raised by compulsion. The division between "public" and "private" ought to be on the basis of who has access to the facilities, not who paid for them. Medical research supported by the Rockefeller Foundation is in the public sector just as much as medical research supported by the National Institutes of Health. The telephone system and the railroads are just as much public facilities in the United States as in England or as the post office in the United States. Care of orphans is as much a public service when provided by a private charity as when provided by a government agency.

Goods and services that are produced privately and provided to the public on a sort of "common carrier" basis—that is, to anyone who pays an announced price—are, of course, not available to those without money or credit. This is not, however, a distinction between the public and private sectors. Many private services are

available on the basis of need, independent of ability to pay; National Merit Scholarships are an example. Many public services are available only on an ability-to-pay basis; admission to Yellowstone Park, a room at Old Faithful Inn, or delivery of a letter are examples. Public provision of goods and services need not mean public production of those goods and services; college education under the GI Bill is an example.

Those who argue that the public sector should be increased often define the public sector implicitly not even as everything that is paid for by the government, but as only that part that is provided directly by the government through government employees using government-owned facilities. They are thus arguing in effect that the provision of certain services should be transferred from private to public hands. Churches are a good example of a public facility that in this country is provided exclusively by private funds. Even the most ardent advocates of transferring the financing and control of public facilities from private to public hands stop short of advocating this transfer with respect to churches, presumably because of ingrained belief in separation of church and state. Private institutions of higher learning are another case in point. In this instance, perhaps the principal reason that the "unmet social needers" usually stop short of advocating transfer to public control is that many of the most imaginative of them are employed by private universities, and their most valuable economic freedom is academic freedom. (It should be noted, however, that public financing of political parties is occasionally advocated; and this would be more dangerous to our political liberty than public financing of religion would be to religious liberty, or than public financing of higher education is to academic freedom.) Indeed, the "public squalor argument is," as I have said on another

occasion, "simply this decade's battle cry of socialism, which—intellectually bankrupt after more than a century of seeing one after another of its arguments for socializing the *means* of production demolished—now seeks to socialize the *results* of production."

The statistical prestidigitation used to misrepresent trends in the public and private sectors are sometimes tributes to the authors' ingenuity—or perhaps only to the assiduity with which they have absorbed Darrell Huff's masterful little book telling *How to Lie with Statistics*. Their shifts from absolute numbers, to per capita figures, to percentages of one base or another, and back again sometimes involve footwork fancier than that of Eliza crossing the ice. A particularly meretricious device is to express some public expenditure as a percentage of gross national product—or of national income, or of consumer income, or of consumer expenditures on tail fins—and then interpret a decline in this percentage as a decline in the public sector. Some of the more pretentious statistical efforts project astronomical growth of needs over the next decade—or generation—then project microscopic rates of expansion, and thus display an awesome portrait of an increasing gap and impending disaster.²

A last resort, when the more homely statistical contrivances fail, is Russia. Comparisons with the Russians can be made in absolute terms, in per capita terms, in absolute rates of changes, in percentage rates of change, in lead-and-lag times, and in various other ways—most of which are spiced with a generous dash of imagination and speculation as to what the Russian data, and sometimes our own, really mean. A couple of summers ago the newspapers reported an impending women's gymnastics lag. According to the reports, the proportion of Russian women engaging in organized gymnastics—gymnastics through

the public sector, that is—is far greater than the proportion of American women. Worse still, the Russian lead is steadily widening. "A country that doesn't do better than we do [at training engineers, at foreign language training, at turning out steam engines, at research in entomology, at women's gymnastics, or whatever the subject may be] perhaps does not deserve to survive," is so frequently the somber conclusion of these comparisons as to suggest that impulses toward social suicide are common among intellectuals.

Another approach to the "public" versus "private" sector discussion makes little or no use of statistical or factual argument, but relies on an analysis through the apparatus of theoretical economics. This approach starts with the recognition that we have a "mixed" economy. That is, some economic functions are carried out through private enterprise, some through government, some through the family, and some through eleemosynary institutions. The proper proportions for this mix, it is implied, are to be determined on the principles of marginal analysis, just as are the proportions between the production of automobiles and the production of moving pictures. But governmental decisions are not the resultant of independent, voluntary decisions by individuals, so are not amenable to marginal analysis. The decisions are, in fact, often of an all-or-none character, though they may be determined by the marginal voter.³

Even in the private sector, choices are not made among great aggregates like recreation and transportation. On the contrary, choices are made among comparatively small units which may contribute to a number of different kinds of service, as when a consumer's purchase of an automobile contributes both to his recreation and to his transportation to his work or even in his work. Furthermore, the ratios

among various types of expenditure are not chosen for all people, but are simply the results of aggregating individual choices.

Another feature of analytical approaches to the public-sector versus private-sector discussion is that they frequently claim, and apparently with pride, to be "pragmatic." It is seldom clear what "pragmatic" means in this context. Frequently, it seems to mean not that the test of a policy is how it works, but whether it can be put across. Also, the label "pragmatism" often seems to conceal neglect of long-run or indirect consequences, for analysis of these is necessarily theoretical.

Tocqueville pointed out in 1840 that democracy in America seems to cause the pressures to solve a problem to mount as the problem itself dwindles. Tocqueville applied this particularly to inequality.

The hatred which men bear to privilege increases in proportion as privileges become fewer and less considerable, so that democratic passions would seem to burn most fiercely just when they have least fuel. I have already given the reason of this phenomenon. When all conditions are unequal, no inequality is so great as to offend the eye; whereas the slightest dissimilarity is odious in the midst of general uniformity; the more complete this uniformity is, the more insupportable does the sight of such a difference become. Hence it is natural that the love of equality should constantly increase together with equality itself, and that it should grow by what it feeds on. (Mentor Edition, p. 294)

This burning-most-fiercely-when-the-fuel-is-least seems to operate in much of our social spending on welfare measures. Only after substantial success was beginning to be achieved in providing retirement income, through individual insurance and

private pension plans, did pressure for public provision of retirement income build up to the point of compulsory federal provision of funds for old age. As the problem of medical care for the aged has steadily diminished, partly because of improved health of the aged, partly because of higher per capita income which has made it easier for people to provide their own resources for old age and to care for their aged relatives, and partly because of the wide increase in organized saving for retirement, pressure for some form of governmental program has increased. Similarly, in the case of race relations, only after rapid progress finally began to occur through private means did serious pressures grow up for governmental compulsion. There are many other examples of the same kind.

Tocqueville makes two other remarks that are particularly helpful in understanding the current pressures for expanding collective action and diminishing individual action:

As conditions of men become equal amongst a people, individuals seem of less, and society of greater importance; or rather, every citizen, being assimilated to all the rest, is lost in the crowd, and nothing stands conspicuous but the great and imposing image of the people at large. This naturally gives the men of democratic periods a lofty opinion of the privileges of society, and a very humble notion of the rights of individuals; they are ready to admit that the interests of the former are everything; and those of the latter nothing. They are willing to acknowledge that the power which represents the community has far more information and wisdom than any of the members of that community; and that it is the duty, as well as the right, of that power, to guide as well as govern

each private citizen. (Mentor Edition, p. 291)

Every central power, which follows its natural tendencies, courts and encourages the principle of equality; for equality singularly facilitates, extends, and secures the influence of a central power.

In like manner, it may be said that every central government worships uniformity; uniformity relieves it from inquiry into an infinity of details, which must be attended to if rules have to be adapted to different men, instead of indiscriminately subjecting all men to the same rule. . . . The faults of the government are pardoned for the sake of its tastes; public confidence is only reluctantly withdrawn in the midst even of its excesses and its errors; and it is restored at the first call. (Mentor Edition, p. 295)

In addition to the points made by Tocqueville, two other factors seem to me to contribute to the growth of collective action.

The first of these is failure to diagnose a problem and failure to analyze the consequences of a proposed solution, or else wrong diagnosis and wrong analysis. The provision of retirement income through a federal social security program, for example, began shortly after the Great Depression, and it may well be that hardships of the aged that were in fact due to that depression were attributed to inadequate provision for old age. Similarly, since the Korean War, financial hardships entailed in medical care for the aged are in fact due largely to the transitory inflations of the Second World War and the Korean War which, in effect, confiscated large fractions of the savings of many who are now retired; but the hardships (or alleged hardships) are mis-diagnosed as due to

persistent forces that will continue to affect all retired people.

Instead of myself discussing the neglect of long-run consequences, I should like to quote from the Federal Reserve Bank of Chicago's *Business Conditions* bulletin of June, 1961. Under the title "Depressed areas—some lessons from the past," the bulletin says:

In the course of wide debate, economists and public policy makers have often overlooked the fact that depressed areas have been a recurring aspect of the economic development of this country. American history includes many accounts of the rise and fall of communities and whole regions owing to changes in technology, exploitation and exhaustion of natural resources, changes in demand and the migration of industry to other parts of the country in response to the pull of new markets—the same factors cited as contributing to chronic unemployment in today's depressed areas. . . .

There is, of course, an inherent danger that some attempts at solving the problem may backfire and only prolong the process of readjustment as well as contribute to an inefficient allocation of the nation's resources. . . .

Thus, the experience of economic readjustment to the decline of the lumbering industry in the northern counties of the Lake states has emphasized . . . that there is always the risk that some attempts to solve the problem of depressed areas may not work at all and may only complicate and delay the adjustment process. Witness the collapse of the campaign to promote farming on the cutover lands despite vigorous backing from the state governments, the railroads, lumber companies, local businessmen and even 'experts' from the agricultural colleges.

I have the impression that good examples could be drawn from European history of the great costs that may be incurred by neglecting long-run consequences when adopting policies that seem to provide some hope of temporary relief of symptoms. For the United States, it is probably not a great distortion to say that most of the worst economic problems that we face today have been created by the long-run ill effects of policies adopted in the past to deal with some much smaller problem.

The other force that I think must be added to Tocqueville's in explaining the contemporary movement toward larger Federal spending, for which the "unmet social needs" argument has provided buttressing, is a rather profound change in our political processes since the days of Tocqueville. The expansion of the Federal government's welfare activities has led to a great increase in the importance of pressure groups. Many of the programs for expansion of the public sector get their effective backing not from those who would receive the service but from those who would sell it to the government. While this is strikingly true in the case of education, medicine may seem to be a counter-example; but in the case of medicine, the opposition to expanded government activity comes from those who are now selling the service and who visualize others selling it or themselves selling it on less advantageous terms if the government expands its activity.

As a matter of fact, as government welfare programs have fallen more and more under the control of pressure groups, the real problems have tended to be neglected. The consideration of depressed areas relief illustrates this. There is not a depressed areas problem, but many different problems, with varied causes. Some of the most serious of these problems are in the so-called "hillbilly" areas—the mountain re-

gions of certain Southern and border states. These groups for the most part lack sufficient voting strength to attract any substantial Federal funds. Federal funds flow instead to areas where breakdown of law and order, lack of even justice in the courts and administrative agencies, demoralization of the labor force, and exploitation by state and local governments have driven industry away. Federal funds tend to subsidize and perpetuate the causes of the difficulty. In the "hillbilly" areas, on the other hand, there would be some prospect for success of efforts to improve the level of education and skills, knowledge about opportunities elsewhere, and mobility.

In conclusion, let me remark that it is perhaps a mistake to call the position of the "unmet social needs" socialism, even though their position represents, as I pointed out earlier, a gradual evolution from the socialist position of a century ago, and is its contemporary counterpart in the United States. Socialism has traditionally been associated with government ownership of land and capital. The modern movement would continue a large measure of private ownership and private enterprise, but seeks to elaborate and to extend control of private activities and to confiscate a large and growing part of the private product. This is carried on partly in the name of unmet social needs at home, and partly in the name of national security. It is in many respects on all fours with mercantilism, the economic policy followed by England and other European countries in the seventeenth and eighteenth centuries, which was a major cause of the American Revolution. Indeed, the movement to enlarge the "public sector" represents perhaps the most powerful reactionary force that has arisen since the departure of mercantilism from this country with the adoption of the Constitution in 1789.

¹See Vance Packard, *The Hidden Persuaders*, *The Waste Makers*, and *The Status Seekers*; J. Kenneth Galbraith, *The Affluent Society* and *The Liberal Hour*; C. Wright Mills, *The Power Elite*; and almost any issue of such magazines as *Harper's*, *Atlantic Monthly*, *Saturday Review*, *Reporter*, *New Republic*, *Nation*, etc.

²Mark Twain anticipated some of our contemporaries nearly 90 years ago in his *Life on the Mississippi*: "In the space of one hundred and seventy-six years the Lower Mississippi has shortened itself two hundred and forty-two miles. That is an average of a trifle over one mile and a third per year. Therefore, any calm person, who is not blind or idiotic, can see that in the Old Oolitic Silurian Period, just a million years ago next November, the Lower Mississippi River was upward of one million three hundred thousand miles long, and stuck out over the Gulf of Mexico, like

a fishing-rod. And by the same token any person can see that seven hundred and forty-two years from now the Lower Mississippi will be only a mile and three-quarters long, and Cairo and New Orleans will have joined their streets together, and be plodding comfortably along under a single mayor and a mutual board of aldermen. There is something fascinating about science. One gets such wholesale returns of conjecture out of such a trifling investment of fact."

³This is not to minimize the relevance of marginal analysis to choices among various projects within the public sector. The point here is that the division of the national income between the public and the private sectors is not the sum of individual balances between the expenditures through the public and private sectors. The public-private division is political, not economic.