round the globe, from Santiago to Stockholm, the cleverer politicians and bureaucrats are scouring the world for ideas. The reason is simple: the main political challenge of the next decade will be fixing government.

In *The Federalist Papers* Alexander Hamilton urged his fellow Americans to decide “whether societies of men are really capable or not of establishing good government from reflection and choice, or whether they are forever destined to depend for their political constitutions on accident and force.” His words are just as true today.

Countries that can establish “good government” will stand a fair chance of providing their citizens with a decent standard of life. Countries that cannot will be condemned to decline and dysfunction, in much the same way the Chinese once were. For the state is about to change. A revolution is in the air, driven partly by the necessity of diminishing resources, partly by the logic of renewed competition among nation-states, and partly by the opportunity to do things better. This Fourth Revolution in government will change the world.

Why call it a *fourth* revolution? Not least as a reminder that the state can change dramatically. Most of us in the West only know one model—the ever-expanding democratic state that has dominated our lives since the Second World War. However, history before then tells a different story. Indeed, Europe and America surged ahead precisely because they kept changing: government was engaged

Continued on page 8

On May 21, LESZEK BALCEROWICZ, the architect of Poland’s post-communist economic success, was awarded the Cato Institute’s 2014 Milton Friedman Prize for Advancing Liberty. “The most important economic reforms are at the same time political reforms,” Balcerekowicz said of his transformation of Poland, “because they reduce the scope of bureaucratic interventions,” PAGE 3

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in a continual process of improvement. In our book, we argue that the Western state has been through three and a half great revolutions in modern times.

LEVIATHAN AND ITS DISCONTENTS

The first took place in the 17th century, when Europe’s princes constructed centralized states that began to pull ahead of the rest of the world. In the 1640s, when a middle-aged royalist on the run called Thomas Hobbes produced his anatomy of the state against the background of the English Civil War, there were good reasons to believe that the future lay with China or Turkey. Hobbes decided to name the state, which he regarded as the only answer to the nastiness, brutality, and brevity of human life, after a biblical monster, Leviathan. But what a successful monster it proved to be! Europe’s network of competing monsters threw up a system of ever-improving government: nations, states became trading empires, then entrepreneurial liberal democracies. The struggle for political and economic prowess was often bloody and messy—Britain has waged war on virtually every Western European country—but that contest has also ensured that the West left other regions of the world behind.

The second revolution took place in the late 18th and 19th centuries. It began with the American and French revolutions and eventually spread across Europe, as liberal reformers replaced regal patronage systems—“Old Corruption,” as it was known in England—with more meritocratic and accountable government. English liberals took a decrepit old system and reformed it from within by stressing efficiency and freedom. They “stole” China’s idea of a professional civil service selected by exam, attacked cronyism, opened up markets, and restricted the state’s rights to subvert liberty. The “night-watchman state,” advanced by the likes of John Stuart Mill, was both smaller and more competent. Even though the size of the British population rose by nearly 50 percent from 1860 to 1866 and the Victorians improved plenty of services (including setting up the first modern police force), the state’s tax revenues fell from £80 million to £60 million. And later reformers like William Gladstone kept on looking for ways to “save candle-ends and cheese-parings in the cause of the country.”

However, as often happens, one revolution set up another. Throughout the second half of the 19th century, liberalism began to question its small-government roots. What good, wondered Mill and his followers, was liberty for a workingman who had no schooling or health care? And if that man (and eventually woman) deserved the right to vote, and it would be illiberal to think otherwise, then that schooling needed to be broad and ambitious. And if governments were in competition with one another—and that was increasingly the view as Bismarck welded Prussia into a Great Power—then surely those who educated their workers best would triumph.

Thus, an improved life for every citizen became part of the contract with Leviathan. That paved the way for the aberration of communism but also for the third great revolution: the invention of the modern welfare state. That too has changed a great deal from what its founders, like Beatrice and Sidney Webb, imagined; but it is what we in the West live with today. In Western Europe and America, it has ruled unchallenged since the Second World War—except for during the 1980s, when Margaret Thatcher and Ronald Reagan, inspired by classical liberal thinkers like Milton Friedman, temporarily halted the expansion of the state and privatized the commanding heights of the economy. We dub this a half revolution because, although it harked back to some of the founding ideas of the second “liberal” revolution, it failed in the end to do anything to reverse the size of the state.

The Western state has been through three and a half great revolutions in modern times.

**TO THOSE WHO HAVE, MORE SHALL BE GIVEN**

The twists and turns of each revolution have been significant. What is clear, however, is that for the past 500 years Europe and America have been the font of new ideas about government. Freedom and democracy have been central to that. The rise of the Western state was not just a matter of setting up a competent civil service. Even Hobbes’s monster was a dangerously liberal one for a royalist to propose, because Leviathan relied on the notion of a social contract between the ruler and the ruled. The Victorian liberals saw a well-run state as a prerequisite for individual emancipation. Their Fabian successors saw a welfare state as a prerequisite for individual fulfillment. As it has expanded, the Western state has tended to give people more rights—the right to vote, the right to education and health care and welfare.

Yet the Western state is now associated with another trait: bloat. The statistics tell part of the story. In America, government spending increased from 7.5 percent of GDP in 1913 to 19.7 percent in 1937, to 27 percent in 1960, to 34 percent in 2000, and to 41 percent in 2011. But these figures do not fully capture the way that government has become part of the fabric of our lives.

America’s Leviathan claims the right to tell you how long you need to study to become a hairdresser in Florida (two years) and the right to monitor your emails. It also obliges American hospitals to follow 140,000 codes for ailments they treat, including one for injuries from hitting a turtle. Government used to be an occasional partner in life, the contractor on the other side of Hobbes’s deal, the night watchman looking over us in Mill’s. Today it is an omnipresent nanny. Back in 1914, “a sensible, law-abiding Englishman could pass through life and hardly notice the existence of the state, beyond the post office and the policeman,” the historian A. J. P. Taylor once observed. “He could live where he liked and as he liked. . . . Broadly speaking, the state acted only to
help those who could not help themselves. It left the adult citizen alone.” Today the sensible, law-abiding citizen cannot pass through an hour, let alone a lifetime, without noticing the existence of the state.

There have been periodic attempts to stop the supersizing of the state. In 1944, in *The Road to Serfdom*, Friedrich Hayek warned that the state was in danger of crushing the society that gave it life. This provided an important theme for conservative politicians from then onward. In 1975 California’s current governor, Jerry Brown, in an earlier incarnation, declared an “era of limits.” This worry about “limits” profoundly reshaped thinking about the state for the next decade and a half. In the 1990s people on both the Left and the Right assumed that globalization would trim the state: Bill Clinton professed the age of big government to be over. In fact, Leviathan had merely paused for breath. Government quickly resumed its growth. George W. Bush increased the size of the U.S. government by more than any president since Lyndon Johnson, while globalization only increased people’s desire for a safety net. Even allowing for its recent setbacks, the modern Western state is mightier than any state in history.

The winds of change

Margaret Thatcher and Ronald Reagan, inspired by classical liberal thinkers like Milton Friedman, temporarily halted the expansion of the state. We dub this a half revolution.

The paradox—we are not happy. Having more security, more entitlements. And yet—they do as Republicans and Democrats.

For better or worse, democracy and elephantiasis have gone hand in hand. Our politicians have been in the business of giving us more of what we want—more education, health care, more prisons, more pensions, more security, more entitlements. And yet—here is the paradox—we are not happy. Having overloaded the state with their demands, voters are furious that it works so badly. In America the federal government has less support than George III did at the time of the American Revolution; Just 17 percent of Americans say that they have confidence in the federal government, less than half of the 36 percent found in 1990 and a quarter of the 70 percent found in the 1960s. More people now identify themselves as independents than they do as Republicans and Democrats.

In short, the state is in trouble. The mystery is why so many people assume that radical change is unlikely. The status quo in fact is the least likely option. As an American economist, Herbert Stein, once drily observed, “If something cannot go on for ever, it will stop.” Government will have to change shape dramatically over the coming decades. In the West, the era of more is coming to an end. It is time for the Fourth Revolution.

Debt and demography mean that government in the rich world has to change. Even before Lehman Brothers collapsed, Western governments were spending more than they raised. The U.S. government has run a surplus only five times since 1960. For the foreseeable future the state will be in the business of taking things away—far more things than most people realize. In some places, where governments have managed their finances spectacularly badly, such as Greece and some American cities, that taking away has already been dramatic. In San Bernardino the city attorney advised people “to lock their doors and load their guns” because the city could no longer afford police.

This battle will go straight to the heart of democracy. Western politicians love to boast about the virtues of democracy and urge errant countries, from Egypt to Pakistan, to embrace it. They argue that “one person, one vote” holds the cure to everything from poverty to terrorism. But the practice of democracy is diverging ever more from the ideal. The unedifying truth is that Western democracy got rather flabby and shabby when it was mostly giving things away. Interest groups (including many people who work for the state) have proved remarkably successful at hijacking government.

If failure is the first prompt for change, competition is the second. For all its frustrations with government, the emerging world is beginning to produce some striking new ideas, eroding the West’s competitive advantage in the process. If you are looking for the future of health care, then India’s attempt to apply mass-production techniques to hospitals is part of the answer, just as Brazil’s system of...
conditional cash transfers is part of the future of welfare.

So far the emerging world has not seized the opportunity to leapfrog ahead that technology has presented it with. Brazil is heading toward a pension crisis that could dwarf even those in Greece and Detroit. India may have a few of the most innovative hospitals in the world, but it has some of the lousiest roads and laziest politicians. But do not be fooled into thinking that the emerging world is miles behind. The days when the West had a monopoly on clever government are long gone.

This points to the third force: the opportunity to “do government” better. As with previous revolutions, the threat is plain: bankruptcy, extremism, drift. But so is the opportunity: the chance to modernize an institution that we have overloaded with responsibilities. How should the state be changed? The pragmatic answer, which people of all persuasions should seize upon, relies on improving management and harnessing technology, particularly information technology. Fifty years ago, companies suffered from the same bloat that government does now. Business has changed shape dramatically since then, slimming, focusing, and de-layering.

There is more to the future of government than just better management, however. At some point a bigger decision has to be made. What is the state for? That question is at the heart of an old debate—a debate that disappeared during the “all-you-can-eat” phase of modern democracy. Now these questions are discussed only in piecemeal form. Modern politicians are like architects arguing about the condition of individual rooms in a crumbling house, rushing to fix a window here or slap on a new coat of paint there. We need to look at the design of the whole structure—and also to think hard about the proper role of the state in a fast-changing society, just as the Victorians did at the dawn of the modern democratic age.

CONCLUSION

The Fourth Revolution is about many things. It is about harnessing the power of technology to provide better services. It is about finding clever ideas from every corner of the world. It is about getting rid of outdated labor practices. But at its heart it is about reviving the power of two great liberal ideas.

It is about reviving the spirit of liberty by putting more emphasis on individual rights and less on social rights. And it is about reviving the spirit of democracy by lightening the burden of the state. If the state promises too much, it creates distemper and dependency among its citizens; it is only by reducing what it promises that democracy will be able to express its best instincts, of flexibility, innovation, and problem solving. This is a fight that matters enormously. Democracy is the best safeguard for basic rights and basic liberties. It is also the best guarantee of innovation and problem solving. But fighting against its worst instincts will be tough.

The three revolutions we chronicle in our book have all been enormously hard fought. The revolutionaries had to question long-cherished assumptions and dream up a very different world, often in the face of stern opposition from people at the very heart of the state. Yet each one of these revolutions brought huge rewards. Early modern Europe became the most dynamic continent in the world. Victorian England created a liberal state that provided better services at lower cost than Old Corruption, oversaw the transition to mass democracy with little disruption, and ruled a vast empire very cheaply. The welfare state provided millions of people with tangible securities in a world that could be horrifically harsh. The Fourth Revolution will be no easier.

But reformers should push ahead, for the rewards will be dramatic: any state that harnesses the most powerful innovative forces in society will pull ahead of its peers. Ultimately, these states have history on their side: this revolution is about liberty and the rights of the individual. That is the tradition that propelled first Europe and then America forward. The West has been the world’s most creative region because it has repeatedly reinvented the state. We have every confidence that it can do so again, even in these difficult times.