

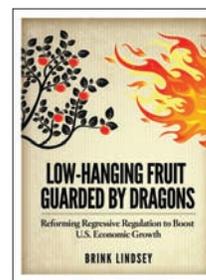
The Structural Causes of Federal Government Failure

Most Americans think that the federal government is incompetent and wasteful. Their negative view is not surprising given the steady stream of scandals emanating from Washington. Scholarly studies also support the idea that many federal activities are misguided and harmful. What causes all the failures? As Chris Edwards, Cato's director of tax policy studies and editor of Cato's website *Downsizing the Federal Government*, writes in "Why the Federal Government Fails" (Policy Analysis no. 777), "The causes of federal failure are deeply structural, and they will not be solved by appointing more competent officials or putting a different party in charge." First, federal policies rely on top-down planning and coercion. That tends to create winners and losers, which is unlike the

mutually beneficial relationships of markets. Second, the government lacks knowledge about our complex society. While markets gather knowledge from the bottom up and are rooted in individual preferences, the government's actions destroy knowledge and squelch diversity. Third, legislators often act counter to the general public interest. They use debt, an opaque tax system, and other techniques to hide the full costs of programs. Fourth, civil servants act within a bureaucratic system that rewards inertia. Finally, today's federal budget is 100 times larger than the average state budget, and is far too large to adequately oversee. "Management reforms and changes to budget rules might reduce some types of failure," Edwards concludes. "But the only way to create a major improvement in performance is to cut the overall size of the federal government."

HOW CONSERVATIVES, PROGRESSIVES, AND LIBERTARIANS CAN UNITE ON ECONOMIC REFORM

The U.S. economy is slowing down. Trends for all the major components of growth are now uniformly unfavorable: labor participation is falling, the pace of human capital accumulation is slackening, the rate of investment is in long-term decline, and growth in



total factor productivity has been low for three of the four past decades. A sudden turnaround is always possible, but there are strong reasons for believing that U.S. economic growth in the coming years will fall well short of the long-term historical trend. As Brink Lindsey, vice presi-

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dent for research at the Cato Institute, writes in **“Low-Hanging Fruit Guarded by Dragons: Reforming Regressive Regulation to Boost U.S. Economic Growth”** (White Paper), progressives, conservatives, and libertarians have a strong common interest in reversing this slowdown. Unfortunately, agreement on ends need not translate into agreement on means. Nevertheless, Lindsey argues that despite today’s polarized political atmosphere, it is possible to construct an ambitious and highly promising agenda of pro-growth policy reform that can command support across the ideological spectrum. Such an agenda would take aim at policies whose primary effect is to inflate the incomes and wealth of the rich, the powerful, and the well-established. This paper identifies four major examples of what Lindsey calls “regressive” regulation: excessive monopoly privileges granted under copyright and patent law, restrictions on high-skilled immigration, protection of incumbent service providers under occupational licensing, and artificial scarcity created by land-use regulation. Focusing on these areas, he argues, would open up a new front in the ongoing policy fight. “Instead of another left-right conflict, the contest could be framed as a choice between the public interest and vested interests,” he concludes.

HOW MARKETS UNDERMINE CASTE DISCRIMINATION IN INDIA

When India became independent in 1947, its liberal constitution banned caste discrimination and reserved seats for dalits—once called untouchables—in the legislatures, government services, and some educational institutions. These reservations created a thin upper crust of dalits in politics and government services. But caste discrimination remained widespread, especially in rural India. As Cato research fellow Swaminathan S. Anklesaria Aiyar argues in **“Capitalism’s Assault on the Indian Caste System”** (Policy Analysis no. 776), however, major changes were sparked by economic reforms in 1991,

opening up a once-closed economy. One district survey in Uttar Pradesh shows the proportion of dalits owning brick houses up from 38 percent to 94 percent, and the proportion running their own businesses up from 6 percent to 36.7 percent. The Dalit Indian Chamber of Commerce and Industry now boasts of more than 3,000 member-millionaires. For decades, India’s socialist policies achieved only 3.5 percent annual growth. Licenses and permits were required for all economic activity. Upper-caste networks monopolized these and kept dalits out. But the 1991 economic reforms dismantled controls, accelerating growth and competition. “Fierce competition soon ensured that the price of a supplier mattered more than his caste,” Aiyar concludes. “The dalit revolution is still in its early stages, but is unstoppable.”

YOUNG VOTERS DEVELOP “IRAQ AVERSION”

The Millennial Generation, those born between 1980 and 1997, now represent one quarter of the U.S. population. Compared with their elders, Millennials have distinct attitudes toward foreign policy issues. “The main drivers of Millennials’ foreign policy attitudes fall into two major categories,” write A. Trevor Thrall, associate professor at George Mason University and Cato adjunct scholar, and Erik Goepner, doctoral student in public policy at George Mason University, in **“Millennials and U.S. Foreign Policy: The Next Generation’s Attitudes toward Foreign Policy and War (and Why They Matter)”** (White Paper). The first comprises the trends and events that started or occurred before the Millennials came of age, including the end of the Cold War, the development of the Internet, and the acceleration of globalization. The second includes major events that occurred when they were



between the ages of roughly 14 to 24, including the attacks of 9/11 and the wars in Afghanistan and Iraq. Together, these forces have led to three critical differences between the Millennials’ attitudes and those of previous generations. First, Millennials perceive the world as significantly less threatening than their elders do. Second, Millennials are more supportive of international cooperation than prior generations. Finally, thanks in particular to the impact of the wars in Iraq and Afghanistan, Millennials are also far less supportive of the use of military force.

THE HIGH COSTS OF E-VERIFY

E-Verify is an electronic employment eligibility verification system intended to weed unauthorized immigrants out of the labor market. A mandate requiring all employers to screen their new hires through federal government databases will likely be included in immigration reform measures contemplated by the 114th Congress. But, according to Alex Nowrasteh, a Cato immigration policy analyst, and Jim Harper, a senior fellow at the Institute, in **“Checking E-Verify: The Costs and Consequences of a National Worker Screening Mandate”** (Policy Analysis no. 775), E-Verify is an intrusive regulation that places the onus of immigration law enforcement on American employers. It’s not only expensive, but also has “a startling degree of inaccuracy.” It could exclude hundreds of thousands of Americans from employment—at least in the short run. And it’s ineffective at preventing unauthorized immigrants from working in the United States, as the experience of Arizona demonstrates. “If E-Verify is mandated nationwide, worker and employer avoidance and noncompliance would cause supporters of interior enforcement of immigration law to seek harsher sanctions on businesses, more punitive measures for unauthorized workers, and a biometric identity system for all Americans—a step that must be avoided,” the authors write. ■