

On the Role and Design of Government in Society

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What is *government*? According to one dictionary definition, *government* is the *exercise of authority* in a political unit. The same dictionary defines *authority* as *the power to enforce laws, exact obedience, command, determine, or judge*.

We see examples of government all around us. The first form of government that people are exposed to is the family unit that they are born into. Both mom and dad exert their authority to govern the household. When children are old enough, they go to school where they are subject to the authority of their teachers and principals, who govern the school system. After graduating from school, people go to work where they subject themselves to the authority of their bosses, who govern the operation of their businesses. The working person soon discovers the power of an even higher authority when they see a fraction of their earnings forcibly taken by municipal, provincial and federal governments. As adults, we are all aware of laws that are imposed upon us that are designed to govern our behavior. We are discouraged by these laws to engage in theft, fraud, murder, assault, speeding, smoking, trading, and so on.

Some of these laws make a lot of sense. Hardly anyone today would want to live in a society that condones theft, assault or murder. And the fact that we have laws that explicitly prohibit such activities suggests that any society consists of individuals who would happily engage in such activities if they could get away with it. This observation leads me to my next question: What is the *primary* role of government in society? I will take it as self-evident that the primary role of government is to *enforce private property rights*.

The most important private asset that we own is ourselves (our human capital). Of course, our ownership in ourselves is enforced by laws that prevent others from forcibly stealing our human capital (for example, by making us their slaves). Likewise, our ownership of physical and financial capital is enforced by laws that prevent others from stealing it from us. Associated with the concept of private property is the concept of *economic freedom*. We are (or should be) free to do as we wish with our private property as long as our actions do not violate the fundamental rights and freedom of others. In short, the fundamental role of government is (or should be) to enforce *liberty* among people.

The desire for liberty appears to be something common to all peoples throughout history. This desire is probably best expressed by the following passage in the U.S. Declaration of Independence:

“We hold these truths to be self-evident, that all men are created equal; that they are endowed by their Creator with inherent

and inalienable rights; that among these, are life, liberty, and the pursuit of happiness; that to secure these rights, governments are instituted among men, deriving their just powers from the consent of the governed; that whenever any form of government becomes destructive of these ends, it is the right of the people to alter or abolish it, and to institute new government, laying its foundation on such principles, and organizing its powers in such form, as to them shall seem most likely to effect their safety and happiness." –Declaration of Independence as originally written by Thomas Jefferson, 1776. ME 1:29, Papers 1:315

Likewise, according to the great historian Lord Acton (1834-1902):

“Liberty is not a means to a higher political end. It is itself the highest political end...liberty is the only object which benefits all alike, and provokes no sincere opposition...”

These passages suggest that people desire freedom since a free person has control over how to best achieve personal happiness. This is all fine and good, but leaves a great question unanswered: What system of government is best for achieving this goal? There is no definitive answer to this question (as far as I know). But I think that most people would agree that we can eliminate from consideration certain ‘extreme’ forms of government.

At one extreme is a system of *anarchy*, which is defined as *the complete absence of political authority*. In principle, anarchy sounds like a good thing because it in some sense it gives people complete freedom. The problem with this system is that people are also *legally* free to commit murder, theft, assault, etc. Unfortunately, the legal right to murder infringes on another person’s right to life. In a society consisting entirely of ‘reasonable’ or ‘moral’ people, such a system may work (e.g., if they were governed by a higher principle, like the Ten Commandments). Such a system might also work if all people could defend themselves. For example, even if murder was legal, it may not occur for fear of retribution. But I think that it’s fair to say that most historical episodes of anarchy are very short-lived—and for a good reason: anarchy appears to be linked with chaos. Evidently, societies do not consist entirely of ‘reasonable’ or ‘moral’ people. Because this is true (however unfortunate the case may be), it seems that people need/want to be governed.

Throughout human history, the most common form of government has been *dictatorship*. A dictatorship is a system whereby one person has absolute control over his/her subjects. As such, it represents the opposite extreme of anarchy. Most people are likely conditioned to view dictatorship as a good system, at least, in principle. Our lives during childhood are governed primarily by the dictatorial rule of our parents. Similarly, many (if not most) people enjoy being led, preferably by a charismatic and benevolent leader (like Alexander the Great, or Mohammed and Jesus). These are all examples of what one might

term ‘benevolent dictators.’ A benevolent dictator is someone who governs in a way that is in the best interests of his/her subjects. As such, a benevolent dictator may very well agree with the passage written by Thomas Jefferson above. Unfortunately, benevolent dictators appear to be an extremely rare commodity. For every Jesus that comes around, there appears to be hundreds of Hitlers (responsible for an estimated 30 million deaths) and Stalins (responsible for an estimated 50 million deaths). Our feelings toward dictators is probably best summed up by Lord Acton, who wrote:

“The danger is not that a particular class is unfit to govern. Every class is unfit to govern...Power tends to corrupt, and absolute power corrupts absolutely.” Lord Acton, 1887.

So let’s review what we’ve learned so far. Generally speaking, people desire freedom (but within limits). Anarchy sounds good in principle, but is unworkable because every society possesses ‘rotten apples’ that would exploit their anarchic freedom to inhibit the basic freedom of others. Thus, people want/need to be governed. But they (generally) do not want to be governed by a dictator, since most dictators are despotic and cannot be trusted to act in the interests of society.

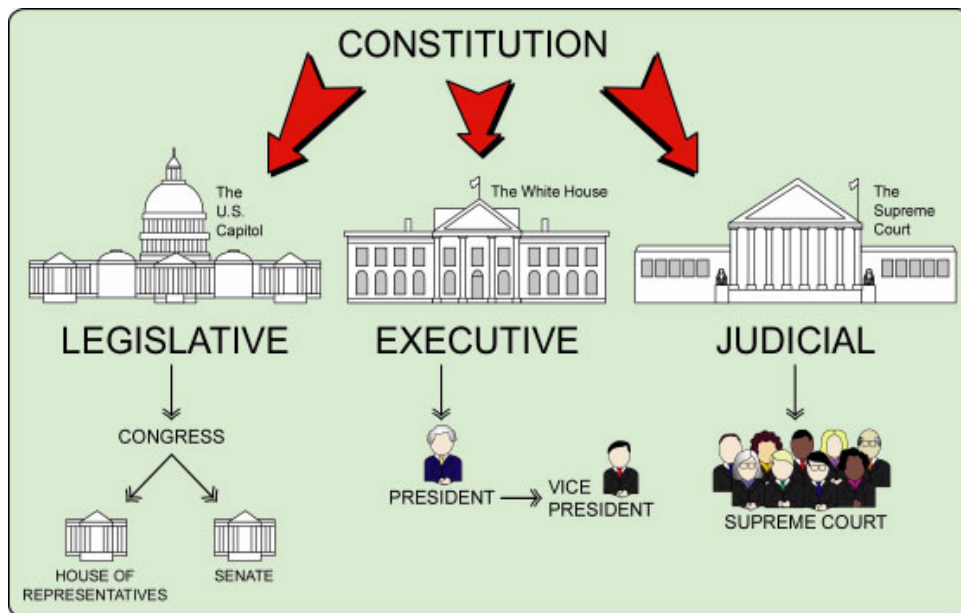
Thus, we are left with a problem. The primary role of government is to enforce private property rights. But the efficient enforcement of these rights requires that some authority be given ‘special’ powers to coerce enforcement. These special powers may include ‘forcing’ the citizenry to pay taxes (to finance the provision of a police and judicial system), to abide by the laws that protect private property, and possibly to accept the possibility of conscription into the army (to protect the rights and freedoms of the citizenry from hostile neighbours).

But if, as Lord Acton suggests, power corrupts, then who is to be trusted with such power? Can we trust any one person? Any group of people? How are those that govern us to be governed themselves? How should our governors be chosen? How should they be compensated? These are the questions that were pondered by the founding fathers of the U.S. constitution (among many others in history). For example, James Madison wrote:

“The great desideratum (necessity) in Government is, so to modify the sovereignty as that it may be sufficiently neutral between different parts of the society to control one part from invading the rights of another, and at the same time sufficiently controlled itself, from setting up an interest adverse to that of the entire society.” James Madison, 1787.

So here is the basic problem. We know that power needs to be concentrated in some degree (since anarchy is undesirable). But we also know from Lord

Acton that power cannot be concentrated too much. Evidently, there is some 'optimal' concentration of power in society. One solution to this problem is to design a system whereby limited powers are allocated to a set of competing branches of authority. In the United States, these three groups are the executive branch (the president), the legislative branch (the congress), and the judicial branch (the supreme court).



Each branch of government has its own responsibilities and at the same time they (are supposed to) work together to make the country run smoothly and to assure that the rights of citizens are not ignored or disallowed. This is accomplished through *checks and balances*, which constitute limits imposed on all branches of government by giving each the right to amend acts of the other branches. Thus, a branch may use its powers to check the powers of the other two in order to maintain a balance of power among the three branches of government.

Of course, such a system in itself is still subject to abuse. For example, what would prevent the president from stocking the congress and supreme court with his friends and relatives? An answer to this question is provided by the idea of *democracy*. A democracy is a system of government by the people, exercised either directly or through elected representatives (with limited terms).

In the United States, the legislative branch is divided into two subgroups: the house of representatives and the senate. The division of congress into two

groups was a solution that the founding fathers invoked as a compromise between the original 13 states, some of which wanted representation on the basis of population (the larger states) and those that wanted representation based on the number of states (the smaller states). The Senate's special powers include: veto power over decisions that the president makes over treaties and appointments such as cabinet officers, Supreme Court justices, and ambassadors. The senate can also hold a trial for a government official that does something terribly wrong. Each state has two senators, each of which has a six year appointment. Senators can be re-elected indefinitely. The House's special powers include: proposing laws on taxes and deciding whether a government official should be put in trial before the Senate if he/she commits a crime against the country. The number of representatives from each state depends on the state population. Each representative has a two year appointment and representatives can be re-elected indefinitely.

The supreme court is made up of nine justices. They are appointed by the President and approved by the Senate. Justices have their jobs for life, unless they resign, retire, or are impeached by the House and convicted by the Senate. The main power of the Supreme Court is to decide cases that challenge the Constitution (e.g., does preventing gay marriages violate the basic rights of homosexuals?).

The executive branch is made up of the president, vice-president, and various government departments. Theoretically, the president is in charge of the army (although declarations of war must generally first be approved by Congress). Otherwise, the president does not appear to have any special powers beyond those that allow him to initiate proposals that may be accepted and passed by his/her allies in Congress. A presidential term lasts for four years and a president cannot serve for more than two terms.

So we see that ultimately, discipline is imposed on the behavior of the government by the people themselves, who have the power to elect (or kick out) their representatives on a regular basis. The power of the people is also augmented by the so-called 'fourth estate;' i.e., the freedom of the press. The basic idea here is to implement a system with various checks and balances that provide a balance between the power necessary to enforce law and order on the one hand, and the excessive concentration of power on the other.

What does any of this have to with growth and development? Well, there does seem to be empirical support for the idea that countries with 'good' constitutions (well-designed checks and balances and a respect for private freedom) are desirable places to live both for the freedom that people enjoy and for the fruits that such freedom appears to foster. This is not to say that any current or historical form of government has been perfect, including our current democracies. But at issue here is not necessarily which form of government is perfect, but which is better in a relative sense. To quote Winston Churchill: "Democracy is the worst form of government—except for all those others that have been tried."

One potential pitfall of a democracy is that it replaces the despotic rule of a dictator with a ‘tyranny of the majority.’ While most people would agree that the preservation of individual rights and freedoms is a good idea, in practice they seem to behave in ways that contradict this principle. Of course, no one will come right out and say that they are against freedom. But then they go ahead and advocate laws that hurt their neighbours and justify these laws on the grounds that they are ‘for their own good, anyway’ (e.g., laws that prevent individuals to open businesses that allow smoking in private premises). Unfortunately, the world is full of busybodies who appear to enjoy imposing/inflicting their own preferences on others. If such people are in a majority, then the rights of minorities may be compromised. Thus, democracies (like any other system) are subject to the threat of special interests. Presumably, some constitutions are better than others at preventing majorities from exercising their political whim over minorities. But no system is perfect, it seems.

If everyone believes in individual rights and freedoms, how do special interests get away with imposing their views on society? The general principle appears to be a very subtle play on what one means by ‘rights and freedoms.’ Above, I suggested that people should be free to pursue any activity that does not infringe on the *basic* rights and freedoms of others. But what are these ‘basic’ rights? Almost everyone would agree that these basic rights include the right to life, the right to be free from physical wrong, and the right to property. Of these, the right to property is most problematic. What does the right to property mean exactly? We all agree that if you own a home, that I do not have the right occupy (against your will) a room in your house. Fine. But what if I invent (or import) a new product that threatens your business? My action has led to a decrease in the value of your business. Your wealth decreases and with it, your ability to maintain the living standards of your household at its accustomed level. While allowing for low-cost imports may improve the well-being of many (most) people in society, it will in effect ‘destroy’ the value of some of your property. I may as well as have set your business on fire. Shouldn’t the law protect your property from acts such as these? Don’t you have the right to expect the government to prevent me from importing the offending product? Or if I am allowed to import it, should you have the right to some form of compensation (financed by a tax on me)? Evidently, many people feel this way (and are very successful at having their views heard).

The same argument is heard over and over again almost every day in this blessed country of ours. For example, when a big ‘multinational corporation’ lays off our domestic workers, is this not an act that destroys the human capital of these workers? Shouldn’t workers be protected from layoffs by legislation that makes it costly for firms to engage in such barbarous acts?

Upon some reflection, you should come to the realization that everything and anything you do in life is likely to harm some people and benefit others. If you decide to pick up some litter on the side of the road, you are taking work away from sanitation department employees (I recall a case in Ontario

where school janitors protested the teachers having students clean up litter on the schoolground for this very reason). If I decide to enter the labor market, I am competing against others and diminishing their prospects. If I choose to purchase a bike, I harm the automobile manufacturer. If you move to the United States, you whittle away the domestic tax base (leaving the rest of us to pay off the government debt). If students lobby for lower tuition, this amounts to stealing more money from taxpayers (or reducing the services currently available to others). If I choose to drink coffee instead of tea, I benefit those in the coffee industry and harm those in the tea industry. As you see, the possibilities are endless. It is just a natural human reaction to be fearful of economic forces that may work against them, while ignoring the harm (and emphasizing the benefit) that their own actions may impose against others.

The problem here is that if a government responds to all of these fears, the economy would grind to a standstill. Clearly, there must be some distinction made between the types of actions that can potentially harm others. I have not given enough thought as to how one might do this exactly. One way may be to divide actions between those that confer a ‘social’ benefit against those that do not. Examples of the former would include all actions taken when people are free to trade. Examples of the latter would include murder, theft, assault, etc. This division of activities acknowledges that while some people will generally be harmed (sometimes significantly) when people are free to trade, this harm is generally temporary (after all, people are free to adjust and insure themselves as well) and is more than offset by the general gains to be had by a system that promotes the creation of wealth.

Thus, perhaps we can understand why some countries are so rich and others so poor by examining the institutions that are in place that prevent special interests from persuading the government that they deserve special treatment. These institutions must somehow prevent government bureaucrats from being rewarded for promising everybody special treatment (Here, I am reminded of humorous radio ad run by a popular bar in London which proclaimed: ‘Come to Joe Kool’s—where we screw the other guy and pass the savings on to you!’). Evidently, some institutional arrangements are better than others in achieving this goal (although no current system seems to immune from political pressure exerted by special interests).

Finally, I come to an important practical question. Suppose that we can even agree on what sort of institutional arrangements appear to work well (the U.S. provides a compelling, if imperfect, benchmark). How are the people of a less fortunate country supposed to implement any reforms, given their current institutional set up? In 1776, the United States opted for an outright revolution. The same may very well happen in the Ukraine today. There is probably no other option for countries that find themselves currently governed by a despotic regime. What about countries that are currently governed by democracies, but with institutional flaws that have fostered the spread of special interests that stifle economic freedom? The only solution would seem to be to promote the

general benefits of reform, hoping to convince a majority to support political leaders that are willing to implement it. As it turns out, the best promotion for successful institutions is in the results they produce and the jealousy that success breeds. When Germany was divided into two following the second world war, the East Germans were constantly reminded as to which system appeared to work better. Similarly, the fall of the Soviet Union was in large part attributable to the obvious failure of that system in promoting the general welfare of people relative to the United States and other (relatively) free countries. A less dramatic example of economic reform stimulated by popular revolt that stimulated growth is given by Ireland in the 1980s.

Thus, perhaps institutional reform is governed more by Darwinian dynamics (with successful institutions driving unsuccessful institutions to extinction). Unfortunately, these dynamics take years and even decades to unfold. Maybe all that can be done is to do our little bit in promoting the idea of economic freedom and hoping that the idea eventually spreads to those who need to learn this lesson.