



Big Government—Big Risk

BY DAVID R. HENDERSON

In his *Freeman* column last June, “The End Run to Freedom,” economist Russell Roberts makes the following argument: As people get wealthier, they demand more security. Their demand for security leads many people to favor the welfare state or the nanny state. The welfare state refers to a government that subsidizes people who bear losses; the nanny state refers to a government that regulates people’s lives to prevent them from taking certain risks that could lead to losses. The role of free-market advocates is to point out that much of the security that people demand can be provided by the free market. That is Russell Roberts’s argument, and I agree with it. As far as it goes.

But Roberts’s argument implicitly assumes that government provides security. That assumption flies in the face of much evidence on the welfare/nanny state. It ignores the government’s sometimes-lethal iron fist that is only modestly hidden beneath its velvet glove. Government’s tragic track record shows that regulations and spending programs often make people less secure. And even when they provide security, they often do so by trading one risk for another, sometimes bigger risk. Consider three areas where this happens: drugs, education, and jobs.

Since 1962 the Food and Drug Administration (FDA) has required that any new drug be tested not just for safety but also for efficacy. Economists have estimated that the efficacy requirement has added many years to the time between a drug’s discovery and its sale. Let’s grant that the requirement for proof of safety reduces risk. But the regulation that requires proof of efficacy does little or nothing to decrease risk and necessarily increases risk, sometimes lethally. Imagine you have a terminal disease and, without a drug that is currently

being tested for efficacy, you will die in six months. Unfortunately, the drug won’t be on the market until after that. Imagine there is a 30-percent probability that it would extend your life. Has the government reduced your risk by forcibly preventing you from taking it? This example is not hypothetical. Economist Daniel Klein estimates that withholding new effective drugs causes at least 50,000 premature deaths a year. (See “Economists Against the FDA,” *The Freeman*, September 2000.)

And think of other drugs that government regulators try to prevent you from taking—drugs like marijuana, cocaine, LSD, and heroin. Here the issue is a trade-off of risks. One could argue that if the government makes the penalties harsh enough, you will decide not to take these drugs and will therefore avoid the associated risks. But stopping the analysis there is to engage in single-entry bookkeeping. We need to examine the other side of the ledger: the risks that government creates. For those who decide to use the drugs anyway, their risk is much greater—and the higher risk is due to government regulation. They face two new risks they wouldn’t face if the drugs were legal. The first is the risk of getting an impure drug. When drugs are illegal, providers do not have the same incentive or ability to provide high quality and establish a good reputation that they would have if the drugs were legal. Many people who die from illegal drugs do so because they don’t know the potency of the drugs or what they are spiked with.

The second is the risk of going to jail. One of the few effective anti-drug ads run by the federal government

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was the one that showed a drug user running from the cops. But notice that this risk is entirely government-created: if drugs were legal, there would be no risk of going to prison just for using them. And the risk of going to prison is not one of those little risks. As the drug warriors correctly point out, going to prison could wreck your life.

One might argue—and many do—that we should not be sympathetic to those who take illegal drugs and go to jail. To this I have two answers. First, those who make the argument cannot also argue for drug laws on the basis of saving people from harm because they have revealed that they don't care about those people being harmed. Second, when I ask even strongly anti-drug audiences what they would do if they found illegal drugs in their teenager's room, they never say they would report their child to the police. So they do seem capable of being sympathetic to at least some people who risk going to prison.

My second example of where government creates risk is the schools. Most schools in the United States are government-run, and parents are forced by law to enroll their students at these schools, at private schools, or in home-schools. Government schooling is not cheap: it now costs about \$7,200 per student, which is about \$2,500 more than the average tuition at private schools. But because government gives it away “free,” only those who value private schooling very highly will choose it for their children. If private school tuition is \$4,700, for example, you won't buy it unless it's worth \$4,700 more than the value of what the government school provides.

What does this have to do with risk? When you drop your child off at the government school, you have little control over what happens to him or her. Within broad limits the government can do a lot to your kid: teach him things you'd rather he not know, such as how to put a condom on a banana; teach him things that are not

true, such as the idea that the industrialists of the late nineteenth century were “robber barons”; and, in thousands of little ways, deaden your child's inherent love of learning. I'd call that a pretty big risk. Of course, all this can and does happen in private schools. But with lots of private-school choices, which you would have if the government exited the business and cut taxes to reflect its lower spending, the risk would be much less.

Harm from Forced Higher Wages

Finally, consider jobs. Government regulations give unions the power to force people to join or to at least have the union represent them in wage bargaining. Unions use that power to bargain for wages higher than they could have otherwise. At those higher wages new workers are less likely to find jobs and must settle for lower-paying jobs in nonunion sectors of the economy. When there's a downturn in the economy, employers, facing unions that want to preserve higher-paying jobs for their more senior members, lay off the more-junior workers. Absent the unions' legal monopoly, the employers and workers could have bargained for lower wages that preserved more jobs. So the loss in freedom due to government-granted union privileges goes hand in hand with a loss in security for younger, less-experienced workers.

Big government is a big lottery, and as in all lotteries, your expected winnings (which equal the probability of winning multiplied by the prize) are substantially less than the price of the ticket. But there is a fundamental difference between the big-government lottery and the typical game of chance. In the latter, the participants choose to play; in the big-government lottery everyone is forced to play.

Benjamin Franklin once said that those who are willing to trade liberty for security deserve neither. They'll also get neither. If my major goal were security, I would want, even more than I do, freedom from government. 