
Government Is Better than the Market at Producing Human Capital? It Just Ain't So!

BY JUDE BLANCHETTE

Invoking the Founding Fathers is always risky. We typically use the term as an amalgamation, as in “the Founders believed X.” But as a reading of even one semi-serious history of the American founding will show, their beliefs were divergent and contentious.

Many libertarians employ the term “Founders” as if to provide a degree of respectability to ideas that seem increasingly out of date (at least to the public at large). A recent *New York Times* column by David Brooks, however, helps clarify that not all the Founders were created equal.

Brooks sees four schools of political economy in America today: 1) the limited-government conservatives and libertarians, who want to leave everything to the market; 2) mainstream liberals, who want to tinker with the market to dampen its creative destruction; 3) the populists, who want to rewrite the rules of the global trading order to tilt the balance toward the poor; and 4) the Hamiltonians, Brooks’s group, “who believe in free market capitalism but think government should help people get the tools they need to compete in it.”

While Brooks attempts to distinguish four schools, only two actually exist, consisting of those who see a vast pool of resources that government can control with the help of intellectuals and those who see societies as groupings of individuals over whom no one should exert control.

One thing is certain: Brooks comes straight from the Hamiltonian mold. Alexander Hamilton’s original economic plan, presented to Congress in 1790 and 1791, was a model of centralization, and it set the stage for future federal intervention. By suggesting that the national government assume the debts of the states,

Hamilton helped build its dominance. As secretary of the treasury he commanded a staff of more than a thousand and was known for his involvement in even the most minute details of the department. Hamilton was a personification of Adam Smith’s “men of system.”

Sadly, Brooks’s Hamiltonian faith in government string-pulling is in this spirit. In his recent op-ed “Reviving the Hamilton Agenda” and his previous appeals to National-Greatness Conservatism, Brooks has itemized a list of state undertakings that rapidly approach infinity. What the measures he endorses in the op-ed all have in common is their objective of empowering government to “help people compete.”

It’s fairly easy to understand Brooks’s intuition here. The government has resources (never mind where they come from) and people need skills. Put the two together and you have a system designed to turn out a highly trained, globally competitive workforce. It’s a wonderful idea, except for its utter flouting of theory and history.

Many who read this magazine put on their Public Choice glasses when they see a new policy offered. Instead of thinking about the rosy outcome that will theoretically occur, they ask themselves a series of questions. By the time the policy proposal travels from the politicians’ (or intellectuals’) lips to passage by Congress, what are the odds that it will look anything like the original or still serve its stated goal? What perverse incentives will the government agency that enforces this policy face? Is there any organization or powerful lobby that will get a bite at the apple before or during the policy’s enactment?

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While these questions don't usually endear a libertarian to the more sentimental and optimistic among us, they do often keep us from signing on to childish fantasies that would require the U.S. government to act like a responsible and reasonable agency of positive change.

On the two large priorities the Hamiltonian Brooks sets, however—increasing economic dynamism and human capital—it's hard for any reasonable individual to disagree. The problem is with his solutions. On the former, Brooks acknowledges that our behemoth Social Security and Medicare systems are liabilities. For Social Security he recommends raising the retirement age, which I hope he recognizes is a Band-Aid fix at best, and for Medicare his answer is opaque and thus utterly meaningless: “tackl[e] medical inflation to make Medicare affordable.”

As for his other priority, he writes, “No one policy can increase the quality of human capital, but a lifelong portfolio of policies can make a difference.” Among the policies he advocates are:

- Child tax credits
- Income support for young men
- Visits by nurses to single-family homes
- Preschool to help boost self-confidence
- Merit pay for teachers and a tweaking of certification
- Mentoring of teenagers by senior citizens
- Forced national service for young adults
- Government funding for science and math

Where government has engaged in these activities, it has failed. This is aside from the coercion necessary—forced national servitude?—for the state to carry them out.

Why doesn't Brooks leave the market alone to handle both dynamism and human capital? His only answer is this: “We Hamiltonians disagree with the limited government conservatives because, on its own, the market is failing to supply enough human capital. Despite all the incentives, 30 percent of kids drop out of high school and the college graduation rate has been flat for a generation.”

The upcoming 2008 edition of the *Statistical Abstract of the United States* shows that only 11 percent of elementary and high-school students are enrolled in private schools and an estimated 2.2 percent of students are homeschooled. The vast majority of students are prod-

ucts of government schools. I don't know about you, but if I were to place the blame for high dropout rates and a generally inadequate student population, I would look first to the government's schools. (As an aside, the “dropout” rate is misnamed, Alan Reynolds writes, because it includes many immigrants who never attended schools in the United States and hence could not have dropped out.)

College Graduation

The flat college-graduation rate is likely related to the poor performance of government's elementary and secondary schools, which do a bad job of preparing students for college. That's why so many students take high-school-level courses in their freshman year. A related explanation is the booming enrollment rate. The government encourages virtually everyone to go to college, and makes money and loans available for that purpose. The U.S. Department of Education says, “Enrollment in degree-granting institutions increased by 17 percent between 1984 and 1994. Between 1994 and 2004, enrollment increased at a faster rate (21 percent), from 14.3 million to 17.3 million.” If more students are starting college only because government lowers the cost, then it's not surprising that the graduation rate has not picked up.

Brooks is right that human capital—skills and knowledge—helps individuals to perform in the global marketplace. But that marketplace is constantly changing, and it's hard to imagine government establishing training programs that could adequately keep up with the dynamic nature of world commerce.

Does this mean we just throw up our hands in defeat? Certainly not. Indeed, the companies that look to tap into the extraordinary productivity levels of American workers won't let that happen. From the funding of higher education to the expansive network of job training, those who profit from America's relatively stable legal environment, talented workforce, and deep stock of capital pump billions of dollars into developing human capital. For the “men of system,” however, the “unplanned” nature of private-sector investments in human capital is too chaotic. Hence, Brooks's Hamiltonian revival.

We need less Hamilton and more Jefferson.

