

From Liberty to Democracy: The Transformation of American Government. By Randall G. Holcombe. Ann Arbor: University of Michigan Press, 2002.

THE BOOK UNDER REVIEW traces the evolution of American government and its fundamental principle from liberty, at its inception, to democracy in the twentieth century. At the nation's founding, the principle underlying American government was liberty, and the nation's new government was designed to protect the rights of individuals. The American Founders intended to design a government that would protect the rights of its citizens, and at that time the most serious threat to people's rights was government. Thus, the United States government was designed with a constitutionally limited scope to preserve the rights of individuals and limit the powers of government. By the end of the nineteenth century, Hamiltonian ideas were widely viewed as more appropriate to the industrializing nation, and Jeffersonian ideas of limited government were seen as obsolete. People began looking to their government not only to protect their rights but also to further their economic well-being.

Subsequently the government's activities during two world wars and the Great Depression greatly increased its involvement in people's economic affairs, and by the time of Lyndon Johnson's Great Society, the transformation was complete. By the end of the twentieth century, the fundamental principle underlying American government had been transformed to democracy, and public policy was designed to further the will of the majority. The result has been a government that is larger and broader in scope.

Using the framework of public choice theory, Randall G. Holcombe, a former economics professor at Auburn University and currently the DeVoe Moore Professor of Economics at Florida State University, thus shows how American government grew more democratic and how this resulted in an increase in the size and scope of government. The main theme explored in the book, namely that there are inherent tensions between democratic government and the market economy, and that, as government grows more democratic, this will inevitably result in an increase in the size and scope of government, is not an entirely new idea. It will sound familiar, not only

to readers acquainted with the public choice and related literature but also to those familiar with Austrian writings, in particular (among others) those of Mises, Hayek, Rothbard, and more recently, Hans-Hermann Hoppe.¹ In fact, the intellectual ancestry of the book can be traced back even earlier, in particular to Alexis de Tocqueville's *Democracy in America*, first published in 1835 (2004). Later on, in his *Capitalism, Socialism, and Democracy*, Joseph Schumpeter had argued that democracy plants the seeds of its own destruction, because it allows citizens to actively dissent and to vote away their freedoms (1950). Nevertheless it is no exaggeration to assert that the book adds some value to the existing literature.

Thus, and despite obvious thematic antecedents in the political, historical, and economic literature, the book has the merit of questioning conventional wisdom to some degree, and of drawing the reader's attention to some aspects neglected by others.

In particular the book breaks with twentieth-century tradition by treating liberty and democracy as economic systems as well as political systems; the book views political and economic systems as interdependent choices rather than independent ones (chap. 2). Following the traditional taxonomy, with political systems ordered on a continuum ranging from democracy to dictatorship, and economic systems ordered on a separate continuum ranging from capitalism to socialism, these systems can exist independently of each other (pp. 32 ff.). Thinking along such lines, an author like Fukuyama (1992) could declare that the evolution of political and economic systems has come to an end with the ascendancy of liberal democracy as a political system and the free market economy as an economic system (p. 35). Holcombe's analysis questions the ultimate compatibility of democracy with a free market economy. In fact, as one moves away from liberty toward socialism, the potential range for both democracy and dictatorship increases, and inversely, as one moves from socialism to liberty the potential role for both democracy and dictatorship declines. In other words, the decline in economic liberty and the rise in political democracy are not independent events, and the history of the United States illustrates the relevance of this proposition.

This conceptualization by itself does not yet explain why the scope of governmental decision-making will expand and liberty decline as the system drifts toward more democracy. As indicated further, part of the explanation can be related to the internal dynamics of

¹In particular attention can be drawn to this author's book, *Democracy—The God That Failed* (2001).

interventionism. The largely implicit underlying idea seems to be that a little bit of socialism to start with tends to beget more socialism, increasing the scope of collective decision-making in the process. As Holcombe also points out, democratic decision-making has the flaw that it is most likely to break down precisely when it is most needed. In contrast to market transactions, which by definition occur only among those who agree to them, democracy increasingly becomes a less satisfactory way of making collective decisions, the more the scope of democratic decision-making expands beyond those areas on which there is a substantial consensus of opinion.

It was Franklin Delano Roosevelt's New Deal that laid the foundation for the modern American welfare state (chap. 10, pp. 210–31). The final triumph of democracy over liberty, however, came with Lyndon Johnson's Great Society programs (chap. 11, pp. 232–49).

Nevertheless the book also highlights the fact that the erosion of liberty began almost as soon as the nation was founded (chaps. 3 and 4, pp. 37–81).

Thus whereas the nation's first constitution, the Articles of Confederation, tightly constrained the powers of the federal government, the effect of the Constitution, when evaluated in light of the status quo that it replaced, consisted in placing less constraint on the federal government and in allowing those who ran the government more discretion and autonomy and less accountability. Contrary to the conventional wisdom on the U.S. Constitution, its adoption thus enhanced the powers of the federal government and laid the foundation for two centuries of government growth.

It has commonly been recognized that, at least prior to Lyndon Johnson's Great Society programs of the 1960s, major shifts in policy that placed the demands of the majority over the protection of liberty came in response to crises of some sort. The reader will discern the influence of the Higgs (1987) thesis. The role of government has expanded mainly in response to crises, such as wars and depressions, leaving behind a larger government, more responsive to public opinion and less committed to the protection of liberty. Holcombe mentions the ratchet hypothesis of government growth which "argues that government grows in response to crises but after a crisis has passed never shrinks down to its pre-crisis level" (p. 232).

There is no need to argue that those endowed with government power engineer crises to aggrandize the state. Attention can be drawn to the fact that the crises and depressions to which government responds, far from being simply "random" or "exogenous" shocks of some sort, are themselves all too often the inevitable consequences of previous interventions. The *dynamic* of interventionism is thus

toward *more* intervention, at least up to some point. In view of the obvious unworkability of socialism, however, it can be expected that this evolution ultimately cannot be unidirectional. Sooner or later, a point will be reached at which the system starts cycling back in the opposite direction.² Thus future historians will perhaps see the decade of the 1980s as a turning point because it brought with it major changes in political attitudes toward government. Do not the governments of Margaret Thatcher in Britain and Ronald Reagan in the United States exemplify the relevance of this proposition? According to Holcombe, “any retrenchment of government during the Reagan and Thatcher eras was because popular opinion favored it, not because people wanted to reclaim liberty as the underlying principle of government” (p. 251). This conclusion will well appear disputable to some readers.

The footnotes offer a wealth of essential references which will guide the reader, whether or not he or she is already specialized in these matters, through important parts of the relevant literature. Moreover the well-balanced and competent manner in which the author intertwines the historical narrative with a lucid summary of insights drawn from the theoretical literature provides for what is probably one of the most valuable aspects of the book. The author clearly explains, for instance, why Buchanan and Tullock’s *The Calculus of Consent* (1962) cannot easily be invoked to justify the elimination of the unanimity requirement when the Articles of Confederation were replaced by the Constitution (pp. 69–70).

Although apparently not intended as a book written primarily in the tradition of the Austrian School of economics, the book approaches some crucial insights provided by this important school of economic thought in an objective and unprejudiced manner. Thus the reader is provided with a fairly accurate account of the socialist calculation debate (pp. 30–32), and the presence of excessive credit expansion engineered by the Fed is acknowledged as an underlying cause of the stock market crash of 1929 (pp. 214, 307).³

At the level of ideology, the only philosophy competing with that of liberty is Progressivism, which first began to be articulated in the late 1800s, and which means that the government, as a matter of public policy, will look out for the economic well-being of its citizens. In particular, concentrated economic power of corporations was thought to require more concentrated power of the general public to

²On the dynamics of the mixed economy, see also Ikeda (1997).

³See, on these issues, Mises (1990) and Rothbard (1963).

maintain the balance. In this connection antitrust legislation is discussed summarily (pp. 169, 174, 206). According to the author's view, antitrust law "was intended to prevent abuses of monopolies by giving the government the power to break them up into smaller competing companies" (p. 174). The "public interest" origins of antitrust policy have been challenged, however (DiLorenzo 1985). As regards the historical roots of regulation, a short reference is provided to Gabriel Kolko's *Railroads and Regulation* (1963, pp. 153, 298), but no mention is made of this same author's important book *The Triumph of Conservatism* (1963). Although the author recognizes that the relationship that interest groups should have to public policy is essentially ambiguous within the Progressive ideology, no clearly explicit revisionist position is adopted in this matter.

The important issues related to developments in the field of money and banking equally receive a too summary treatment. Undoubtedly the short sections devoted to the First and the Second Bank of the United States (pp. 98–99), to Jacksonian Policy (pp. 104 ff.), and to the National Banking Act and the Free Banking Era (pp. 126–28) could have been enriched by the inclusion of a few references to Murray N. Rothbard's penetrating presentation in part 1 of *A History of Money and Banking in the United States* (2002).

Although throughout most of the book a perspective is embraced that can be characterized as largely "pro-free market," culminating in a particularly insightful and critical discussion of the problems of democracy in the last chapter, entitled "The Dangers of Democracy" (chap. 12, pp. 250–76), in the end the author nevertheless refrains from adopting a consistently libertarian or anarchist position.

According to Holcombe, government may not be necessary, but it is inevitable, because without it predators will be in a position to impose one by force (p. 275). Throughout history, the most effective protection against this type of predation has been another government (pp. 274–75). When discussing "the libertarian anarchist solution to this problem" the author remarks that "[t]here is no need to recount those arguments here, but interested readers should follow up on them because orderly anarchy may be more feasible than it appears to those who have not considered it seriously" (p. 272).

And although the reader is further provided with a summary account of Robert Nozick's (1974) well-known position with respect to the indivisible hand account of the origins of the state (p. 273),⁴ the

⁴For a critique of Nozick's invisible hand account of the minimal state, see Rothbard (1977).

author refrains from elaborating on the strongest possible theoretical case for anarchy, in particular as regards the possibility of an effective private market for everything the government produces, including protection services, courts, and even national defense.

The author's contention that "government is unnecessary but inevitable" has in the meantime provoked some further debate over limited government versus orderly anarchy, and invites a few comments (Holcombe 2004, 2005; Leeson and Stringham 2005). According to the author's view the debate over limited government versus orderly anarchy does not turn on the effectiveness of government versus private means to achieve certain ends such as the improvement of the public's well-being. Governments are not created to improve the public's well-being, for instance by producing certain goods and services for citizens. The libertarian anarchists have argued convincingly that anything the government does, the private sector can do more effectively and less coercively. The recognition that government is in this sense indeed unnecessary, if it were to become a more generally accepted view, would certainly constitute a major advance over the general preconceptions that prevailed during a major part of the previous century.

Rather governments are created and imposed on people by force, most often for the purpose of transferring resources from the control of those outside government to the control of those within it. Why then is government inevitable? The idea underlying the case for limited government is rather that without government—or even with a weak government—predatory groups will impose themselves on people by force and create a government to extract income and wealth from these subjects. If people create their own government pre-emptively, they can design a government that may be less predatory than the one that outside aggressors would impose on them.

The proposition apparently also rests on the implicit pre-supposition that, as a matter of fact, a stateless society will remain unrealizable in the foreseeable future, in particular given the present state of opinion among the general public. Arguments for orderly anarchy are today simply not taken seriously by most people.

The case for limited government thus stated nevertheless raises several critical questions. If we are to believe that anarchy cannot be viable and will tend to break down, why should we believe that limited government will remain limited instead of breaking down in turn and giving way to bigger government? And if we are to believe that limited government is viable, why should we not believe that anarchy might in the end be viable too?

An important assumption underlying any such speculations relates to the state of *general opinion*. The power of every government ultimately rests on opinion and consent (Hoppe 2001, pp. 90 ff., 263; also Boétie 1975). The main factor underlying the continued existence of the state is thus primarily ideological. As Ludwig von Mises aptly recognized:

A durable system of government must rest upon an ideology acknowledged by the majority. The “real” factor, the “real forces” that are the foundation of government and convey to the rulers the power to use violence against retinent minority groups are essentially ideological, moral, and spiritual. (1998, p. 189)

The future development of any such ideological and spiritual factors is on the one hand inherently unpredictable, but on the other hand it will be observed that conceivably nothing prevents such changes in general opinion from taking place quickly and unexpectedly. Most individuals know from introspection that it is in principle easier to quickly change one’s mind on a particular subject matter, than, say, to become rich quickly.

So the answer to the question “Is government really inevitable?” remains that “It all depends. . . .”

Furthermore, it can be pointed out that political philosophy is not so much concerned with possible answers to factual questions such as whether the continued existence of the state is likely in the foreseeable future given the state of general opinion, but rather with matters of justification. It does not follow from the fact that the continued existence of government is likely for the time being, that the continued existence of government can be *rationaly justified* and surely Professor Holcombe provides no rational or philosophical justification whatsoever for the continued existence of (even limited) government. In fact, as regards such matters of justification, the general state of opinion is largely irrelevant.

Although at the beginning of the book the significant influence of Locke’s ideas on the political philosophy of the Founding Fathers is highlighted (Locke 1963), it appears that in the end the author owes substantial inspiration to the ideas of Hobbes too (1968). The fundamentally unsatisfactory (and ultimately contradictory) nature of this line of thought is apparently not a matter of serious concern in the context of this historical work.

As an exercise in American political history, the book, which does not assume any specialized training and can be read by anyone interested in political history, presents a welcome antidote to such

overly optimistic accounts as can be found in Francis Fukuyama's *The End of History and the Last Man* (1992). Despite the inroads made by democracy in the twentieth century, a substantial amount of economic liberty remains. But because democracy has been so thoroughly accepted as a principle, the liberty that remains is threatened. Holcombe concludes that, although the dangers of democracy are not as readily apparent as the dangers of dictatorship, they are just as menacing. Since in other countries, especially in the European Union, the foundations of government have been pushed even further toward democracy as opposed to liberty, it is no exaggeration to assert that the relevance of the book's main theme and conclusions is not confined to the United States. No doubt the book will go on finding a wide readership.

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