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# Why Government Programs Grow But Never Go Away

## *An Excerpt From the Writings of the Late Economist Milton Friedman*

April 2013 | Shared by William L. Pittenger, MAI, SRA

**Pittenger:** I began my career as a real estate appraiser in the private sector. Later I plied my trade at a federal government agency. After 20 or so years of combined private-public experience, I migrated back to the private sector where I have been ever since. I privately refer to that transition as my *great migration*. Shortly thereafter, I wrote an article in which I compared and contrasted some of the subtleties of doing business as a private practitioner versus doing business as a public servant. I pointed out how entrepreneurs manage risk every day but bureaucrats seek to eliminate as much risk as possible; always cruising to the safe harbor. I explored budgets and spending and pointed out how business people seek to save money while bureaucrats must use it or lose it in budgeting. (That helps explain why government spending surges in the third quarter each year as that is the end of the government fiscal year). I also explored the notion of differentiation and how business people seek to differentiate themselves for competitive advantage while bureaucrats; especially regulators, seek to make everyone they regulate look alike and behave alike.

Around that time, I stumbled across economist Milton Friedman's 1993 article, *"Why Government is the Problem."* I've kept it all these years and have read it dozens of times. The following is what I regard as one of the most prescient passages of the article. Apparently I am not the only one who thinks it is important. The article is now available as a stand alone document at Amazon.Com. At less than $5.00 each, I bought a dozen and routinely share them with friends, clients, colleagues and students.

**Friedman: "The phenomenon of concentrated benefits and dispersed costs is a valid explanation for many governmental programs.** However, I believe it does not go far enough to explain the kind of situation in which we now are. For example, it does not explain why, once a government enterprise is established, it should be so much less efficient than a comparable private enterprise. Maybe concentrated benefits lead to the establishment of a government enterprise. However, why on those grounds should the U.S. Post Office be less efficient than United Parcel Service?

One answer is that the incentive of profit is stronger than the incentive of public service**.** In one sense I believe that is right, but in another sense I believe it is completely wrong. The people who run our private enterprises have the same incentive as the people who are involved in our government enterprises. In all cases the incentive is the same: to promote their own interest. My old friend Armen Alchian, who is a professor at the University of California at Los Angeles, put the point this way: There is one thing, he said, that you can trust everybody to do and that is to put his interest above yours. The people who run our private enterprises are people of the same kind as those who run our public enterprises, just as the Chinese in Hong Kong are the same as the Chinese in Mainland China; just as the West Germans and the East Germans were not different people, yet the results were vastly different.

The point is that self-interest is served by different actions in the private sphere than in the public sphere. The bottom line is different. An enterprise started by a group of people in the private sphere may succeed or fail. Most new enterprises fail (if the enterprise were clearly destined for success, it would probably already exist). If the enterprise fails, it loses money. The people who own it have a clear bottom line. To keep it going, they have to dig into their own pockets. They are reluctant to do that, so they have a strong incentive either to make the enterprise work or to shut it down.

Suppose the same group of people start the same enterprise in the government sector and the initial results are the same. It is a failure; it does not work. They have a very different bottom line. Nobody likes to admit that he has made a mistake, and they do not have to. They can argue that the enterprise initially failed only because it was not pursued on a large enough scale. More important, they have a much different and deeper pocket to draw on. With the best intentions in the world, they can try to persuade the people who hold the purse strings to finance the enterprise on a larger scale, to dig deeper into the pockets of the taxpayers to keep the enterprise going. That illustrates a general rule: If a private enterprise is a failure, it closes down—unless it can get a government subsidy to keep it going; if a government enterprise fails, it is expanded. I challenge you to find exceptions.

The general rule is that government undertakes an activity that seems desirable at the time. Once the activity begins, whether it proves desirable or not, people in both government and the private sector acquire a vested interested in it. If the initial reason for undertaking the activity disappears, they have strong incentive to find another justification for its continued existence."

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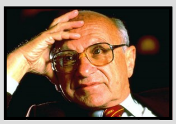
Milton Friedman (1912-2006) was one of the most influential American economists of the 20th century. He taught at the University of Chicago from 1946 to 1977 as well as at Columbia University on three separate occasions before and during his Chicago tenure. He was a member of the National Bureau of Economic Research (NBER) early in his career and finished his career at the Hoover Institution from 1977 until his death in 2006 at age 94.



Friedman was the 1976 recipient of the Nobel Memorial Prize in Economic Sciences as well as the Presidential Medal of Freedom and the National Medal of Science, both in 1988. He is perhaps most well known for his research on consumption analysis, monetary history and theory. As a leader in the Chicago School of Economics he influenced the research agenda of the economics profession.

Along with economist Edmond Phelps, he did extensive research into the natural rate of unemployment. During the 1960's he advanced an alternative macroeconomic theory now known as monetarism. He emerged as the primary spokesman for monetarism and the importance of the free market at a time when that position was not popular.

He was an opponent of John Maynard Keynes whose interventionist theory contended that the government should be heavily involved in managing economic functions. Friedman took the opposite approach that government functions best when its citizens have opportunities to make free choices.

Friedman authored numerous books. He and his wife and fellow economist, Rose Friedman, also authored several books including "Capitalism and Freedom" and the 1980 best seller, "Free to Choose."

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