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In 1979 President Carter surprised the American public by telling them that they suffered from malaise. Most people shrugged or laughed. The next year the voters decided the problem was not with them but with the government, especially Jimmy Carter's government.

Now malaise is back in a new and more contagious form. This time voters have been telling their governments that they are unhappy, and the governments have been trying to reassure them that their gloom is unwarranted. This time malaise is not limited to the United States. The signs are widespread. In Canada, France, Germany, and Italy votes have increased sharply for splinter parties, dissidents, and in some cases extremists. In the United States, more than 80% of the public tell pollsters that the country is "on the wrong track." Perhaps reflecting the mood of the voters, large numbers of U.S. Congressmen have given up their seats. As they retire, some use the opportunity to comment on the failures of the political system, and its inability to resolve problems. Voters interviewed after the spring primary elections expressed more than the usual dissatisfaction with all of the candidates.

What went wrong? Why is there so much dissatisfaction? Why now?

Some blame the current recession or slow recovery. Others, particularly in the United States, cite the alleged shift in the income distribution toward the top 10 or 20% and away from the middle class. Still others cite their belief that the current generation will be one of the few in U.S. history to be poorer than its parents. There are many proposed explanations.

One difficulty with many of these explanations is that few of them apply to all of the countries where dissatisfaction has been expressed through the political process. Another is the number of exceptions, countries in which there is as yet no evidence of political change. Countries like Switzerland or Austria experience the same or similar
economic condition as their neighbors -- Germany, Italy and France -- without any visible sign of growing dissatisfaction.

The recent United States recession was relatively mild compared to the average postwar recession. The recession may have contributed, but it is implausible that a combination of modest recession and modest recovery alone would produce as much unhappiness as voters and citizens exhibit and the press reports. Until recently, West Germany has been in a post-unification boom with income growth well above the average of the 1970s or the early 1980s. Dissatisfaction there appears to be high also, with complaints about immigrants and the costs of unification and fears of a return of intense nationalism.

Data on income distribution for the United States show more growth among upper income groups than other parts of the population. A widely accepted explanation for part of the shift is the increased premium paid for bachelor and advanced degrees. Comparisons with Canada, Japan and other countries show that some of the same forces have been at work shifting the income distribution in favor of the more educated. The size of the shift is smaller in these countries, however. The differences may reflect changes in the mix of jobs in different economies or differences in the relative quality of college and pre-college education in the various countries. We can only speculate, since there is not much information on which to rely.

The change in the income distribution may account for some of the dissatisfaction in the United States, but it does not explain the unhappiness we see elsewhere. More certain is the fact that tax changes associated with the Reagan administration are not the sole or principal cause of the change in the U.S. income distribution, though this reason is often given. The increased return to college and post-college education began in the 1970s before the tax changes were made. And the distributions of household and family income, used in many comparisons, are before-tax measures.

Despite frequent repetition, there is also no basis for the claim that upper income groups shifted taxes to the middle class. Comparisons based on changes in tax rates neglect changes in the tax base and other factors affecting tax payments.
Such data are not relevant for comparing tax burdens. A congressional study shows the opposite to be true. The shares of Federal taxes paid by the top 5% of all taxpayers, and the top 20%, have increased since the late 1970s. The nearly 5% increase in the share of taxes paid by the top 20% permitted reduction of about 1% in the share paid by each of the remaining quintiles.

The common theme in these explanations is economic malaise, but the solutions that people favor are often political. Many in the United States want to throw the incumbents out. Regional political autonomy, or separation, is the theme in Canada and Italy. If these political changes were made, they would have no effect on the alleged causes of malaise such as the current recession or the relative incomes of rich and poor.

I believe that there are common causes of the malaise in much of Europe and North America. The causes go deeper and are of longer duration. And most of them are political so the efforts to find political solutions make sense.

There are at least three basic problems common to many democratic governments. First is the gulf between politicians' promises and government performance. Second is the end of the cold war. An event that should be a cause for celebration seems instead to offer little tangible reward. Third is changing views about the division of tasks between local, national and supra-national governments.

This list is not exhaustive. It could be made longer. Political games, absence of responsibility, uncertain direction, and slow productivity growth do little to relieve pessimism or malaise. Declining real estate prices make some people poorer. Several of these factors are of long-standing, and not all of them apply generally. Nevertheless, they may supplement or reinforce other reasons for discontent.

U.S. Promises

In the United States, the Johnson administration introduced the Great Society, with promises to provide more fairness, more equality, and a change in the role of government in race relations. In place of a prior government policy that often enforced segregation or ignored the denial of full rights of citizenship to minorities, government
accepted responsibility for enforcing desegregation in schools, public accommodations, the work place, transportation and many other public and private spheres.

These efforts succeeded in reducing many overt forms of discrimination against minorities. I believe that measures such as the extension of voting rights and desegregation of public accommodation and the work place had considerable public support, and this support continues.

A different set of policies attempted to change the income distribution. The War on Poverty introduced an expanded set of programs to redistribute income. This war was followed by wars on crime, drug addiction and other social and personal problems. The wars often began with much publicity. Presidents committed the nation to programs that, we were assured, would eliminate each particular scourge.

The wars produced not victory but defeat. Between the 1967 and 1993 budgets Federal government spending for education, health care, and income security (other than social security) increased more than 2-1/4 times after adjusting for inflation. These large expenditures have had modest effects at best. Drug usage and the crimes associated with drug usage seem unaffected by government efforts. After some early decline, the poverty rate as measured, has not fallen.

Some of the early success was an illusion. The initial decline in the poverty rate was in part the result of two events unrelated to the war on poverty. Increases in old age assistance benefits raised the incomes of many retired persons above the poverty line. Also, relatively high productivity growth in the 1960s raised incomes across the board. The net effect of the poverty war may have been negative, since higher taxes and higher benefits for not working discourage effort.

Several years ago, Charles Murray reviewed the War on Poverty and concluded that, far from being a success, the war had been counterproductive. By reducing incentives to work, encouraging the breakup of families and birth of children out of wedlock, Murray argued, the programs' net effect was negative for the recipients. This conclusion was challenged. The outcome of the controversy is remarkable. Murray's critics did not show that he had overlooked or misperceived
evidence of substantial progress. Often, a program like Head Start, to help pre-school children, or the number of minority graduates employed in business, government and the professions, or the increase in the number of minority, middle class families would be proclaimed a success. But Murray's many critics were unable to show that the government's costly efforts had made significant contributions to social welfare of the poor or contributed to the rise in the number of minority middle class families. Some of the improvement is a consequence of a belated end to discrimination, not the effort to redistribute income.

Although many of the redistributive programs failed to produce the results that were promised, they grew in size and cost. By 1990, a person who earned about $46,000 in annual income paid 15% of his income, more than $7,000, in federal and state taxes net of transfer payments in cash and in kind. At $94,000, the net amount of taxes was 23% of average income. In 1990, taxpayers paid more than $170 billion for means tested benefits for the poor. (These benefits exclude such large programs as old age assistance and medicare, and unemployment insurance.)

Urban programs were a major part of the war on poverty. Names like model cities, community redevelopment, or urban renewal may suggest the hopes or intent of the sponsors. The results were far different. Government grants subsidized some baseball or football stadiums and other projects that appealed to middle class voters. It is hard to find evidence of improvement in central cities. The streets are filthy, the housing decayed, drugs are common and uncontrolled.

If the transfer and urban programs was supposed to encourage social harmony or personal satisfaction, they failed. Between 1960 and 1975, the homicide rate more than doubled. Other crime indicators rose also. Most crime rates remained in a narrow range during the 1970s. Although crime rates declined in the 1980s, they remained far above the rates reported for the early 1960s. Exceptions are mainly crimes such as rape or child abuse that have received increased attention and perhaps are reported more fully. Divorce rates show a broadly similar pattern, more than doubling between 1960 and the middle 1970s, followed by relative stability until the middle 1980s. Indications of increased social harmony are hard to find.
By the end of the 1970s, voters were willing to try a different approach. President Reagan took office committed to reducing inflation, lowering tax rates, deregulating the economy and increasing growth. Inflation was reduced but not eliminated. Income tax rates were reduced and the tax base was broadened. After a brief spurt, productivity growth resumed its sluggish rate of increase. Another set of promises was incompletely fulfilled.

The major mistake of the supply-side tax reformers in the Reagan administration and outside was to overstate what could be accomplished by tax changes. They forgot that economic progress depends not just on tax rates but on efficient use of resources. They were right to insist that tax reduction can increase incentives, but they neglected almost entirely to point out that productivity depends on investment in capital and education, whereas on balance government spending favors consumption over investment. They failed to point out also that our educational system is deficient, and that much of the spending for education has little to do with learning.

After a promising beginning in the 1970s, most efforts in the 1980s to reform regulation were opposed by Congress and by those who benefitted from the regulations. The Reagan administration was not willing to carry this fight to the public. Efforts to eliminate inefficient and ineffective spending programs were announced but did not get priority. Few spending programs were eliminated, and the major entitlement programs continued to grow thereby shifting resource use toward consumption.

Average growth of productivity and real income was not markedly different in the 1980s than in the 1970s. Using these measures, the public would be right to conclude, again, that supply side achievements were less than had been promised, although more positive than many critics allege.

Efficient education and health care systems can contribute to productivity and income. Per pupil costs of education in public elementary and secondary schools in the United States are among the highest in the world. Measures of learning are among the lowest in developed countries. Years of talk about an educational crisis or a nation at risk produced little in the way of reform. Per pupil costs in constant dollars
continue to rise. Measures of pupil performance that are available show little improvement. Wide recognition that improved educational quality would raise productivity has encouraged experimentation, often supported by business and other private sources, but reform has been limited and its effects have been small.

Health care costs continue to rise whether measured after adjusting for inflation or as a share of total spending. Part of the increased cost represents improvements in quality, but as much as 15% of the spending is used to pay for the terminally ill who are within a few months of dying. Government has held hearings, studied the problem, used price controls, direct controls on length of service, and other stopgaps. Again costs per patient are among the highest in the world. Performance is not.

One of the legacies of the 1980s is the continuing Federal budget deficit. There are many deficiencies in government accounting practice that both overstate and understate the government's fiscal deficit. Future pension costs for government employees are excluded. Productive investment spending and unproductive regulatory spending or the payment for thrift industry losses are treated alike although their economic effects differ. These and other relevant differences are typically ignored in discussion. Congress and the administration often promise to reduce the reported deficit and achieve a balanced budget. Under Gramm-Rudman-Hollings legislation, Congress committed in 1986 to reduce the reported deficit to zero in 1991. Within a year, the budget had strayed from its target path despite reliance on creative accounting. Revised targets promised a balanced budget in 1993. Instead the reported deficit soared. After laboring for months, Congress and the administration produced a new program in 1990 that increased tax rates. Spending soared, and the revised projections for future budget balance were soon forgotten.

To clean up hazardous wastes we spend $1.75 million per cancer case diagnosed. Spending by government is often inefficient, determined, as this example suggests, by those who most effectively organize. The result is wasteful spending that raises doubts about the efficacy of public programs.

Saving and loan problems were one of the most widely discussed economic problems of the 1980s. By the middle of that decade a voluminous literature analyzed
the central problem and proposed solutions. Predictions of the number of financial failures were widely circulated by economists working for the regulators and by outsiders. The regulators, Congress, and the administration ignored the problem or attempted to hide it by using accounting sleight-of-hand and granting forbearance toward bankrupt S&Ls. The cost to the public of this neglect is the largest financial loss ever recorded. Deposit insurance protected depositors from losses and prevented bank runs, but it also contributed to the willingness to take risks that imposed large losses on the depositors as taxpayers. Regulatory failure, not corruption, was the principal cause of the losses.

When the generation entering the work force looks at old age assistance, they see that here, too, government has promised more than it will deliver. Early retirees received a free ride. Current retirees receive a positive return on their accumulated payments. Future retirees will bear a net cost.

The U.S. government is not an efficient or effective provider of health care, education, pension benefits, deposit insurance or welfare. The reason is not obscure: government is concerned mainly with distributive issues. Who gains and who losses? Who pays and who receives? Efficiency and program effectiveness are typically of less interest to politicians. Often some are aware of the waste and inefficiency. They chose, most often, to ignore it.

Foreign Governments

I am less familiar with the promises made by governments in other countries. To an outsider, however, some of the problems are similar, and public response seems similar in kind if not in detail. The Italian government spent billions of dollars over a 25 year period supposedly strengthening or building the economy of southern Italy. There is little evidence of success. Promises to stamp out or suppress corruption and crime achieved little. Today, the Mafia seems able to kill at will. Cynics believe that much of the money appropriated for southern Italy was either stolen or used to increase votes for the principal parties of government.
Separatists are now the dominant party in much of northern Italy. The ordinary citizen of northern Italy opposes many of the government's transfers financed by taxes and deficits. The appeal of the separatists, who talk of dividing Italy into regions, is an appeal to reduce these transfers, lower tax rates and deficits, and reduce corruption.

In France, the Socialists came to office promising to reduce unemployment, nationalize major firms, allegedly to increase equality and social justice. There is not a single year in which the unemployment rate under the Mitterand governments has been as low as the rate in the last year of the prior administration. The promise to provide social justice by increasing the role of government produced inflation, devaluation, and loss of freedom. Finally, much of the program was abandoned.

Chancellor Kohl promised the Germans quick unification at low cost. He is delivering slow recovery in the east at a cost of nearly $100 billion with more spending to follow. To the ordinary west German, who believes that his own economic achievements resulted from personal efforts, the burden of redistribution seems both heavy and unjust. The former east German sees the relative prosperity of the west and asks for larger transfers.

In each of these countries, the reality is that governments have promised much more than they were capable of delivering. The political response is not recognition of a mistake and correction. Often politicians make additional commitments of resources, raising the costs borne by taxpayers. It would be surprising if many citizens of these countries believed that their taxes are spent wisely or well. Of course, government failures are not the only cause of discontent. Immigration, and the prospects of additional immigration, raise social as well as economic concerns in many European countries. But if government had greater credibility, it would be better positioned to address such issues.

End of the Cold War

The victorious end of the cold war is the outstanding success of the postwar years. For nearly fifty years, the governments of Western Europe and North America
maintained an alliance to provide mutual security under U.S. leadership. Though the members of the alliance were normally at peace, they spent to modernize weapons and maintain military capability. In the end, their sacrifice was rewarded; the potential enemy gave up its captured empire in Eastern Europe, ceased military adventures abroad and, effectively, sued for peace.

In the United States, the public did more than sustain the military build up. They supported wars in Korea, Vietnam, and more recently in the Gulf. They supported police actions involving force in Central America, the Caribbean, Iran, Libya, Lebanon and elsewhere. They supported their government when it threatened to use force on many occasions. Mistakes were made that weakened the public’s commitment and support of policy, particularly in Vietnam and in Lebanon. President Reagan showed, however, that there was always a residue of support for a policy of active engagement to meet our commitments and face down our enemy.

The United States was the leader, but it was not alone. France pursued its own policies, but it remained in the alliance. West Germans accepted the continued presence of foreign troops in their country, maintained a strong defense, and lived with the threat of a war that, if fought, would have been fought on their territory with great violence and destruction of all that had been rebuilt. Despite its frequent economic problems and relatively slow growth, Britain remained a reliable member of the alliance.

Now that victory has been achieved, the public has a right to ask what their sacrifices brought. The answer is mixed. Liberty has been preserved. Freedom has been sustained, and the people of Central and Eastern Europe have been freed. Capitalism has bested Marxism. Nuclear war has been avoided. These rewards are of great and lasting significance. But those who paid for the victory with blood and resources have a right to expect a tangible reward for their sacrifices.

Instead, in many countries, the citizen is asked to pay more taxes, not less. A three percentage point reduction in the U.S. share of spending for defense releases about $150 billion per year. At first the reductions will be smaller but, by the middle of the decade, current projections suggest that the government will spend that much less
each year. At first, this saving in defense costs will be absorbed by the thrift bailout. After that, rising costs of health care, retirement and interest on past debt will leave no room for major tax reduction without reductions in spending for so-called entitlements.

In Germany, too, the peace dividend has been spent. Rebuilding infrastructure, factories, and housing in eastern Germany, providing transfer payments to the unemployed, pensions for the managers of the former East German government, and cleaning up pollution uses more resources in the medium-term than the saving in defense costs releases. Budget deficits, higher interest payments, higher taxes and reduced spending on past and current programs is the prospect.

And much the same is true in most of the other nations of the western alliance. Italy faces an overwhelming budget deficit, an enormous debt, with 10% unemployed. The inefficiency of the public sector is legendary. Britain is having its longest postwar recession with unemployment above 9% as a result of the mistaken policy of joining the European monetary system at a disadvantageous exchange rate. A stubborn government has allowed the economy to shrink rather than admit its error. The budget is in deficit. There is no early prospect of sizeable tax reduction to give the public the peace dividend that its patience and commitment earned.

Instead, each of these countries offers “loans” to Eastern Europe and the states of the former USSR. Most of these loans will not be repaid. They are gifts or grants that, in many cases, will sustain in power the very same bureaucrats and apparatchiks who made life miserable for their own people. The citizens of the western democracies can see no end to the subsidies, gifts and grants, to eastern countries or to quota increases for the International Monetary Fund and World Bank that are used for the same purpose. Are they not right to be dissatisfied?

Too Big, Too Small

Dissatisfaction with the performances of government reflects more than just the difference between promises and performance or the mistakes that wasted the peace dividend. In a fundamental sense, governments are remote from many problems.
They are both too big for some of their problems and too small for others.

In many parts of the world, there are major structural changes in responsibility and authority in the offing. European governments are committed to greater centralization. National governments will cede more power to a supra-national authority, the European Community. Part of the change has occurred and will not be reversed. Authority over trade, regulation, competition and parts of taxation is at the Community level. These powers will expand with the single market and with the decision to move toward a single currency. Defense and foreign affairs are now discussed at the Community level. Immigration, pollution, and social policy are on the table. Agreement to centralize control of these matters has not yet been reached. The direction of change is clear even if the speed of change and the final division of authority between the nations and Community is in doubt.

Others in Europe seek to enter the Community or to affiliate with it. This requires a transfer of sovereignty that Sweden, Finland, Switzerland, Austria, Poland, Czechoslovakia, Slovenia, and Hungary will make to one or another degree. Others will almost certainly follow.

The U.S.-Canadian trade agreement provides for a bi-national commission to resolve trade disputes. Canada would not agree to move toward a free trade area with the U.S. until the U.S. agreed that the decisions of the bi-national commission could not be overturned unilaterally by the U.S. Congress. The U.S. made the concession, surrendering a bit of sovereignty and moving the locus of decision-making away from the national governments.

The decision to protect U.S. and other interests in the Persian Gulf was made with the consent of the Security Council of the United Nations. Decisions to intervene in Bosnia were, again, debated and approved by the Security Council. These decisions are multilateral, very different from the decisions to fight in Vietnam, to send troops to Lebanon or Canada, or to support the contras in Nicaragua, the rebels in Afghanistan, or the Israelis. Key foreign policy decisions have been transferred to a supra-national authority, at least in part. Once established, this precedent will limit national, and increase super-national, authority.
The Rio Summit should be seen as an effort to move decision-making about environmental policy away from national governments. The organizers of the Rio Summit want to choose rules for the use of technologies, require technology transfer, and exact payments from the developed countries. They want to use the environmental problem to shift power to themselves. The U.S. balked, but most of the world went along.

Some changes in the locus of power may be required to find workable solutions, but there is much reason for skepticism on that score. There can be no doubt, however, that by moving decisions to supra-national authorities governments recognize their inability to solve problems at the national level.

Side-by-side with the movement toward supra-national authority there is a movement toward decentralization of decisions. In Wales, Scotland, Lombardy, Slovakia, Slovenia, Croatia, Quebec and the many parts of the former USSR, people seek local autonomy. The national government seems remote. Local government offers a chance for the citizen to have more control over the decisions affecting his or her well being.

In the United States, basic decisions about abortion have been returned to the local community. One standard for the country proved too contentious to be practicable, just as it had for pornography a generation earlier. Education, social welfare, and others will follow. Some like welfare standards have already done so.

These shifts in the locus of power are a response to voter dissatisfaction with the performance of national governments. National governments are unable to satisfy the different demands of local groups and appear clumsy and bureaucratic when applying general policies to groups with different tastes or interests.

A generation ago, pornography was a contentious issue. The Supreme Court tried to apply a common standard everywhere. In the end, they allowed more local choice and more reliance on community standards. When, or if, this happens on a large scale, some of the current malaise will vanish in those communities where citizens will have a larger voice in matters affecting their lives.
Conclusion

Current malaise cannot be explained fully by either the current recession or the widely repeated claim that the current generation will be poorer than its parents. The recession is mild by any reasonable standard of comparison. Malaise is as apparent in many European countries as in the United States. Not all are in recession.

It is irrational to believe that the children of the baby boom will be poorer. Per capita income and wealth continue to rise secularly. The baby boomers will soon begin to inherit the wealth built up by their parents. Defense costs will fall, eventually providing resources for other uses.

Growth has slowed in much of the western world and in Japan. Slower growth means slower increases in incomes and wealth, not declines. No doubt the slower growth of incomes contributes to the current malaise in many countries. But the slowdown in growth occurred in the 1970s. It has been with us for a long time.

What has changed is the belief that government, particularly national governments, can solve major social problems. Government programs often proved to be expensive and ineffective, promising much and delivering little. At times, governments cannot agree on a budget or put its fiscal affairs in order, as in the United States or Italy. Governments are unable to keep the streets safe or protect the ordinary citizen from crime. Though unable any longer to perform these traditional tasks adequately, governments or politicians promise solutions to more complex social problems. Governmental attempts at solution often left the problems harder to solve.

There are other factors -- factors common to several of the countries where dissatisfaction is high. There is a desire for reform of government, to give back some of the power -- and the money -- surrendered during the cold war. There is a desire, too, to eliminate many of the costly failures whether they are called a war on poverty, a reconstruction of the Mezzogiorno, or the unification of the two Germanies.