7-1-1979

Government and the Citizen

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Government and the Citizen

by Murray L. Weidenbaum

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This booklet is one in a series designed to enhance the understanding of the private enterprise system and the key forces affecting it. The series will provide a forum for considering vital current issues in public policy and for communicating these views to a wide audience in the business, government, and academic communities. Publications will include papers and speeches, conference proceedings, and other research results of the Center for the Study of American Business.

PUBLICATION NUMBER 25 JULY 1979

Government and the Citizen

Budgets are not mere matters of arithmetic, but in a thousand ways go to the root of prosperity of individuals, and relations of classes, and the strength of kingdoms.

—William Gladstone

Discussions of governmental organization and fiscal policy generally conjure up visions of Ebenezer Scrooge, green eyeshades, boring accounting reports, and trivia. Contrary to this view, and in line with the statement of the nineteenth-century British prime minister, decisions on the federal budget and federal programs fundamentally affect our national life and our individual well-being.

Most analyses of the role of government in the United States, however, have missed the central point. It is not so much a question of size of government, although that is not a trivial concern and is worthy of some of our attention. Rather, it is a matter of pervasiveness, "a thousand ways" in Gladstone's phrase.

THE SIZE OF GOVERNMENT

Surely government revenues and disbursements (and often deficits as well) are rising steadily, however measured. Federal outlays

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are scheduled to cross the half-trillion-dollar point during fiscal year 1979, a doubling since fiscal 1973. In 1973, budget outlays equaled 20 percent of the gross national product. By 1979, the ratio is estimated to be 22 percent. During the same six-year period, federal receipts have been rising substantially, but not at the same rapid pace. Thus, the budget deficit is expected to reach $60 billion in fiscal 1979, a fourfold growth from 1973, and a rising claim on the nation's supply of savings available for investment.[1]

But far more important than the absolute or relative size of the dollar flows is the fact that government is intervening, on an increasing scale, in the daily lives of its citizens. Decisions by one or more federal agencies can alter, influence, or even determine how much money we make, how much we can spend, what we can buy with it, how we can use the goods and services that we own, and of course how we go about earning our daily living. It is no exaggeration to state that governmental decisions also increasingly affect what we wear, what we eat, and how we play.

Before we go into the specifics of these numerous governmental-individual relationships, it is instructive to examine some of the key trends within the federal budget. It has become fashionable to point out, and quite accurately, that government spending is no longer dominated by military programs. Since fiscal year 1974, the various "income security" programs (the transfer payments such as Social Security benefits, welfare payments, and unemployment compensation) have become the largest category of federal disbursements.

In fiscal year 1979, the federal government will spend an estimated $160 billion on income security programs, or 32.0 percent of the budget. In contrast, national defense spending is budgeted at $118 billion for the year, or 23.6 percent of the total, a far lower proportion than a decade ago. Clearly, the United States is not in the "grip" of a military-industrial complex, as uninformed critics continue to charge. The shift in federal spending patterns is an important change. It has begun to receive the attention that it deserves.

But another development is occurring in the federal budget, which has generally been overlooked. The most rapidly growing area of federal spending in recent years is neither warfare nor welfare.

1. *Budget of the United States Government for the Fiscal Year 1979* (U.S. Government Printing Office, 1978).

Rather, it is the regulatory activities of the public sector. The budgets of the numerous federal regulatory agencies are increasing from $2.2 billion in fiscal year 1974 to $4.8 billion in 1979, a 115 percent rise in five years[2] (see Table 1). The initial reaction to this state of affairs may be to downgrade the importance of "only" $5 billion in a $2 trillion economy. But that would constitute jumping to a premature and essentially inaccurate conclusion.

There is a powerful multiplier in effect here. The typical regulatory agency generates private compliance costs far in excess of its own outlays. The Occupational Safety and Health Administration, for example, operates with a yearly budget of $100 million. But it takes over $3 billion a year in new capital outlays for companies to follow the many standards that OSHA promulgates. The regulatory functions of the Environmental Protection Agency are budgeted at $200 million a year, but industry's annual compliance cost is over $7 billion.

A recent report prepared at the Washington University Center for the Study of American Business estimates that the aggregate cost of complying with federal regulations exceeded $62 billion in 1976. Direct federal outlays to finance the regulatory agencies came to "only" $3.2 billion that year, for a multiplier of over 20.[3]

As in the case of the activities covered by the other areas of the federal budget, it is not merely a matter of dollars, although the total sums are quite imposing. Rather, it is the staggering arsenal of power that the American society, often unwittingly, has bestowed upon government officials. Let us examine some of the specific impacts of this expansion in the governmental role in private-sector behavior.

THE SCOPE OF GOVERNMENT

2. Robert DeFina and Murray L. Weidenbaum, *The Taxpayer and Government Regulation* (Washington University Center for the Study of American Business, March 1978).

3. Robert DeFina, *Public and Private Expenditures for Federal Regulation of Business* (Washington University Center for the Study of American Business, Working Paper No. 22, November 1977).

Table 1

RISING BUDGETS FOR FEDERAL REGULATION
(Fiscal Years, Dollars in Millions)

Area of Regulation	1974	1975	1976	1977	1978	1979	Increase 1974–79
Consumer safety and health	$1,302	$1,463	$1,613	$1,985	$2,582	$2,671	105%
Job safety and other working conditions	310	379	446	492	562	626	102
Environment and energy	347	527	682	870	989	1,116	222
Financial reporting, and other financial	36	45	53	58	70	69	92
Industry-specific regulation	245	269	270	309	340	341	39
Total	2,240	2,683	3,064	3,714	4,543	4,823	115

Source: Center for the Study of American Business

How Much Money Can We Keep for Our Own Use?

The federal budget is a major income-redistribution mechanism. It determines, to a substantial extent, how much of his or her income a citizen can keep for personal expenditures and how much shall be taxed away in good measure to finance income payments to other individuals. We need to understand the basic income-equalizing nature of the progressive federal income tax. To be sure, many writers claim the reverse, that "the rich pay less, so the poor pay more."

That, very frankly, is the big lie in tax reform discussion. It is a classic case of looking at the hole instead of the donut. To be sure, upper-income classes receive the bulk of the special tax incentives (often labeled with such pejorative terms as "loopholes" or "tax expenditures"). But, despite those special tax provisions, the same upper-income classes also pay a large share of all the federal income taxes collected. On the average, the higher your income, the more federal income taxes you pay, both absolutely and as a proportion of your income. In 1976, for example, the average effective rate (federal personal tax payments as a percent of total income) was 5.5 percent for taxpayers in the $5,000–$10,000 bracket, 13.8 percent for the $20,000–$30,000 bracket, and 30.0 percent for the $200,000 and over bracket.[4] As shown in Table 2, the progressive nature of the federal income tax extends through all income levels. Similar results have been reported for earlier years.[5]

And where do those tax dollars go? As we have already seen, the largest share of the budget is devoted to transfer payments and other programs designed to help low-income people. Unfortunately, the many billions of dollars that the federal government spends to provide food stamps, Medicaid, Medicare, and public housing do not remove a single person from poverty, simply because the official

4. *Statement of Emil M. Sunley, Deputy Assistant Secretary of the Treasury (Tax Analysis) Before the Task Force on Tax Expenditures of the House Budget Committee,* Washington, D.C., February 23, 1978, p. 7.

5. See *National Journal,* March 19, 1977, p. 423; Joseph A. Pechman, "The Rich, The Poor, and the Taxes They Pay," *Public Interest,* Fall 1969; Benjamin Okner, "Individual Taxes and the Distribution of Income," in James D. Smith, ed., *Studies of Income and Wealth* (National Bureau of Economic Research, 1975).

Table 2

THE BURDEN OF THE FEDERAL PERSONAL INCOME TAX
(1976 Levels of Income; in millions of dollars)

Income Class ($000)	Number of Returns (thousands)	Estimated Income	Personal Income Tax Liability	Effective Tax Rate
0–5	25,474	57,557	141	0.2%
5–10	20,109	149,590	8,227	5.5
10–15	16,106	201,036	18,071	9.0
15–20	11,824	205,086	23,009	11.2
20–30	9,907	237,041	32,778	13.8
30–50	3,347	124,836	22,017	17.6
50–100	985	67,484	16,492	24.4
100–200	198	27,371	8,084	29.5
200 and over	49	21,573	6,476	30.0
Total	87,998	1,091,573	135,293	12.4

Note: Details may not add to totals due to rounding.
Source: U.S. Department of the Treasury.

statistics are stated in terms of money income alone. Adjusting for the dollar value of these payments "in kind" reveals that the average income of those officially counted as poor in 1973 was 30 percent above the official poverty line.[6]

The reader should be cautious in applying these averages to individual cases. The data do not mean that each and every family officially designated as being in poverty in 1973 received (including government transfer payments in cash and in kind) far more than enough income to pull themselves above the poverty line. Rather, the data indicate that numerous inequities exist. A great many of the recipients of these federal programs did receive an extraordinarily generous share, while others in similar circumstances obtained inadequate amounts (which is a case for reforming and not necessarily expanding the welfare programs).

In any event, much of the tax payments made by middle- and upper-income taxpayers winds up as income to poorer segments of the society, be they in poverty or not. That is, the distribution of income in the United States is more equal after taxes and government expenditures are taken into account.

What Can We Buy and How Can We Use the Goods and Services That We Own?

Government affects the lives of its citizens in many other ways. There are very few items of consumer expenditures that escape regulation by one or more federal, state, or local government agencies. The following is merely a representative sample:

Category	Regulatory Agency
Air travel	Civil Aeronautics Board
Automobiles	National Highway Traffic Safety Administration
Bank deposits	Federal Deposit Insurance Corporation
Boats	Coast Guard

6. Edgar K. Browning, *Redistribution and the Welfare System* (American Enterprise Institute for Public Policy Research, 1975).

Bus travel	Interstate Commerce Commission
C.B. radios	Federal Communications Commission
Cigarettes	Public Health Service
Consumer credit	Federal Reserve System
Consumer products, generally	Consumer Product Safety Commission
Consumer products containing chemicals	Environmental Protection Agency
Cosmetics	Food and Drug Administration
Credit union deposits	National Credit Union Administration
Drinking water	Environmental Protection Agency
Drugs	Food and Drug Administration
Eggs	Agriculture Marketing Service
Election campaign contributions	Federal Election Commission
Electricity and gas	Federal Energy Regulatory Commission
Firearms	Bureau of Alcohol, Tobacco, and Firearms
Flood insurance	Federal Insurance Administration
Food	Food and Drug Administration and Department of Agriculture
Land (interstate purchases)	Office of Interstate Land Sales Registration
Livestock and processed meat	Packers and Stockyards Administration
Meat and poultry	Animal and Plant Health Inspection Service
Narcotics	Drug Enforcement Administration
Newspaper and magazine advertising	Federal Trade Commission
Petroleum and natural gas	Department of Energy
Physician fees	Professional Standards Review Organization
Railroad travel	Interstate Commerce Commission
Savings and loan deposits	Federal Home Loan Bank Board
Stocks and bonds	Securities and Exchange Commission

The nature of regulation varies by product and government agency. In some cases, the focus is on the price charged to the consumer, as in the case of the Civil Aeronautics Board and the Interstate Commerce Commission. In other instances, such as the Food and Drug Administration and the Consumer Product Safety Administration, the emphasis is on safety in product characteristics. Still other agencies regulate the method of marketing the product (such as the Federal Trade Commission and the Office of Interstate Land Sales Registration) or financing the sale (the Federal Reserve System). On occasion, regulation is aimed at restricting sales to certain types of buyers (Bureau of Alcohol, Tobacco, and Firearms) or limiting the amounts that can be spent (Federal Election Commission).[7]

7. For details, see Murray L. Weidenbaum, *Business, Government, and the Public* (Prentice-Hall, 1977).

A more subtle type of regulation may be in the offing in terms of establishing dietary goals for the American public as part of "the evolution of a national nutrition policy." This is the objective stated by Senator George McGovern, chairman of the Senate Committee on Nutrition, in issuing the committee's new report, *Dietary Goals for the U.S.* The committee report contends that Americans can improve their health by eating more fruits, vegetables, and whole grain cereals, and less animal fat. The report states that the intake of sugar should be reduced by about 45 percent and should account for 10 percent of the average individual's energy intake.[8]

Despite the firm recommendations in the Senate committee report, there seems to be a lack of consensus among nutrition scientists and health professionals. Dr. Kelly M. West of the University of Oklahoma has been quoted as expressing concern that, if dietary sugar is reduced, the calories might be partly replaced by fat. He points out that, under some conditions, low-fat diets are more tolerable when sugar is available as an attractive substitute for the proscribed fat. He sees no hard evidence that sugar is fattening.[9] These are some of the problems that can arise if the federal government attempts to regulate more closely literally what we eat.

How Can We Go About Earning Our Daily Living?

A wide array of federal agencies is involved in regulating the working lives of Americans, in their capacities as employees and employers. From the point of view of the average employee, one or more government agencies are involved in the selecting, training, promotion, and retirement aspects of the job.

Whether an individual is hired or not and whether he or she is retained by the employer can be influenced in many ways by actions of government agencies. The National Labor Relations Board conducts elections governing union representation of workers. Under a "union shop" agreement, workers must—as a condition of continuing employment—join the certified union within a certain time period and pay dues to it regularly. The Equal Employment Oppor-

8. "Revised 'Dietary Goals' Emphasizes Reduction of Sugar Intake for U.S.," *NDSA Bulletin*, February 27, 1978, pp. 1–2.
9. Ibid., p. 2.

tunity Commission investigates charges of employment discrimination on account of race, sex, or national origin and can file charges in behalf of individual employees and groups of employees. If the company is a government contractor, it must follow an approved affirmative action program for designated categories of "disadvantaged" employees, including blacks, women, disabled people, veterans, and persons with Spanish surnames.

Training and promotion of employees are also under the jurisdiction of each of these federal agencies. In addition, the regulations of the Occupational Safety and Health Administration often require substantial training efforts. The work environment, likewise, is subject to regulations or influence of OSHA, EEOC, and the NLRB. Compensation and fringe benefits are affected by each of these agencies, which can file charges for violations of one or more requirements. In addition, the company's pension fund is subject to approval by the Internal Revenue Service. The power to disallow as tax-deductible business expenses employer contributions to pension plans which do not meet federal standards is, of course, a powerful weapon.

From the management's view, basic aspects of operating authority have been taken over, in whole or in part, by various governmental agencies. In some industries, the government must give its approval before a company can go into business. In such specialized areas as nuclear energy, we might expect to see the reversal of the normal process whereby individuals decide who will enter a line of business and market forces determine who will stay. However, such governmental assumption of the traditional role of the market has become commonplace. The Civil Aeronautics Board, to cite an example of required governmental advance approval, has not certified a single new passenger airline since the agency was established in the 1930s.

A more commonplace example is interstate trucking. A potential new entrant must convince the Interstate Commerce Commission that another company is "needed" before it will grant the necessary authority to operate on a given route. As would be expected, existing competitors usually contend, when they are invariably asked by the ICC as part of the approval process, that they are adequately meeting the public's needs and that no additional competition is necessary.

A recent case in point involved Allstates Transcontinental Van Lines, Inc., a small, black-owned, mover of household furniture in St. Louis, operating a fleet of thirteen trucks. The ICC has repeatedly denied the company's application to be certified for handling interstate shipments, thus limiting the company to the far smaller local hauling market. The existing interstate movers contend that there is no "need" for another competitor, that they are capable and willing to meet the requirements of the business.[10]

In the case of other regulatory programs, a company must obtain the approval of a government agency before it can sell a new product. This has become the standard practice in the pharmaceutical area and, as a result of the passage of the Toxic Substances Control Act, will soon become the order of the day in the broader chemical field.

When a company can proceed with producing a new product, it soon finds that a variety of agencies is involved in the production process. The Occupational Safety and Health Administration has established a multiplicity of standards governing an almost infinite variety of production processes and working conditions. Affirmative action programs require redesigning the workplace to make job opportunities available for disabled workers. The Environmental Protection Agency is concerned that production processes do not pollute the environment. The Department of Energy is involved in minimizing the use of natural gas and petroleum. On occasion, that agency requires companies to shift to coal where previously the same companies were forced by the Environmental Protection Agency to switch from coal to petroleum.

The multiplicity of regulators and regulations has, of course, increased the likelihood of an individual firm being caught in the crossfire of conflicting directives. One company attempted to install an elevator for its handicapped workers as a part of its affirmative action program. The company was delayed for six months by the EPA's insistence that it file an environmental impact statement. Federal food standards require meat packing plants to be kept clean and sanitary. Surfaces which are most easily kept clean are usually tile or stainless steel. But these are highly reflective of noise, and may not meet OSHA noise standards. Coal must be combined with

10. Robert L. Joiner, "Moving Experience—Frustrated Trucker Refuses to Yield to Industry Giants," *St. Louis Post-Dispatch*, February 8, 1978, pp. 1 ff.

lime in order to remove the sulfur and thereby reduce air pollution. But this generates large quantities of waste calcium sulfate, the disposal of which contributes to water or surface pollution.

Both OSHA and FDA regard the presence of rats in a food processing plant as an unacceptable hazard. To OSHA, the rats are a danger to employees. To FDA, they are a menace to consumers. But the procedures for ensuring compliance with the regulations differ for the two agencies. An FDA inspector can fine a company if he or she convinces the local U.S. attorney to prosecute the case and if the government wins the lawsuit. In contrast, the OSHA inspector can cite and fine the company on the spot. Thus, because of overlapping jurisdiction and different regulations, the outcome literally depends on who smells the rat first.

Once a product is produced, virtually every aspect of the marketing function is affected by government—advertising, packaging, labeling, and distribution. An examination of the new FDA regulations on saccharin reveals the depth of the governmental intervention. In postponing a ban on saccharin, the Congress passed a statute in November 1977 requiring warning labels on food containing saccharin and specifying that posters be placed in retail stores that sell such food. FDA showed great enthusiasm in carrying out the legislative mandate. It specified the location of the warning (a "conspicuous" place on the label, usually on each principal display panel, and immediately above or below the product name), the type to be used (boldface, with each letter at least one-sixteenth of an inch high), and the exact language of the warning (24 words). For the posted notice, FDA prescribed the minimum size (11 by 14 inches), the number and location of the posters (three: one near the store's entrance, another in the aisle where soft drinks containing saccharin are sold, and the third where the largest amount of other saccharin-containing food is sold), the exact language (75 words), and a requirement that *each* supplier of saccharin-containing food give each retail store the full quota of three posters.[11]

That recent action may be indicative of the shape of things to come, at least under present conditions. The commissioner of the Food and Drug Administration, Dr. Donald Kennedy, stated in the February 1978 issue of the agency's house organ, "I think advertising is too little regulated now as it relates to health products. There are some very real questions in my mind as to whether some products should be advertised at all, or whether they should be advertised to certain groups of people, such as children."[12]

"Caveat emptor" (buyer beware) is a concept rapidly being relegated to the business history books. As Jules Backman and John Czepiel have written, the marketing strategist of today must be "a broken field runner" covering the field between what his or her company can and wishes to do, what the consumer desires, and what government allows or requires.[13] In a more fundamental sense, the extent of governmental intervention in private activity continues on a growth trajectory, be it in the form of redistributing income or regulating the details of the role of the citizen as producer and consumer.

How We Play

It is no exaggeration to state that the federal government has become involved in how individuals spend their leisure time. Some of the government's activities may be quite harmless, albeit silly. An example is the Consumer Product Safety Commission's safety tips on winter sports. That publication contained such gems of information as "A number of accidents happened when the skier was tired" and "Skiers should use good quality equipment that fits well."

A more serious case involves government directives for the conduct of school athletic programs. The Department of Health, Education, and Welfare has recently ordered the schools in Oak Ridge, Tennessee, to see to it that cheerleaders "cheer equally" for both boys' and girls' varsity teams. As columnist George Will noted, it is unclear whether "equally" means with equal loudness, which can be measured mechanically, or with equal spirit, which cannot be measured.[14] Oak Ridge must also take action to recruit "equal numbers of male participants" or abolish the cheerleader squad.

11. "Rules Issued on Saccharin Warning Label," *FDA Consumer*, February 1978, pp. 4–5.

12. "Better Regulation Through Labeling," *FDA Consumer*, February 1978, p. 16.

13. Jules Backman and John Czepiel, eds., *Changing Marketing Strategies in a New Economy* (Bobbs-Merrill, 1977), p. 19.

14. George F. Will, "HEW Is Ludicrous—But Not Funny," *St. Louis Globe-Democrat*, March 9, 1978, p. 10A.

A LOOK AT THE FUTURE

Human wants are insatiable, or at least that is what is taught in Economics 1. That has been the general case in the federal public sector in the United States. The list of new and worthy "priorities" is almost endless, ranging from a clean environment to safe consumer products to domestic energy independence. In theory, of course, the notion of "priorities" indicates an ordering—that not everything is of equal importance. New and higher priorities thus shove down or out the older, or at least now less urgent, priorities.

But a different type of adjustment has been occurring in the public sector in this nation in recent years. The new federal priorities have not tended to push out older federal priorities, but merely have been superimposed upon them. Tough decision-making choices have tended to be avoided. Thus, in general, new public priorities have resulted in expanding the size of the public sector at the expense of private resources. But there now is a reluctance to increase any further the federal share of gross national product at the expense of the private sector.

Despite the improvements that have resulted from the Budget Reform Act of 1974, there is as yet no effective mechanism for substituting new priorities for old within the federal government. Thus, we are seeing a standstill in public policy, the new federal budget for fiscal year 1979 being a cogent case in point. Virtually no new expenditure initiatives have been proposed by President Jimmy Carter. The emphasis is on keeping down the overall growth of government spending. From some points of view, this may be a happy situation, avoiding a further expansion of the public sector, but it is doubtful whether this is a stable, long-term situation. The possibility emerges of another round of budget expansion contributing, in turn, to an acceleration of inflationary pressures.

The situation in the area of governmental regulation is analogous. Increasingly the consumer is feeling the impact of the ever more costly array of federal intervention in business decision making. In both areas of governmental activity, budgetary and regulatory, the need is for new ways of truly reordering national priorities within the context of the obvious limitations on the willingness of the

citizenry to bear ever greater tax burdens and/or reductions in private income flows and living standards.

For specific government programs, both those involving making expenditures as well as using rule-making authority, economics offers a straightforward mechanism for assisting decision makers: benefit/cost analysis. Although looked upon by many as a "green eyeshade" device, the benefit-cost approach can take on more substantive significance when properly used. The basic notion is that governmental decision makers should carefully examine the disadvantages as well as the advantages of their proposed actions.

That examination should be made from the perspective of the society as a whole, rather than reflecting the viewpoint of any specific government agency or private interest. Moreover, in the course of the analysis, the most economical and effective means of achieving the public purpose should be identified. Thus, properly performed, benefit-cost analysis is a useful tool in raising the sights of public policy makers and in assuring that—at least to the extent that the effects can be measured—government does more good than harm in the things that it undertakes.

In the final analysis, it is a new way of thinking about government that is required: the notion that, because society's resources are limited, government cannot attempt to meet every demand of every group within the nation. Those resources, moreover, are more than economic or financial. As has been demonstrated in both military and civilian areas in recent years, there are severe limits to what government can accomplish. Organizational and managerial ability in the public sector, as elsewhere, is in short supply. Society has given government many important responsibilities, ranging from maintaining the national security to providing a system of justice. It is important that government do well those tasks that it attempts to perform.

Economizing and selection devices serve an important role. At the "macro" or aggregate level, budget ceilings serve that function while they simultaneously can contribute to the government's overall economic policy. At the "micro" or programmatic level, various forms of systematic analysis—be they benefit-cost calculations, cost-effectiveness measures, or even nonmathematical arrays of pros and cons—can serve useful functions. Rather than a defense of the status quo, these procedures can help to identify existing government activities of low priority which might be replaced by newer undertakings of higher priority.

A final thought along these lines is that the public policy maker needs to be conscious of what often is an unintentional bias—looking instinctively at government for dealing with the problems of society, while overlooking the capacity of the private sector and market competition to deal with many of these questions. Far too frequently, it has been governmental interference with private markets that has generated or exacerbated problems of rapid inflation, high unemployment, low productivity, and slowdowns in innovation.[15]

—Murray L. Weidenbaum

15. See Murray L. Weidenbaum, *Government-Mandated Price Increases* (American Enterprise Institute for Public Policy Research, 1975) and *Business, Government, and the Public.*