Economists on the Welfare State and the Regulatory State: Why Don't Any Argue in Favor of One and Against the Other? A Symposium Prologue

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LINK TO ABSTRACT

Suppose that you, situated in the United States, encounter some particular American economist for the first time, and upon doing so you see that she leans against the welfare state. You would then expect, I think, that she leans against the regulatory state, too, or at least not toward it. And, conversely, when you encounter an economist who leans *toward* the welfare state, you guess he also leans toward the regulatory state, or at least not against it. The two policy realms—the welfare state and the regulatory state—tend to elicit parallel positions, for any given economist.

Leading figures illustrate the conjecture: Friedrich Hayek, Milton Friedman, and James Buchanan all leaned against the welfare state and against the regulatory state. John Maynard Keynes, Paul Samuelson, and John Kenneth Galbraith all leaned toward both. And among leading public-discourse economists we see the same sort of pattern over the two policy realms, as suggested by Figure 1.

Several qualifications need to be discussed, of course, most importantly, that many economists are neutral, reticent, in the middle. But, is it possible to find an economist who argues in favor of the welfare state and yet also against the regulatory state? And, is it possible to find an economist who argues against the

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welfare state and yet in favor of the regulatory state? I am unable to identify a person of either sort.

Figure 1. Two sets of American economists

Robert J. Barro	Henry J. Aaron
John H. Cochrane	Eileen Appelbaum
William Easterly	Dean Baker
David Friedman	Alan Blinder
David R. Henderson	J. Bradford DeLong
Arnold Kling	Nancy Folbre
Steven Landsburg	James K. Galbraith
N. Gregory Mankiw	Paul Krugman
Deirdre McCloskey	Robert Kuttner
Jeffrey Miron	Lawrence Mishel
Mario Rizzo	Michael Perelman
Russell Roberts	Robert Reich
Vernon Smith	Jeffrey Sachs
Thomas Sowell	Robert Solow
Scott Sumner	Joseph Stiglitz
many GMU economists	Mark Thoma

So, although not everyone is in either the anti-and-anti 'corner' or the pro-and-pro corner (because many are, in one or both realms, strewn in between or simply reticent), there seems to be no one in either of the off-diagonal corners, that is, in the anti-and-pro corner or the pro-and-anti corner. Such impression is verified by data from surveys of economists, as shown below.

The question is: Why? Is it because the arguments regarding the welfare state are quite similar to those regarding the regulatory state? If true, that would explain it: Embracing the case for (against) the welfare state, one naturally also embraces the basically similar case for (against) the regulatory state.

But it isn't clear that the arguments regarding the welfare state are so similar to those regarding the regulatory state. If the cases for (against) are similar in the two policy realms, we would like to see the similarity: What is the case (whether for or against) that applies to issues of both policy realms? How are issues of progressive taxation, redistribution, and universal government provision so much like, say, the issues of public utility regulation, antitrust, consumer protection, workplace safety and labor standards, environmental protection, financial regulation, insurance regulation, land-use controls, housing regulation, agricultural regulation, healthcare regulation, transportation regulation, energy regulation, and so on?

One may say that the welfare state generates dependencies and deadweight losses and is therefore ill advised. Okay, but why can't one say that but approve of most of our government interventions to deal with market imperfections of various sorts?

And, inversely: One may say that charity or redistribution by voluntary means is a free rider problem, and hence a public goods problem, and hence that government should use its special powers to address that. Okay, but why can't one say that and then also say the government should lay off, or at least just lighten up, when it comes to most regulatory issues?

The arguments regarding redistribution do not seem to be much like those regarding, say, consumer protection or antitrust. Why don't we see a wider variety of mixing and matching?

Jonathan Haidt (2006; 2012) has likened the mind to an elephant carrying a human rider. He writes:

> *[T]he mind is divided, like a rider on an elephant, and the rider's job is to serve the elephant.* The rider is our conscious reasoning—the stream of words and images of which we are fully aware. The elephant is the other 99 percent of mental processes—the ones that occur outside of awareness but that actually govern most of our behavior. (Haidt 2012, xiv, italics in original)

Haidt's metaphor is tempting. Economists clearly disagree greatly on many important matters. Each economist is likely to say that *opposing* economists are letting their elephants carry them away, that they are failing to guide their elephants. Each of us will be tempted to think that *some* economists are carried away by fundamental allegiances of some kind, allegiances that impel one to lean consistently in the same direction on mainstream issues of policy reform.

As I see it—and I see as a pragmatic libertarian or classical liberal—the best way to formulate the most important dimension of reform is as making social affairs either more or less governmentalized. In that dimension, one direction is the governmentalization direction; it consists of defending or advancing such things as intervention, taxation, and government as player in social affairs (as benefactor, employer, creditor, owner/operator of resources, facilities, etc.). The other direction, the degovernmentalization direction, consists of defending or advancing the contrary features: free private action and ownership, liberalizing or repealing interventions, reducing taxation, and downsizing government as a player in social affairs.

Maybe for some economists the elephant and the rider work together. Maybe you are such an economist: Your elephant and your rider basically agree on where to go, and they just help one another. The thing to which you give your faithful allegiance is sound, responsible, proper, and virtuous judgment. But if so, and assuming that your positions in the two realms are broadly parallel, what is your

rider's explanation for the parallel positions on the welfare state and the regulatory state?

Perhaps you will articulate the reasons for your positions in both realms. But will two economists, one anti-and-anti and one pro-and-pro, both do so? If not, is it fair to suspect that the policy-position profile of one or both sorts is determined by an unarticulated allegiance of some kind?

If so, what then explains that unarticulated allegiance? May we conjecture that it derives from subterranean dispositions and penchants?

If the two economists were asked about the matter, perhaps *both* would say:

> "*I* can articulate the reasons that justify my positions in both realms,
> but those other economists are ideologues. They are acting out in a way
> to preserve a misguided allegiance. I guide and control my elephant;
> they are carried away by their elephant and rationalize its movements."

If both said that, would they be able to resolve their disagreement?

The thing to be explained is the observed pattern of policy positions among economists, particularly the emptiness of the off-diagonals. My goal here is not to offer an explanation, but to entice others to do so. In what follows I specify the thing to be explained, the explanandum, and then pose questions to prompt explanations.

The thing to be explained

In contrasting the two sets of economists in Figure 1, we do not want to overstate the differences. First, let's think in terms of the point of view from the status quo, and then focus on *whether the economist contends one way or the other* from that '50-yard line.' The contrast is not so much about ideal destinations, a vision of an 'end zone,' but patterns of contending, and how strongly one contends one way or the other. Friedrich Hayek and Milton Friedman both wrote things agreeable to some basic welfare-state functions, but leaned against expansions in the welfare state and in favor of reducing its size and scope. Similarly, virtually all the economists in the second column of Figure 1 have endorsed proposals to raise the minimum wage to about \$10,[2] but those same people probably would not support

2. A 2014 petition to raise the minimum wage (**link**) was signed by all of the economists in the second column of Figure 1 except for Robert Kuttner and Paul Krugman, who endorses doing so in Krugman (2013).

raising it to $20. So our conceptualization of positions is framed in terms of *direction of reform* from the status quo, not in terms of ideal destinations.

Second, in observing whether the economist contends one way or the other we observe the important phenomena of *not contending one way or the other.* At the 50-yard line, one may posture oneself squarely there—either steadfastly, withstanding pressure from either direction, or aloofly, quietly, taking no part in struggle. Consider the case of Robert H. Frank. He defends tax progressivity and advocates making it steeper. When it comes to the regulatory state, however, it is my impression that on the whole he does not particularly contend one way or the other. Our explanandum recognizes that many economists are strewn through the middle of the two dimensions. But there is still a notable pattern: No one actively contends pro-and-anti or anti-and-pro: The off-diagonals are largely empty.

Third, let me clarify two sides of *contending.* An economist who contends in favor of the welfare state might have two roles to play, 'defense' and 'offense.' When the opposing team, as it were, advocates reductions in the welfare state, he may defend or justify current welfare state measures so as not to lose ground. At other times he may seek to gain ground by advocating expansions of the welfare state, putting the opposing team on defense. The two sides of contending are worth separating, if only because the abstention from defending the status quo puts fine points on our explanandum: Some anti-regulatory state economists might, it is true, not advocate reductions in the welfare state, but, still, it is remarkable how rarely we find them defending against reductions in the welfare state. And some pro-welfare state economists might, it is true, not advocate expansions of the regulatory state, but, still, it is remarkable how rarely we find them defending against expansions of the regulatory state. Such abstentions from defending the status quo are especially notable because, generally, the status quo enjoys a certain presumption.

Finally, I have spoken of two sets of issues, 'the welfare state' and 'the regulatory state.' These denominations are best discussed in conjunction with the survey data. The main question becomes: Which policy questions will be denominated as a welfare-state issue, and which a regulatory-state issue?

Data from 2010 survey of economics professors

In 2010, William Davis, Bob Figgins, and I conducted a large survey of economics professors in the United States. We believe the survey was of quite high quality, but there is one concern: The 299 respondents constituted a response rate of only 15.2 percent. A description of the survey is found in Davis et al. (2011, 127-128). We explain there why, despite the low response rate, we feel comfortable

proceeding on the presumption that the sample is more or less representative. The survey instrument and complete data are available **here**.

The survey included 17 policy questions, all of which took the form as shown in the sample statement below:

Each of the policy-issue questions offers a reform in relation to the status quo. Please mark your disposition toward each.

Higher minimum wages:

☐	☐	☐	☐	☐	☐
support strongly	support, not strongly	neutral	oppose, not strongly	oppose strongly	have no opinion

The 17 reforms offered were:

Q10. Higher minimum wages

Q11. Tighter restrictions (e.g., tariffs and quotas) on imported goods

Q12. Tighter requirements for the permitting of new pharmaceuticals and medical devices

Q13. Tighter restrictions on private parties engaging in discrimination (on the basis of race, gender, age, ethnicity, religion or sexual orientation) against other private parties, in employment or accommodations?

Q14. Tighter restrictions on the buying and selling of human organs

Q15. Tighter workplace safety regulation (e.g., by the Occupational Safety and Health Administration (OSHA))

Q16. Tighter air-quality and water-quality regulation (e.g., by the Env. Protection Ag. (EPA))

Q17. Tighter requirements on occupational licensing

Q18. Tighter restrictions on prostitution

Q19. Tighter restrictions on gambling

Q20. Tighter controls on immigration

Q21. Tighter restrictions on adult women having an abortion

Q22. Tighter restrictions on "hard" drugs such as cocaine and heroin

Q23. More redistribution (e.g., transfer and aid programs and tax progressivity)

Q24. More funding of the public school system

Q25. More benefits and coverage by Medicaid

Q26. More American military aid or presence abroad to promote democracy and the rule of law

Thus all of the policy questions posit a reform to the status quo in the direction of ratcheting up the government restriction or activism. It should be noted that opposing such a reform wouldn't necessarily imply support for reform in the contrary direction, since one might stand steadfastly on the status quo, opposing both higher and lower minimum wages, say. But it is reasonable to suppose some relationship of that sort—e.g., that strongly opposing higher minimum wages is correlated with supporting lower ones.

Here I use questions 23, 24, and 25 (equally weighted) to represent a *Welfare State* dimension. In this dimension, I seek to include taxation and spending programs that are thought to help the less well off. On the taxation side, the key feature is taxation such that the proportion of one's income or wealth paid in taxes goes down the lower one's income or wealth is (progressivity, luxury taxes, etc.). On the spending side, the most exemplary feature is means testing or some other form discrimination thought to favor lower-income recipients; but I also include the school-funding question, because I count indiscriminate, universal spending also as within the welfare-state concept, on the notion that, overall, resources are redistributed from the more well off to the less well off.

As for the 'regulatory state,' the chief connotation is governmental action to regulate social processes, to tinker with or adjust otherwise self-propelling and self-directing activities; to intervene. The rationale is to improve human well-being overall. On that very broad view of the regulatory state, one might count virtually all government restrictions on private ownership and voluntary association.

In that broad spirit, let us first define a broad set of the survey questions, a set called *Restriction*, including all of the questions except for the Welfare State questions and the "military aid or presence abroad" question. Thus, Restriction consists of Q10 through Q22 (equally weighted). This broad set of issues may not sit well as representing the 'regulatory state.' We will come back to that. But does it sit okay as representing something broader, what might be called the 'restrictive state'? It seems to me that it does.[3]

Figure 2 is a scatterplot of the survey respondents, using these two sets of Likert items, Welfare State and Restriction. Each item response is coded from 0 to 4, where 0 is "support strongly" the posited reform and 4 is "oppose strongly," and then a mean is calculated for a respondent's responses in the set. The Welfare

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3. Some will point out that the Restriction concept is one of the government's initiation of coercion and say that tightening restrictions on abortion, as posited in Q21, is not an initiating of coercion, because abortion, like murder, is itself the initiation of coercion, against the fetal human being. Although I respect that interpretation of abortion, I reject it in the end (which is not to say I necessarily oppose restrictions on abortion), and hence I include abortion. Some might make a similar point with respect to air-quality and water-quality regulation (Q16), but again I include it in Restriction.

State scale runs along the x-axis, and Restriction the y-axis. All scatterplot figures are generated in Stata using jitter7 to separate coincident dots.[4]

Figure 2. Scatterplot of economists, Welfare State scale (x-axis) x Restriction scale (y-axis)
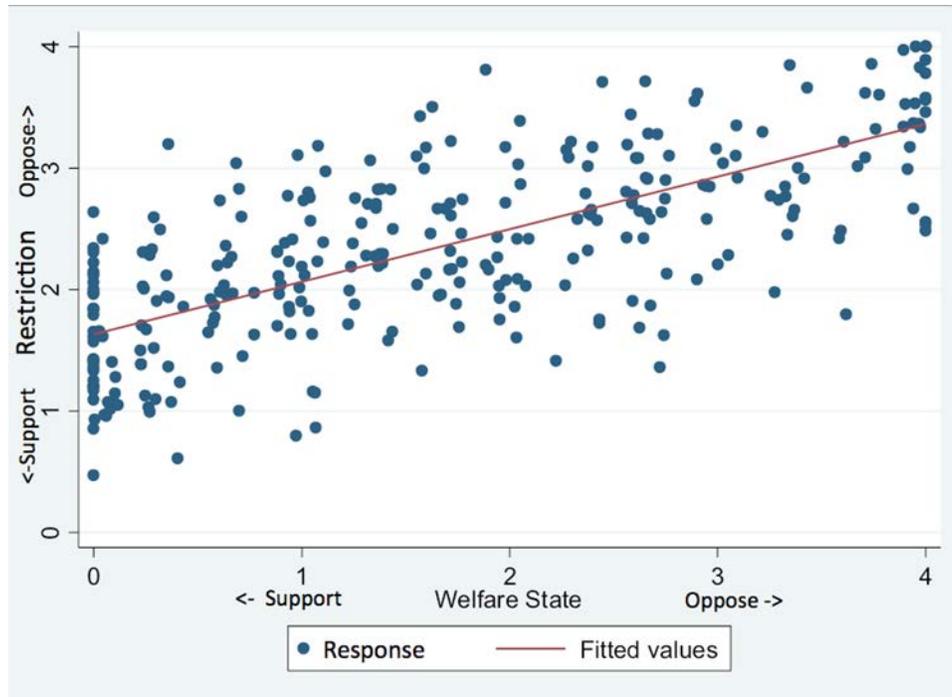
The regression line in Figure 2 has slope of 0.43. The y-intercept is 1.63, with an R-squared of 0.51. Strong support for ratcheting up the welfare state (around zero on the x-axis) finds a very substantial constituency in the sample. The scatter has a heavy base beginning right at x = 0. In contrast, if one looks at y = 0, we see hardly anyone very close to zero. There is no heavy base of strong support for ratcheting up the restrictive state.

The next thing to point out is that, starting with the dots at x = 0, concentrated in the lower left corner, the scatter generally moves up to the upper right corner: As support for the welfare state declines, support for the restrictive state tends to decline.

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4. The Welfare State scale value for a respondent Joe who answered, say, only two of the three Welfare State policy questions is the mean of the two questions he answered. So Joe is not thrown out just because he did not answer all questions. The same logic is applied in all such calculations in this paper.

Look at the lower right corner: If one opposes ratcheting up the welfare state, it is almost a certainty that one is at least neutral, and likely that one leans against ratcheting up restrictions.

As for the inverse corner, the upper left, the emptiness is less pronounced, but there is still a basic symmetry. We can say that if one supports ratcheting up the welfare state, it is very unlikely that one strongly opposes ratcheting up restrictions.

The Restriction scale has 13 components. Does the three-question Welfare State scale move positively with each of them individually? The answer is no, as shown in Table 1, which gives bivariate regression results between the Welfare State scale and each of the 13 components. For every bivariate regression, the coefficient is statistically significant at the 0.01 level. All of the coefficients are positive with two notable exceptions: immigration (Q20) and abortion (Q21).

TABLE 1. Welfare State scale regressed on each of the 13 Restriction variables separately

	Q10	Q11	Q12	Q13	Q14	Q15
	Min. wage	Import restr.	FDA	Discrimination	Organs	OSHA
Coeff.	0.67^{**} (20.3)	0.67^{**} (8.4)	0.63^{**} (13.1)	0.61^{**} (16.2)	0.48^{**} (10.5)	0.69^{**} (17.1)
Intercept	0.22^{*} (2.5)	-0.65^{*} (2.2)	0.27^{*} (2.1)	0.78^{**} (10.0)	0.62^{**} (5.1)	0.50^{**} (5.7)
R^2	0.58	0.19	0.38	0.48	0.29	0.51
N	294	295	283	291	277	285

|	Q16	Q17	Q18	Q19	Q20	Q21	Q22
	Air/water	Occup. licensing	Prostitution	Gambling	Immigration	Abortion	Hard drugs
Coeff.	0.73^{**} (19.6)	0.66^{**} (13.5)	0.32^{**} (4.9)	0.42^{**} (7.6)	-0.16^{**} (2.7)	-0.40^{**} (7.7)	0.29^{**} (5.5)
Intercept	0.81^{**} (12.1)	0.10 (0.7)	0.80^{**} (4.1)	0.68^{**} (4.5)	2.15^{**} (11.6)	2.93^{**} (16.8)	0.99^{**} (6.8)
R^2	0.57	0.40	0.08	0.17	0.02	0.17	0.09
N	290	274	286	292	297	293	291

t-values in parentheses; $^{*}p < 0.05$; $^{**}p < 0.01$

In defining the Restriction scale, we excluded not only the three Welfare State questions, but also the "military aid and presence abroad" question (Q26). It is worth noting that a bivariate regression between the Welfare State scale and Q26 shows a coefficient of -0.22 with a t-value of 3.25 ($p < 0.01$).

So the data suggests a strong relation between favoring the welfare state and favoring ratcheting up restrictions in general, as represented by the Welfare State and Restriction scales. But, we've seen that at a more granular level the relationship is often only weak, and in at least a few policy areas is actually negative.

Let us now create another scale, one closer to the notion of the 'regulatory state.' I take the central concept to be restrictions on private producers and sellers in industries that are permitted, officially recognized, albeit regulated. On this concept, we remove the restrictions on prostitution, gambling, and 'hard' drugs—all which are generally thought of more as the control of 'sinful' personal behavior, often by outright prohibitions ('the nanny state')—as well as abortion and immigration. Paring those away as well, I define *Business Regulation* to include Q10 through Q17 (equally weighted): the minimum wage, import restrictions, FDA, discrimination, organ policy, OSHA, air and water quality, and occupational licensing. For each of these, the idea is that regulation guides and adjusts legitimate, respectable economic activities, so as to enhance overall outcomes. Many major areas of the regulatory state are not covered here—antitrust, public-utility regulation, energy policy, and so on—but the eight questions included here seem to represent the concept reasonably well. Adding, if we could, any prime regulatory-state issues probably would not change the results.

Figure 3. Scatterplot of economists, Welfare State scale (x-axis) x Business Regulation scale (y-axis)
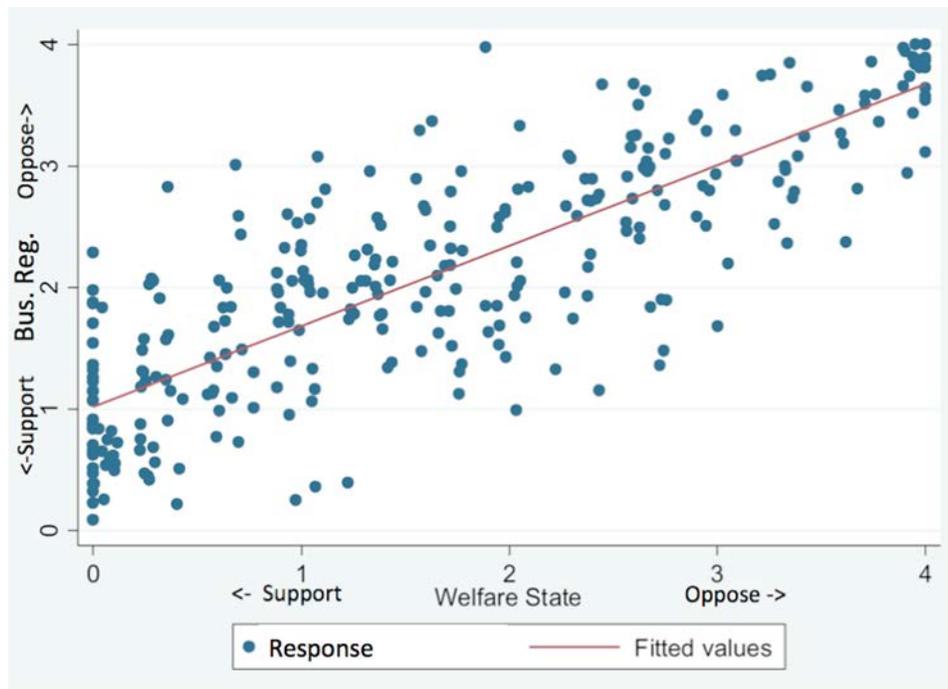
In Figure 3 we have the Business Regulation scale along the y-axis. The results are like the previous scatterplot, only stronger and tighter. The regression line has slope of 0.66. The y-intercept is 1.02, with an R-squared of 0.69. Again, we see that many economists are rock-solid on ratcheting up the welfare state, but almost none are as solid on ratcheting up business regulation.

This scatterplot best represents our thing to be explained, our explanandum. Now the off-diagonal areas are even emptier. Why does opposing ratcheting up the welfare state make it so unlikely that one supports ratcheting up business regulation? And why does supporting ratcheting up the welfare state make it so unlikely that one strongly opposes ratcheting up business regulation? Again, how are the three issues in Welfare State so parallel to the eight issues in Business Regulation? If the issues are different, what is it that prevents economists from mixing and matching positions so as to land deeper in the off-diagonal areas?

If we can come up with a satisfactory explanation, the explanation will surely help to explain another curious fact about economists: their frequent lack of consensus on individual policy reforms (Klein et al. 2013, 121).

The patterns discussed here probably conform to one's casual impressions about different kinds of economists. Moreover, in 2003 I did a survey of members of the American Economics Association (as well as five other scholarly associations), and those data show very similar patterns.[5]

Questions for contributors to consider

The main question, number (1) in the list below, has already been posed. Here I pose some follow-on questions to prompt contributors

1. On issues of the welfare state and the regulatory state, why do so few economists argue in favor of one and against the other? The symposium asks you to speak to the question from any angle that seems appropriate to you.

2. Explanations may themselves call for explanation. For example, perhaps your explanation would involve the political parties (by the way, there was a party voting question in the 2010 survey; see the 2013 paper). If party allegiance were part of your explanation, that would prompt further questions such as: Why do the two parties have the position profiles they do? Why would an econo-

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5. The 2003 data on AEA members is available upon request, as is some preliminary analysis showing that the patterns are the same as those shown here for the 2010 data. The 2003 survey instrument as well as links to paper using the data is **here**.

mist be influenced by a party line? How are economists in-fluenced by the two parties?

3. Can you think of some economists who defy the patterns de-scribed here? Can you think of any who argue in favor of the welfare state and against the regulatory state? Any who argue against the welfare state and in favor of the regulatory state?

4. What are your own views in the two areas? If your judgment tends to be parallel across the two areas, how would you account for that?

5. If your judgment tends to be parallel across the two areas, how do you explain why many economists do not share your views? Where are they going wrong? What prevents them from seeing as you see?

Appendix

Everything concerning the 2010 survey of economics professors is available **here**. A file containing data and code for the results shown in this paper is **here**.

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