

## WHAT'S BEHIND THE FUNDING OF THE WELFARE STATE

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The regulatory, administrative state, which progressives champion, is generally a servant of the strong, for two reasons. It responds to financially powerful and politically sophisticated factions. And it encourages rent-seekers to exploit opportunities for concentrated benefits and dispersed costs (e.g., agriculture subsidies confer sums on large agribusinesses by imposing small costs on 316 million Americans).

Such government inevitably means executive government and the derogation of the legislative branch, both of which produce exploding government debt. By explaining these perverse effects of progressivism, the [Hudson Institute's Christopher DeMuth](#) explains contemporary government's cascading and reinforcing failures.

Executive growth fuels borrowing growth because of the relationship between what DeMuth, in a [recent address at George Mason University](#), called “regulatory insouciance and freewheeling finance.” Government power is increasingly concentrated in Washington, [Washington power is increasingly concentrated in the executive branch](#), and executive-branch power is increasingly concentrated in agencies that are unconstrained by legislative control. Debt and regulation are, DeMuth discerns, “political kin”: Both are legitimate government functions, but both are now perverted to evade democratic accountability, which is a nuisance, and transparent taxation, which is politically dangerous.

Today's government uses regulation to achieve policy goals by imposing on the private sector burdens less obvious than taxation would be, burdens that become visible only indirectly, in higher prices. Often the goals government pursues by surreptitious indirection are goals that could not win legislative majorities — e.g., the Environmental Protection Agency's regulation of greenhouse gases following Congress's refusal to approve such policies. And deficit spending — borrowing — is, DeMuth says, “a complementary means of taxation evasion”: It enables the political class to provide today's voters with significantly more government benefits than current taxes can finance, leaving the difference to be paid by voters too young to vote or not yet born.

Two developments demonstrate, DeMuth says, how “delegation and debt have become coordinate mechanisms of legislative abnegation.” One is Congress's anti-constitutional delegation of taxing authority to executive-branch regulatory agencies funded substantially or entirely by taxes the agencies levy, not by congressional appropriations. For example, DeMuth notes, the [Federal Communications Commission's \\$347 million operating expenses](#) “are funded by payments from the firms it regulates,” and its \$9 billion program subsidizing certain Internet companies is funded by its own unilateral tax on telecommunication firms. The Consumer Financial Protection Bureau, another freebooting agency not tethered to the appropriations process, automatically receives a share of the profits of the Federal Reserve banks.

A second development is “the integration of regulation and debt-financed consumption.” Recently, [a Post headline announced](#): “Obama administration pushes banks to make home loans to people with weaker credit.” Here we go again — subprime mortgages as federal policy. Is this

because lowering lending requirements and [forcing Fannie Mae and Freddie Mac to securitize the loans](#) worked so well last time? This illustrates DeMuth's point about how unfettered executive government uses debt-financed consumption and "regulatory conscription of private markets" to force spending "vastly beyond what Congress could have appropriated in the light of day."

High affluence and new technologies have, DeMuth believes, "led to unhealthy political practices." Time was, the three basic resources required for effective political action — discretionary time, the ability to acquire and communicate information and persuasion skills — were scarce and possessed only by elites. But in our wealthy and educated society, interest groups can pressure government without being filtered by congressional hierarchies.

Legislative leaders — particularly, committee chairs — have lost power as Congress has become more porous and responsive to importuning factions using new media. Congress, responding to the increased difficulty of legislating, has delegated much lawmaking to specialized agencies that have fewer internal conflicts. Congress's role has waned as that of autonomous executive agencies has waxed. The executive has driven the expansion of the consumption of benefits that are paid for by automatic entitlement transfer payments, by government-mandated private expenditures and by off-budget and non-transparent taxation imposed by executive agencies.

Government used to spend primarily on the production of things — roads, dams, bridges, military forces. There can be only so many of such goods. Now, DeMuth says, government spends primarily for consumption:

"The possibilities for increasing the kind, level, quality and availability of benefits are practically unlimited. This is the ultimate source of today's debt predicament. More borrowing for more consumption has no natural stopping point short of imploding on itself."

Funding the welfare state by vast borrowing and regulatory taxation hides the costs from the public. Hence its political potency. Until the implosion.