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I thank Robert Higgs for his thoughtful review of my book, *War, Revenue, and State Building: Financing the Development of the American State*. Over the years, I have admired and benefited from reading Higgs’s own academic works—in particular, *Crisis and Leviathan: Critical Episodes in the Growth of American Government* (1987). Since we share many common interests and concerns, he was an appropriate choice as a reviewer for the *Journal of Policy History*. In his review, Higgs ably summarizes the main themes of my book and offers insightful comments as well as a few substantive criticisms, which I take seriously. Because of this, I believe that a short response is warranted, which I hope will help to clarify the nature of any disagreements between us.

In reviewing my historical survey of political development in early modern Europe, Higgs describes my approach as reflecting a “remarkably clear-eyed view of the nature of the state and its operations.” I appreciate that comment because this was precisely the tone I wished to take. Conversely, I wanted to avoid writing a narrative that “takes sides” with respect to the historical events under review—namely, the emergence of the modern state, with its powerful military, comprehensive social welfare programs, and efficient system of taxation. In *War, Revenue, and State Building*, I tried to remain neutral with respect to the desirability of such historical developments. As a scholar, my task was to explain the distinct social, political, and economic forces that led to the rise of the modern state, not to praised or condemn them.
In exploring the factors that contributed to the rise of the modern state, I focused on the connection between the ability of the rulers of the “princely states” of early modern Europe to extract revenue from the emerging commercial economies within their domains and use the revenue to organize large standing armies equipped with the expensive new armaments of the day. Expanded administrative offices were needed to that extract revenue as well as support these armies. This relationship between revenue extraction and state expansion was strongest during periods of “total war”—military conflicts in which the survival of the state itself is threatened, requiring a comprehensive mobilization of civilian populations and domestic economies for the war effort. The dynamic interaction between war, revenue extraction, and state building gradually led to the expansion and centralization of political authority under the crown, eventually culminating in the powerful nation states of eighteenth-century Europe. Later, in the wake of the French Revolution and the democratization of political institutions on the Continent, the rulers of Europe began to devote a share of their resources to social welfare benefits for their citizens, dramatically changing the nature of the relationship between state and citizen. After tracing the rise of the modern state in Europe, I turned to America to see whether similar historical forces were present. Indeed, a similar pattern of political development can be discerned in America. This resulted in a significant expansion of the institutional capacity of the American national state (both its military and social welfare functions) over the course of two centuries.

Was this desirable? No doubt, some believe that the rise of the modern state was a “world historical” event that left humanity immeasurably better off. Personally, I have mixed emotions. As I put it in War, Revenue and State Building: “Strong states have the capacity not only to do “good deeds” (such as protect their citizens, build roads, highways, schools, and
hospitals), but also to inflict horrible and devastating consequences on humanity, including their own citizens.” (pp. 44–45) As this comment suggests, I was unable to entirely suppress my misgivings about the creation of a new “Leviathan” in America. Likewise, I could not help but note the irony that America ended up with a powerful central state even though its Founders specifically rejected such a political organization when they met in Philadelphia in 1787. Notwithstanding such passing observations, I generally avoided taking sides in the great debate over “Big Government” in America, rejecting partisanship in favor of an impartial and “clear-eyed view” of these historical developments.

If occasionally I let slip my misgivings about the rise of a powerful national state in America, Robert Higgs has never been shy about expressing his. These are articulated in Crisis and Leviathan. I am delighted to learn that Higgs also shares my fascination with Charles Tilly’s provocative essay, “War Making and State Making as Organized Crime” (1986), wherein he likened the origins of the modern state to a “protection racket.” In drawing out this analogy, Tilly sought to undermine the pretention that the modern state is somehow the product of a “social contract” entered into voluntarily among free citizens for their mutual benefit. Undoubtedly, the concept of a social contract serves as a useful philosophical construct that allows us to imagine the nature of an ideal political community; however, it is not an accurate description of the historical origins of the states of Europe and North America—or anywhere else, for that matter. States arise out of violence and coercion, not consent. Invariably, rulers (whether called warlords, “stationary bandits,” or kings) soon recognize the need to provide their subjects with some modicum of protection from foreign invaders (“roving bandits”) as well as ordinary criminals—if only to secure their allegiance and fidelity, which in turn facilitates the collection of tribute from them. On this basis, Tilly likened the state to a protection racket. But
in doing so, he was not suggesting that states are nothing more than protection rackets—only that this is a fundamental characteristic of the relationship between rulers and their subjects. Both Higgs and I agree that coercion remains at the heart of the relationship between the modern state and its citizens. Where we differ is in our respective understandings of the nature of the modern state and how it has evolved beyond its origins as a glorified protection racket.

There was a reason for the evolution of the state into something more than a protection racket. The democratization of political institutions in America and later Europe required that rulers offer more than just protection to their citizens. Elections render political leaders accountable to their citizens (*qua* voters). As such, the state comes to resemble less a protection racket than a political organization that individuals might freely enter into if there actually was a *bona fide* social contract. The health care and retirement benefits distributed by the modern state are now perceived by citizens as “public goods”—notwithstanding that they are not in any technical sense. Voters view them as entitlements owed to them by the government by virtue of their citizenship. Consequently, social welfare programs have proliferated and expanded. Today in Western Europe, the states of Europe allocate a greater share of their budgets to social welfare than war making—the historic activity of the state. Even the United States, with the largest and most expensive military in the world, spends more on social welfare programs (broadly conceived) than its armed forces. Social Security, Medicaid, and Medicare now consume more than half of the budget of the United States (constituting more than 10 percent of GDP), and that share is rising. As Paul Krugman once quipped, the federal government “has become a retirement program that does some military stuff and a bit of humanitarian stuff on the side.” The modern state is not so much a protection racket as a mandatory social insurance program. Because citizens actually desire these benefits, notwithstanding the coercive nature of these
programs, I referred to the modern democratic social welfare state in my book as a “benign form of a protection racket.”

With some justification, Higgs questions whether a political arrangement based on coercion can ever truly be “benign.” That certainly is true of a protection racket run by a warlord or stationary bandit; however, where citizens approve of, and would voluntarily enter into such a political arrangement if given the opportunity, such a claim is excessive and overly provocative. Governance by a freely elected representative body is not the same as rule by a military dictatorship. To hedgehogs who know one big thing (e.g., “government is coercion” or “Big Government is bad”), all states look alike. But that is a gross simplification that misses all the subtle differences among regimes. Constitutional conventions and elections are not irrelevant fictions, as Higgs implies, even if they are pale substitutes for the Social Contract as envisioned by Rousseau. Democratic political institutions generate popular support and enhance the legitimacy of a regime—which is seldom enjoyed by protection rackets run by warlords or bandits. To be sure, citizens are not free to opt out of democratic government; coercion still lies at the heart of the state-citizen relationship. Virtually all of our social welfare programs, including the new healthcare program recently enacted by congressional Democrats, are mandatory. They also are funded through taxes forcibly extracted from private citizens and businesses. There is no disputing that the modern social welfare state, like the military state that preceded it, is a political organization that claims a “monopoly on violence” (to use Weber’s terminology). Nevertheless, the analogy of a protection racket does not ring true with respect to the modern democratic social welfare state. To be sure, there is no shortage of tyrannical states in the world that fit the model perfectly. (Think of North Korea.) As I noted in my book, many such “rogue states” do not even bother to provide protection in exchange for the tribute they
demand. But the United States is not North Korea. The point is, not all states are the same, even if they all rely on coercion and claim a monopoly on violence. Higgs glosses over the important distinctions among states when he lumps together democratic republics and totalitarian states under the common rubric of the protection racket.

Higgs raises one final point at the end of his review. He observes that I argue both that the modern state is highly efficient in extracting revenue from society via taxation (especially the modern American state) and that its social welfare programs are “unsustainable.” With justification, Higgs discerns a “tension” between these two observations. Accordingly, allow me to clarify. I certainly do not wish to suggest that a modern state can never be fiscally stable. It is entirely possible to operate a solvent social welfare program, at least in the short-run—especially if it is mandatory, universal, and the demographics are favorable. Nevertheless, we find very few such programs in the world of nations. Why? What is the source of the fiscal imbalance experienced by nearly all the Western democratic states? Elsewhere I have argued that in a democratic political system, elected officials tend to legislate social welfare benefits in excess of the revenue-raising capacity of the state—even one with a highly efficient tax system, such as the United States. (Higgs himself describes the ratchet-effect in which public expenditures increase over time but never go down.) Citizens demand benefits from their elected officials and at the same time, pressure them to cut taxes. The result is a political system that suffers endemic (and arguably, structural) deficits. It is no coincidence that the United States has run budget deficits in all but four of the last forty years. This includes years when conservative Republicans controlled both Congress and the White House. The problem cannot be traced to the revenue system of the United States, which generated more than $2.1 trillion in fiscal year 2009, but
rather with the unrestrained spending of the national government. The result was a deficit of $1.4 trillion for 2009 and an accumulated national debt of more than $8.6 trillion.

America is not alone in failing to restrain government spending. The democracies of Western Europe have done much worse, notwithstanding that they do not spend very much on their militaries—relying instead on the United States military for protection from foreign threats. The revenue crises experienced by such nations as Greece, Iceland, and Spain, to name but a few, are just the tip of the iceberg. Most of the states of Western Europe face similar problems in the long-run. Their financial positions were worsened by the recent collapse of world financial markets, but the troubles can be traced to decades of unrestrained spending on social welfare programs. If not necessarily “unsustainable,” all social welfare states face fiscal imbalance for the foreseeable future. Like Robert Higgs, I am deeply pessimistic about their chances for success in righting course. But while I foresee persistent deficits and retrenchment of these programs, I do not predict the imminent collapse of the modern state. Perhaps Higgs anticipates such a scenario. If he does, I suspect it is more wishful thinking than “clear-eyed” economic forecasting. The modern nation state may need to adapt and retrench, but its central role in the modern world is secure because of its incredible efficiency in both extracting revenue and making war. Its legitimacy is enhanced by its social welfare programs. The modern state does these things (war, revenue extraction, and social welfare) very well, assuring its continued dominance in the world of nations—like it or not.