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Homeland Security and the Bureaucratic Dilemma

by Richard M. Ebeling

On the evening of June 6, 2002, President George W. Bush delivered a brief nationwide television address in which he called for the creation of a new cabinet-level Department of Homeland Security. The president stated that “America is leading the civilized world in a titanic struggle against terror. Freedom and fear are at war. And freedom is winning.”

But in this war it is necessary to increase our vigilance, he said, and to be even more on our guard against potential terrorist attacks directed at the territory of the United States. To this end he assured that “we’re taking significant steps to strengthen our homeland protections: securing cockpits, tightening our borders, stockpiling vaccines, increasing security at water treatment and nuclear power plants.”

But the president argued that more was required. He asked the Congress to join him “in creating a single, permanent department with an overriding and urgent mission: securing the homeland of America and protecting the American people.... I propose a permanent cabinet-level Department of Homeland Security to unite essential agencies that must work more closely together — among them, the Coast Guard, the Border Patrol, the Customs Service, immigration officials, the Transportation Security Administration, and the Federal Emergency Management Agency. Employees of this new agency will come to work every morning knowing their most import job is to protect their fellow citizens.”

In all, the president called for combining 22 federal agencies into the new Homeland Security Department, with an initial budget of \$37.5 billion and a work force of almost 170,000 federal employees.

He specified the tasks for which the new department should be responsible. It would control U.S. borders and prevent and interdict terrorists and their weapons from entering the country. It would work with and coordinate state and local governments for quick responses to emergency situations. It would employ and contract with “our best scientists” to develop methods of detecting biological, chemical, and nuclear weapons, as well as drugs and treatments to protect the American people from such weapons of mass destruction.

The Department of Homeland Security would also review and integrate intelligence and law enforcement data from a variety of other federal agencies, including the FBI and the CIA. The purpose,

the president said, would be to “produce a single daily picture of threats against our homeland. Analysts will be responsible for imagining the worst and planning to counter it.”

At the same time, he assured the American people that this did not involve any additional growth in the size of government. “The staff of this new department will be largely drawn from the agencies we are combining.” Indeed, he suggested that the U.S. taxpayer could even expect cost-savings. “By ending duplication and overlap, we will spend less on overhead and more on protecting America.”

The fact is that Bush’s proposal represents one of the greatest concentrations of power and control within one federal agency in the last half-century. Its guiding purpose is to prevent terrorist attacks from reaching American shores. Everything that the Department of Homeland Security is to do is to be focused on that one primary mission. All of its authority and all of its jurisdictional responsibilities will be directed in pursuit of that goal and evaluated with reference to it.

Over time, as always happens, the department head will come to the Congress year after year claiming, on the one hand, that the department has served the nation well in fulfilling its task.

But on the other hand, he will insist, the department needs even more funds, a larger work force and an enlarged mandate of jurisdiction and power if it is to hold back the terrorist barbarians at the gate and keep the American people safe and secure.

The department head will warn of cracks in the wall that can be sealed only if they and other security-related agencies have even more latitude to encroach, intrude, and intervene in the private, personal, and commercial affairs of the American public.

Their mission will never be completed, the terrorist threat will never be defeated, and the justification for the department’s existence will never reach its end. Economists who have developed the public-choice approach to analyzing the political arena have effectively demonstrated that the reason for this is to be found in the motives of those who come to man the bureaucracy and those who financially feed off and benefit from the continuing existence of the governmental agency.

Fighting this declared war on terrorism will become the “rice bowl” of those employed within the branches of the Department of Homeland Security. Their “daily bread” will now be dependent on showing that they are doing their job and that their job is never finished.

Expansion of the department over time, in terms of both its budget and responsibility, becomes the avenue within the organization for promotion and higher incomes. That becomes their “niche” in the division of labor on which their livelihood depends. Winning the war on terrorism would mean the unemployment line — or even worse, a job in the profit-oriented private sector.

At the same time, a whole array of private-sector companies and corporations will see their own financial futures linked to the size and budget of the department. These will be the private enterprises who receive the contracts and who supply the goods and services that the various branches of the department use in going about their activities.

That runs the gambit from the companies that sell pens and paper clips to the department all the way to the suppliers of high-tech surveillance and monitoring equipment; the latter, for example, will see economic benefits to themselves with every increase in the department's authority to snoop and pry into the private lives of Americans. Thus, there will be ever new and greater demand for their technological wizardry.

It is also worth keeping in mind that the new department will be bringing together within its jurisdiction a large number of those who are experts in surveillance and investigative work. In other words, the people who like doing what they do.

Back in the 1930s, Chicago economist Frank H. Knight pointed out that "the probability of the people in power being individuals who would dislike the possession and exercise of power is on a level with the probability that an extremely tender-hearted person would get the job of whipping-master in a slave plantation."

Those who will have power and responsibility in the Department of Homeland Security are not likely to be people who suffer from long, sleepless nights deeply worried that they might have violated some innocent citizen's privacy and personal freedoms while they were on duty earlier that day. More likely many of them will wonder how they can get around whatever legal restrictions and prohibitions seem to them to stand in the way of "getting the job done."

Furthermore, there will be no way of knowing whether or not the Department of Homeland Security is doing its job. Has the department spent too little or too much on infiltrating suspected terrorist organizations? Should more men and money be devoted to airport security or to developing anti-chemical warfare vaccines? If no "dirty nukes" are set off within the United States but two suicide bombers blow themselves up in congested urban areas during the noontime lunch hour, killing and injuring hundreds of people, has the department succeeded or failed in its mission?

Will the people of America be better off if their taxes go up by some increment to increase the department's counterterrorist activities, but at the cost of having less to spend on retirement investment accounts, their children's education, starting up or expanding some small businesses, or just going on that dream vacation?

If no terrorist attacks occur within the United States, has this proven that every dollar on the department's activities was well spent?

There can be no answer to any of these questions. The reason was given by Austrian economist Ludwig von Mises during the Second World War in a small book entitled *Bureaucracy*, which was published in 1944.

Mises contrasted the inherent and inescapable difference between the profit-oriented management of any enterprise and the bureaucratically managed government agency.

In the competitive free market, success or failure is determined and measured by the degree to which any private enterprise has either earned profits or suffered losses. Every current expense or capital outlay is estimated and compared with the margin of extra profit the expenditures and investments are expected to bring forth.

If it is anticipated that the additional costs will be greater than the potential additional earnings from the sales of a product or service to the consuming public the expenditures are not undertaken. If the outlays and investments are undertaken, the expectations that have made them seem worthwhile are eventually confronted with reality: when new products or improved products come on the market for sale, the additional earned revenues are either greater or smaller than the extra costs incurred.

In addition, Mises explained, no matter how large an enterprise or corporation may become, its branches and departments can be given wide latitude of responsibility and decision-making, yet still be controlled and coordinated with the other parts of the enterprise through the profit and loss statements of the various subdivisions of the company.

Those departments and branches suffering losses or earning relatively smaller profits may be cut back and reduced in size and activity if it is believed that product innovation or marketing or hiring a different manager for that branch of the firm would not result in earning a better profit return.

On the other hand, those branches experiencing relatively higher profits would be those parts of the enterprise towards which more resources and investments may be directed if it was expected that profit opportunities in that corner of the market seemed likely to continue.

Market prices reflect both consumer demands for various goods and the scarcity of resources, labor, and capital employable in alternative lines of production.

Profit and loss expectations and outcomes demonstrate relative success and failure both within and between firms and enterprises.

Together profit and loss expectations act as the steering mechanism to guide the use of resources and manpower in various directions to reflect the changing patterns of market demand and supply. They give rationality, order, and direction to all that happens in the arenas of production and exchange.

Government departments, bureaus, agencies, and enterprises operate and function in an entirely different way. Government may have to purchase on the market all the goods and services and resources with which it runs its various activities, but it raises the money to buy those things through taxation, not through the sale of a product to willing consumers on the market.

Neither does government supply its “products” and “services” to the citizenry at a market price. The government supplies them either “free” or at an arbitrary price that does not in any way reflect some hypothetical “real” market value of what consumers might consider the goods or services to be worth if they actually bought them in a competitive market.

In addition, profits or profitability are not the goal or standard by which the actions and outcomes of government’s departments are judged. In the private sector, individuals decide how much personal security to invest in and pay for when they purchase locks and bolts for their doors, place bars on their windows, and purchase alarm systems for the insides of their homes and places of business.

And those consumer demands generate market prices that guide and determine the profitability and investment of resources in private enterprises supplying the relative amounts of each of these types of protection for their persons and properties.

But the activities of government departments, bureaus, and enterprises cannot be evaluated, judged, or supervised by similar profit and loss balance sheets. Their activities and standards of success or failure are outside the market.

The only way to see that those employed in and managing these branches of the government are fulfilling the goals and targets set down as the purpose of the department's or bureau's existence is to set up "rules," and "procedures" specifying what and how those working in the bureaucracy are expected to perform.

This is the method by which those employed in government are made accountable for what they do and how much they spend.

It doesn't matter how irrational or crazy or terrifying the bureaucrat's behavior and conduct may seem. For the bureaucracy the rule of etiquette is not that the "customer is always right," but whether he went to the designated window and filled out the right forms in the proper sequence.

Success is not measured by whether a new and better product has been manufactured, sold, and earned a profit, indicating enhanced consumer satisfaction.

No, success is measured by following the procedures and rules specified in the job description, regardless of whether this harms or hurts the tax-paying public out of whose pockets the bureaucrat's salary comes.

Expanding or contracting some subdivision or branch in a government department or agency is not guided by the profit or loss from what is supplied. Instead, political fashions, fads, and "crises" usually provide the rationales and justifications for larger department and bureau budgets, increased manpower, and greater authority and power over some segment of social and economic life.

The day after President Bush's speech calling for the creation of the Department of Homeland Security, on June 7, there appeared an article on the editorial page of the *Wall Street Journal* entitled "The FBI and CIA Are First of All Bureaucracies" by Daniel Henninger, one of the paper's deputy editors.

Henninger pointed out that "above all else these two agencies are bureaucracies. Worse still, they are large political bureaucracies." He referred to "the numbing, incentive-killing, rule-laden reality of life in the hallways [of these two organizations] for thousands of agents."

And he said that the FBI and CIA have had "perverse procedures, maladjusted incentives and political obeisances [no different] than the IRS, the FAA, HCFA, the United Nations, the Vatican, or the local hospital or the INS."

He suggested that "it's time for Washington to find a way to a 'Post-Bureaucratic Society.'" What these and other bureaucracies need, Henninger suggested, is a good shakeup with business-like

management under the supervision of some successful corporate executive to get things in hand and on the right track.

In *Bureaucracy*, Mises had already given the answer to this suggestion. An enterprise or activity is either guided by the pursuit of profit or it is not. If it is, the management styles in the firms reflect the goal: make profits by satisfying consumers better than the market supply-side rivals. If it is not, the management style reflects this goal: meet the legislative mandate of the bureau or agency by following the rules and procedures specified in your job description.

At the same time, those who head and supervise government departments, bureaus, and agencies are answerable and responsive to politicians, interest groups, and changing political currents and crises that influence the directions of public policy. Success is measured by rationalizing bigger budgets, more power, and never-ending “social problems” that justify the bureaucracy’s existence and authority.

A new Department of Homeland Security guarantees that America will, therefore, have a war on terrorism for decades to come. It ensures that constant pressure will be applied for the department to have more control and latitude to interfere in the lives of the ordinary American citizen.

It makes certain that no matter how few or how many terrorist attacks may be perpetrated within the borders of the United States in the coming years, it will demonstrate what a fine job the department has been doing and what a better job it could do if only it had more money and power.

And there will be no market-equivalent test or standard to measure its successes or failures because it will be operating, like all government activities, outside the arena of competitive supply and demand.

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