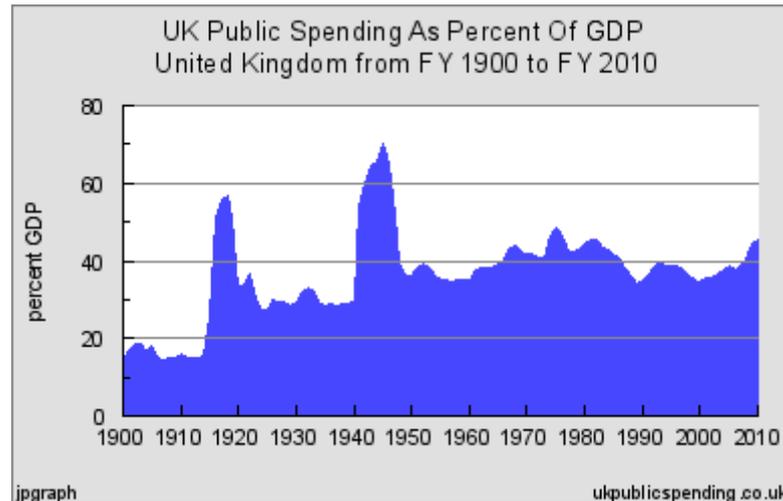




The Crisis of Government

(12/12/2012)

Since the 2007-2009 financial crisis, many calls have been made (often in right-wing newspapers) that capitalism has failed, capitalism has died or that capitalism is in crisis. This paper examines these claims in light of government's impact on society and markets given its massive growth in government's size and power. UK public spending is estimated at 44.13% of GDP for FY 2012 (Actual FY2011 45.65% of GDP). The following chart shows the growth over the last 110 years (1).



Government has become too big and like the bull in the proverbial china shop its weight and strength end up trampling everything and everyone. Society is a complex mechanism whose subtle nuances are lost on a goofy footed government. **Bureaucracies** don't manage anything well nor do they have an eye for economics. Indeed government can neither manage itself nor the society it governs. As a result, government creates unintended consequences because of their size, influence and power. It is not, as many would claim, a crisis of capitalism but rather a '**crisis of government**'. Society can no longer afford the bull. It is causing too much damage.

At every level of society, the state through its agency, government, subverts responsibility. For the individual, the group, the corporation; government intercedes at the behest of lobbyists, voters or the unseen dictates of bureaucrats. Bureaucrats and politicians are weighed down by the responsibility of having to be seen to do something - anything so long as they can fulfil their perverse self interest in maintaining perks, position and privilege. Indeed the term public servant has become an oxymoron.

Heavy hoof prints come in many forms. One big hoof print is the high level of **taxation** borne by you that brings low satisfaction for your taken money. Another large hoof print is the **unintended consequences** that occur when actions of government have effects that are unanticipated or unintended. Often cited but rarely defined, the law of unintended consequences illuminates the perverse unanticipated effects of legislation and regulation. In attempting to mend the unintended consequence of one policy, the result is further unintended consequence.

At the heart of all the bull lies the problem of [economic ignorance](#) by politicians. Our political class never realize the unintended consequences of their legislation and policy making before it is too late. Having dug themselves and the nation into a giant dung heap, politicians lack both the insight that they are the cause of the problem and the political will to find a way out. Hubris clouds judgment.

Let us examine some other hoof prints left on society by government and the cost to you and your children who will be left footing the bill:

1) **Crony Capitalism**, a description of an economy in which success in business depends on close relationships between business people and government. Crony Capitalism occurs when business people seek regulation and the massive cash flows held by government. This is called:

2) **Rent seeking** and occurs through self-seeking behaviour by those competing to receive **rents** generated by government decision making. Rent-seeking includes lobbying for positions and contracts and campaigning for policies that create rents. Rents are revenues paid to favoured companies or individuals for services rendered. Rent seeking is endemic in crony capitalist systems today. When rent-seeking and payoff become more important to producers than the delivery of goods or services to customers, it causes markets to eventually fail. In his seminal 1971 paper, *Theory of Economic Regulation*, Nobel laureate economist George Stigler observed that regulation by the state is a more important source of rents, benefitting incumbent firms and individuals at the expense of potential competitors (this rent is sometimes referred to as gains from "barriers to entry").

Moreover, Stigler suggested that regulation is sought by the regulated industry - and is designed and operated primarily for the industry's benefit. Consumer activists Mark Green and Ralph Nader largely concurred, writing in 1973, "the verdict is nearly unanimous that economic regulation over rates, entry, mergers, and technology has been anticompetitive and wasteful"(2).

Remember the recent UK taxpayers' horror when Ford announced they were closing their Transit production facility and transferring it to Turkey having just received a £10million handout less than one week before they announced the closure (3). **Explicit subsidies** to corporations foster inefficiency and uncompetitiveness in private and public enterprise.

Often the government does not even have to provide cash. An endorsement of a company is enough to carry massive benefits to the recipient. Some of the UK banks have 'Too Big To Fail' status bringing them large **implicit subsidies**. These same banks reap huge profits because of their TBTF status and the additional risks they take since their management know the government can always bail them out if it all goes wrong.

3) Government creates **moral hazard** when one party to a contract takes advantage of asymmetric information to act in a manner inimical to the interests of the other party. Looking at UK banking again, we see the moral hazard created through asymmetric information provided by government passing TBTF status to some banks whilst excluding others. Government then wonders why distortions in the banking market create a lack of competition and embarks on generating further regulation trying to fix the problem. Many industries face moral hazard where government involvement means government sponsors excessive risk taking or poor management while taxpayers pick up the tab when industries fail.

4) **Erosion of trust** in government builds as failed policy and unintended consequences bring social and economic dislocation. Government spin doctors set to work on the gullible public, massaging results and expectations to achieve politically expedient outcomes. The public wears the cost. This is why voters returned a hung parliament in the 2010 general election. The effect of spin, coercive behaviour, legislation and institutional abuse is the loss of public confidence in government.

The false use of data to manage public perception is typical of spin activity. Inflation rates in the UK, Eurozone or US confirmed by every person on the High Street on a pension or wage that 'street inflation' is running much higher than official rates of inflation. Note the cynicism and exhaustion of people when they talk about the cost of living in their city. The more disenchanted the public become, the more government strives for legitimacy and ends up trampling harder with a resultant loss of civil liberties.

5) Governments must end the myth they perpetrate that **inflation** is an economic disease they are helpless to stop. From this myth many benefits accrue to government and many consequent behaviours



The Crisis of Government

result that bring on suffering, miscalculation and unintended consequences. (See my article: [Inflation: the ultimate corruption](#)).

6) Government **borrowings** help keep the 'show on the road' and maintain some comparable level of economic activity. A simple rate of change graph of GDP shows economic growth peaked a long time ago and we have been living off the accumulated capital of the nation and others for some time now. Like the bull that consumes the farmer's seed corn, our government is blowing the nation's wealth ensuring that the capital available for future growth and economic wellbeing vanishes. The facts are that government spends more than it receives, has £1000bn of accumulated debt in the public's name and has committed you, the taxpayer to further debts valued at £7.1 trillion.

Tax Revenue	Govt Spending	National Debt	Total Unfunded Debt Liabilities
£592bn 2012-13	£683bn 2012-13	£1039 End 2012	£7100bn

Clearly we are living beyond our means but your government believes it can continue to play the same game. The consequences of this are disastrous.

7) Government manipulation of markets such as interest rates and over-regulation brings **mal-investment**. These distortions create misallocation of scarce resources resulting in losses and social dislocation as evidenced by the housing bubble and subsequent bust of 2007-2009.

8) The erosion of societal and economic **values** ushers in the breakdown of society. Cronyism triumphs whilst the rule of law and the principles that drive our great society collapse.

9) Finally the consequences of ubiquitous government stamp on our society is an inability of markets and people to do their thing. Unable to fulfil their highest potential people are giving up hope as social and economic dislocation, not to mention the weight of regulation crushes potential and **liberty**.

As you can see governments around the world, including the UK, are in a self-made crisis. All this is the crisis of government - caused by government size, influence and power. The answer as any farmer knows is that the bull needs to be corralled. To tether the bull so that it no longer tramples everyone and everything. Not an easy task.

Indeed, having grown so big, to switch similes; like a cancer that threatens its host, the symptoms of big government are everywhere to see. The life force of society is being leached in front of your very eyes.

Loss of civil liberties, unsustainably low economic growth, high unemployment, inflation, rampant welfarism, crony capitalism, malinvestment with government unable to find solutions to the many, seemingly diverse problems it faces. The truth is, as Nobel Prize winning economist FA Hayek wrote and lectured: 'many of the problems facing government simply arise because of the lack of spontaneous order arising in society'. An unintended consequence experienced by your society living with cancer. Government seeks to solve the problem when it is, in fact, the problem.

The bigger problem is that we have undoubtedly already passed the point of no return. The numbers do not lie. Politicians have promised too much and acquired so much **debt** in delivering on those promises that it is no longer a political problem - it's a mathematical one!

One thing is clear - unless the bull is corralled immediately - governments (including the UK, USA and EZ members) will default on their obligations to you, the people. This will happen well within 20 years. There is simply not enough money available or economic growth happening to pay for all the pensions, debts, healthcare schemes, wars and other government programs politicians have in store for you. Remember, **governments do not create wealth**, they merely transfer it. The fact is we are fast approaching another 'Magna Carta' moment in British history. This time it is between government and the people. The outcome is not certain. It is a 'Crisis of Government'!

It is imperative that government brings its expenditure down to a manageable level. A maximum of 20% of GDP over a proscribed time limit is an economically viable level at which the economy and society can function effectively and government size, influence and power may be corralled. The unintended consequences of the 'bull in the china shop' may hopefully be minimized naturally rather than as another political fix.

What if the bull cannot be checked? Sometimes, when a rogue bull cannot be safely corralled, then it has to be put down. Should that day eventuate, God help us all. For that will be a bloody day indeed.

Sources:

- (1) http://www.ukpublicspending.co.uk/uk_20th_century_chart.html/
- (2) http://www.realclearmarkets.com/articles/2012/07/12/the_economics_of_americas_crony_society_99760.html
- (3) http://www.dailyecho.co.uk/news/10027975.Government_in_spotlight_over_Ford_plant_closure/

Peter Twigg is Futurist and CEO for Pointmen Pte Limited and runs <http://emergingevents.com>, a website offering scientifically based prediction services for navigating the future.

ooo000ooo

© Pointmen Pte Ltd 2011-2012

Proprietary Rights Notice: By reading a copy of this essay, you acknowledge and agree as follows:
This essay is provided to you only for your personal, non-commercial use. This essay does not constitute advice. Except as expressly authorized by Pointmen Pte Ltd (PPL), you may not copy, reproduce, transmit, sell, display, distribute, publish, broadcast, circulate, modify, disseminate or commercially exploit the information contained in this report, in printed, electronic or any other form, in any manner, without the prior express written consent of PPL. You also agree not to use the information provided in this report for any unlawful purpose. This essay and its contents are the property of PPL and are protected by applicable copyright, trade secret or other intellectual property laws.

Hope for Humankind