The Western Way of Economic Decline

Economics & Deregulation | Alan Moran
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"Imperial overreach" is sometimes used to describe a United States that is less and less able to maintain its global dominance. The phrase reflects upon the fall of ancient Rome and the demise of the British Empire.

Britain's decline followed its economic exhaustion and the growing unacceptability of political controls by one nation over others.

American world domination has never entailed much direct political control. And, unlike Rome, America obtains no tribute from other nations and in fact subsidises them (something the Soviets also did with their satellites). A topical illustration of this is the $1.5 billion a year aid to Egypt, described by President Obama as not an ally, though of course strictly speaking it is. Egypt, under its present leadership, may however be better considered as a state opposed to the USA and its interests, and that $1.5 billion a year to constrain its hostility is considered good value by the US government.

But comparing America's eroding world domination to the collapse of ancient Rome does reveal some uncomfortable similarities.

Ancient Rome was undermined by revenue shortfalls. Aside from bureaucratic needs, funds were required for "bread and circuses" to placate a largely unemployed Roman mob, which had a tested capacity to overthrow governments. Imperial Rome also needed revenues to pay mercenaries who, like the indolent Roman mob, had a proven ability to replace emperors.

In this respect, America's resemblance to Ancient Rome is more chilling. America is facing a crisis-which Europe and Australia share-due to increasing proportions of economic output being directed to unproductive expenditures. These are social expenditures including old-age pensions, incapacity-related benefits, health, labour market programs, unemployment and housing.

The expansion of social entitlements has far surpassed the effect of an ageing population. Since 1980, social welfare entitlement spending has risen from 16 per cent to 23 per cent of GDP in the EU and 13 per cent to 20 per cent in the USA. In Australia it has risen from 10 per cent to 16 per cent.

This increase has not occurred as a result of hard times but in a period of considerable affluence across the board. Scandinavia has usually been at the frontier of entitlement spending. In Denmark, out of the population of 5.6 million only around 1.8 million are not dependent on the state for their income and even they have considerable benefits in housing, child care and so on.

Alongside the increasing provision of entitlements is a corresponding revenue shortfall. Taxation increases create incentives for people to avoid tax by reducing or concealing taxable activities. This compounds the inducement that an entitlements mentality legitimises for people to become tax recipients, by reducing the available income and the share of it retained by producers.

Borrowings have allowed budget deficits to be bridged in the modern era but, as Greece and Spain are demonstrating, debt levels store up even greater future problems. The USA's vastly expanded entitlement spending has been fundamental to its situation whereby revenues now cover only 60 per cent of spending. Out of its annual $3.8 trillion in expenditures, $2.25 trillion is on social security, health and so on. America's annual budget deficit is $1.5 trillion with its debt now being equivalent to 25 per cent of world income. Such borrowing levels cannot last.

Mitt Romney, in drawing attention to the "47 per cent" of people who receive income from government transfers, did more than recognise the expenditure and deficit problems the USA faces. He addressed an undermining of self-reliance by a culture of dependency.

The Democrats and the media depicted Romney's use of the 47 per cent figure, with its corollary of expenditure cuts to balance budgets, as a "gaffe" that might cost him the election. This underlines a serious problem faced by modern democracies. People will vote for politicians who promise them benefits even if the delivery of the benefits undermines the productive capacity of the economy.

The impasse of rising demand for spending and constrained capacity to pay was the major theme of the biennial Mont Pelerin conference of (mainly) free market economists, held in Prague in September. The host, Czech President Vaclav Klaus, lamented what he saw as the failure of the optimism following the "Velvet Revolution" that overturned communism. Klaus spoke of how this optimism had faded into a new form of socialism, the genesis of which we should have detected with the popularity of the Club of Rome and the dominance of the intellectuals with their socialist proclivities. Among the problems he identified were the 1960s liberation, when the anchor of long-standing traditions of self-reliance was jettisoned, subsequent NGO dominance and the development of the human rights ideology which replaced and usurped civil rights.

Independently of the Romney remarks, the Swiss journalist Gerhard Schwarz summarised the danger to the West's economic wellbeing posed by democracy in its current form. A democratically elected majority government can demand wealth transfers to the unproductive, regulate the productive and reward the agitational, thereby creating adverse incentives towards work, savings and investment. Schwarz concluded, "Democracy belongs in its proper place, namely wherever decisions are taken on matters affecting everyone and where public goods are involved."

Every democracy has constitutional provisions designed to prevent the "tyranny of the majority" but these provisions have been eroded under the modern state. The Australian Constitution, like all constitutions, was developed to stop the governing party-whether comprising a minority or a majority-from looting those on the outer.

Those wanting to extend government controls in Australia used to deride the 1901 "horse and buggy" Constitution for the constraints it imposed. But its capacity to prevent government seizing and redistributing income and controlling the economy and people's lives has been progressively destroyed. Constitutional niceties have not prevented government intrusion at levels unthinkable by those who developed the restraints on government more than a century ago. In 1901, the federal government had only 258 regulatory laws compared to 150,000 today. Few of these laws have simply been transferred from state jurisdictions to federal. In 1901 the Commonwealth was responsible for taxing and spending just 3 per cent of national income compared with 24 per cent now, while state government has also grown.

In Australia as elsewhere, constitutional restraints on government have proved insufficient to prevent the looting and debasement of individual liberties, constraints on which focused the minds of the ancient Greek philosophers and the thirteenth-century English barons at Runnymede alike.

If government is not once again confined to these more restricted functions, we will see a continuation of the economic decline of affluent nations that has been evident for the past five years.

The challenge is, how do we get there from here?

The regulatory and tax impositions are now deeply entrenched. Romney's 47 per cent as the share of people who are beneficiaries might be even higher in other democracies. Ruth Davidson, the Scottish Conservative leader, has demonstrated that only 12 per cent of Scottish households pay more in tax than they receive in public services.

Persuading the many to forgo benefits they extract from the few may only be achievable if the consequent economic ruin becomes an immediate threat to the availability of plunder. Perhaps this point has been reached in the USA and, together with Romney's superior political skills, will bring a Republican election win. But even that would be unlikely to result in more than a temporary check to the stultifying outcome of unconstrained democracy.

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