

Is Government Exempt from Creative Destruction?

Craig J. Cantoni

Nash, Studebaker, Hudson, American Motors, Woolworth's, Montgomery Ward, Pullman, Lionel, Pan Am, Eastern, TWA, Compaq, RCA, E.F. Hutton, Paine Weber.

These are a small fraction of the companies that have disappeared over the years, victims of what Karl Marx decried as the "creative destruction" brought by capitalism. The economist Joseph Schumpeter would later popularize and praise the process as the way that market economies bring about innovation, lower costs, and improvements in the standard of living.

Creative destruction explains why even people in poor countries now carry more computer power in their pockets than was contained in IBM mainframes the size of refrigerators in the 1970s. It also explains why the poor in America have a better quality of life than European monarchs in the Middle Ages.

The average profit of all businesses in the U.S. is slightly more than six percent of revenue (sales). For that measly amount, and to avoid creative destruction, owners, executives, and their employees strive to offer products and services to consumers that are better in quality and price than those offered by the competition. Failure to do so, they know, will result in a loss of money and jobs.

This fear of creative destruction and the corresponding drive for innovation and efficiency are largely missing in government. Other than the abolition of the Civil Aeronautics Board during the Carter Administration, it is difficult to remember any federal agency that has become extinct.

Actually, the opposite has happened. Federal agencies have continued to survive and expand even if they are obviously bloated, inefficient, and ineffective. At the same time, public servants have morphed into public plutocrats, who earn considerably more in pay and benefits than taxpayers, who have become the serfs of the plutocrats. Of all of the infuriating manifestations of this plutocracy, the most infuriating is the fact that home prices in metro Washington, D.C., have led the nation in appreciation as prices in most of the rest of the nation have remained in the commode. Ironically and tragically, the epicenter of the easy money, loony housing policies, and crony capitalism that caused the housing bubble, has been unscathed by its collapse.

And what have the serfs done about this? Not a thing, other than whine, snivel, and run to Uncle Sam, just as medieval serfs ran for protection to the castle of their lord, the very same person who made them dependent and defenseless in the first place.

Draw a trend line for just about any aspect of government and you'll get a steep line that has gone in the wrong direction for decades. In 1929, for example, government at all levels (federal, state, and local) controlled about 12 percent of national income. Today, government controls about 51 percent of national income.

During this long and continuous upward trajectory, media, academia, the two major political parties, and the serfs were mostly silent about the trend, although they had 82 years

to notice it and sound the alarm. Now, when it's too late to reverse the trend without inflicting great pain on current and future generations, the masses have awakened from their stupor and exclaimed, "How did this happen?"

Well, it happened because 90 percent of Americans have been educated (brainwashed?) in government K-12 schools; and, for those who went on to college, they have been further educated in bastions of leftist thinking. These institutions, as well as the journalists who graduated from them, did not have the interest, knowledge, inquisitiveness, or diversity of thinking to warn the public about the trends.

For example, they didn't warn about the steep upward trajectory in state and municipal employment since 1946. If the number of public employees in state and municipal government had increased at the same rate as population growth instead of exceeding the growth by a large margin, there would be approximately 12 million fewer public employees today at the state and municipal levels.

Assuming an annual cost of \$100,000 in pay, benefits, and overhead per state and municipal employee, that would come to an annual savings of \$1,200,000,000,000 (\$1.2 trillion), or, in more understandable numbers, about \$11,000 per annum for each of the 112 million households in the nation. The net economic benefit would be far greater, however, because instead of being in the public sector, the 12 million workers would be in the private sector, where they would be innovating and producing to avoid creative destruction.

Not only were the geniuses in media and academia silent about this trend; they were also silent about the long downward trend in the productivity of public schools. As measured by static test scores and ever-rising per-pupil spending, productivity has declined by about 70 percent over the last half-century.

Instead of sounding the alarm about such trends, media and academia were calling for more government spending for decades. For example, my hometown newspaper, the *Arizona Republic*, a Gannett daily, has advocated spending increases over spending decreases by a 10-to-one margin through the years. Now, in a case of incurable cognitive dissonance, the editors and editorial writers can't figure out why Arizona and the nation are broke.

Let me close by answering the question in the title of this commentary: No, government is not exempt from creative destruction. History is littered with the ruins of once-great city-states, empires, and nation-states. The proximate cause of their demise was that they were conquered militarily or economically by countries that were meaner, leaner, and more innovative and productive. The root cause, though, is that they ignored obvious trends until it was too late.

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