

The Ism Crisis

March 2012

Many have been talking, thinking, writing and wondering if what we are experiencing economically today is a crisis of capitalism. Undeniably, we are living in fragile economic times. This is certainly not the go go 1990s. Unemployment is still high. Incomes have stagnated for at least ten years. Home values are still seeking a bottom. Our banking sector is dependent on government intervention to stay alive. Personal savings rates are too low to support retirement. Personal debt remains too high. Government debt is definitely too high, and growing measurably. The stock market investor lives on a roller coaster. We've made about \$50 trillion in social safety net promises that we cannot afford. Economic growth is anemic at best, maybe only existent because our government spends more than a trillion dollars annually than it takes in.

Although many might not know it, understand it, or likely even care to understand it, our economic system has been on the edge of disaster for a good while, long before the 2008 crash. Since as far back as the 2000-2001 recession, our economy has been propped up by government, most recently by massive amounts of printed money, changed rules, bailouts, handouts and anything needed to keep things running.

How did we get here? Isn't America the economic leader of the world? Aren't we the land of opportunity? Isn't our economic system the prototype for a prosperous, happy and compassionate society? Yet our market-based economic model appears broken. Is this a crisis of capitalism? Has capitalism failed us?

In reality, America is not much different from Europe, where economic challenges are so great that the notion of sovereignty is being redefined. To continue "functioning properly," keep rolling over its debt, preserve some semblance of lifestyles no longer supportable by their own economic capability, and maintain their government bureaucracy, Greece is being forced to give up a great deal of its sovereignty.

Should Greece, Portugal, Spain and Italy continue to be bailed out, each of their "democracies" will be subject to rules and systems not set by their own voters but instead by technocrats running the EU. Sovereignty in these countries isn't going to be quite as sovereign, nor are their versions of democracy going to be quite as democratic as they used to be.

There is no greater human motivation than the power of self-preservation. And today, governments in Europe and the United States are bound and determined to say and do anything to keep the current financial and economic system alive. But of course this is what we all want, need and require. Without the current economic system remaining intact, what would each of us do? What would happen to our bank accounts if all the banks go broke? To our savings and investments if the system breaks down? And most importantly, what would become of our children and their lives if we can't keep the system together?

Let's not fool ourselves into believing all these bailout and economic resuscitation efforts are meant to protect our children. If they were, we'd be voluntarily giving up our Social Security,

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Medicare, government pensions, tax breaks and loopholes and on and on. We are not really living for the future of our children. We are living for the present of our own wants and needs. We are doing everything to keep ourselves in the lifestyles to which we have become addicted.

This is only human nature. Who wants to live with less? Do those who have known only prosperity have the ability to develop the gene of sacrifice? Hardly. So we print money, subsidize broken industries and change the rules to keep the system functioning in order to convince the world that everything is under control.

But wait, if we have everything under control, then this cannot, by definition, be a crisis of capitalism at all. The crux of capitalism is for commerce to function naturally, on its own. And commerce today is anything but natural. It has been boxed up and boxed in by millions and millions of pages of rules on how the game must be played. Our economy is not at all market-oriented, but instead a managed economy dominated by rules, rule makers, rule arbitrators and rule enforcers. In order for ANY commerce to exist today, it must first pass the tollbooth of government and its thousands of rules and regulators.

How can we have a market-based economy when we seem totally dependent on government to manage our "prosperity"? We are not practicing capitalism at all. We are practicing a bastardized version of capitalism at best, one where the state has taken more and more control over lives and commerce. Commerce is less and less manifested by Adam Smith's invisible hand, and more and more by the heavy hand of government.

I can hear some readers saying, "Come on Doug, this is still the land of opportunity. This is capitalistic America, not socialist Russia or communist China."

True, but might we be confusing political philosophy with economic reality? Are we clinging to the American myth rather than facing the American reality?

Maybe we should first realize that every socioeconomic system is always evolving. The mean is always changing. America's own democracy has itself always been changing. The democracy we have today, the version we practice and preach, is the product of a 250-year evolution, with a different iteration of itself revealed at many points in time since. As an example, when our country was founded, only male landowners had the right to vote. And at numerous times in America's history, monopolistic oligarchs dominated our economy. One might even argue we currently exist in such a period, where the too big to fail financial institutions control the overall system...because they can't fail or the system will fail.

Bashing the Russians and Chinese as less "pure" market economies is naïve. Socialist Russia and communist China are evolving into more capitalistic states, not perfect, and certainly not yet "developed" like the United States and Europe. But they are moving in that direction. These emerging markets are still in transition. To criticize their budding capitalistic economies is like criticizing Toyota's first imports to the United States. They may have been tin cans on wheels back in the 1960s, but where are the Japanese today in manufacturing quality? So where might Russia and China be tomorrow?

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An honest assessment suggests that as Russia and China's once over-managed economies and societies evolve towards Adam Smith's invisible hand, their prosperity is proliferating. But in the developed markets of the United States and Europe, where economy and life is becoming more and more state-managed, prosperity is dwindling.

Everyone deserves a minimum wage. Everyone deserves a retirement. Everyone deserves to own a home. Everyone deserves a college education. Everyone deserves health insurance. Everyone deserves to be happy. And government must guarantee all of these things. But the more we guarantee, the less we prosper. Without necessity, there becomes little need for invention.

The Armchair disagrees with those who claim we are living a crisis of capitalism. What we have today is not the crisis of a market-based economy, but the crisis of an over-managed economy. This is not a crisis of capitalism at all, but one where the state has assumed too much responsibility for society's activity. That government tollbooth has to be paid, so cost of those tolls have to trickle down to the cost of everything, extracting and inhibiting value creation all along the way.

Might the version of capitalism we know today, where government has inserted itself into all aspects of our lives, really be nothing more than a disguised version of a managed economy and society? If so, are we in a crisis of capitalism, or might it actually be a crisis of socialism?

Oh, that dreaded "s" word! Those who subscribe to the notion of "we smart folks can manage it better" hate this word. But what else do we call an economy dependent on the whims of government? Where government is looked to and behaves as though it has all the answers and is responsible for the answers? The more intrusive and expansive government gets, the less and less prosperous we become. And maybe even more important, how can any massive bureaucracy keep up with the pace of today's amazingly rapid change? It can't.

Remember the saying less is more? In today's case, less government would surely mean more commerce and more prosperity. But don't try convincing bureaucrats of this because then you are threatening their existence. Like everyone else they have the self-preservation gene.

What we are experiencing is a crisis of socialism. Aren't Russia and China proof enough? They are moving towards capitalism, and their wealth is growing. We are experiencing what happens to economies that *stray* from capitalism, where government technocrats force themselves upon every facet of our economy despite the fact they rarely have any direct experience in or understanding of our economy. Maybe we need not fear Frederick Hayek's road to serfdom at all...because we are already living it.



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