

Understanding the Swamp

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The swamp is not inherently evil. It's just a manifestation of individual and institutional instincts that operate outside of natural market forces.

There are few if any more powerful human instincts than procreation and self-preservation. Humanity would not have survived without them.

As go individuals so go institutions, since the latter is naturally made up of the former. Thus institutions, whether public or private, also have their own instincts for perpetuation and sustainability. Actually, these institutional instincts are even stronger than those of individuals.

Institutions by nature always want to grow, to procreate. No matter if a country is a democratic republic, a socialist or communist state, a monarchy, a dictatorship, a tribe, or even a theocracy, all of them seek growth. Historically that growth was geographic in nature while in today's world it has more to do with growing influence and power.

This natural instinct for proliferation also provides institutions with their sustainability, their self-preservation. The larger they are the harder they are to destroy. But an institution's notion of sustainability is different than that of an individual.

While individuals are well aware of their mortality, institutions rarely consider it. Institutions seek life in perpetuity. There is just too much institutional infrastructure at stake to not seek perpetual self-preservation.

But there is a big difference between public sector (the swamp as recently defined by Trump voters) and private enterprise institutions.

Consider the March of Dimes charity. It was founded in 1938 by president Roosevelt as the National Foundation for Infant Paralysis (NFIP), originally focused on the polio crisis. Once the polio crisis was resolved the NFIP shifted its focus to birth defects. And then once the prevalence of birth defects declined the March of Dimes shifted to its current cause, premature births.

Because there is always a cause to chase in the public sector there is never a need to consider institutional mortality. Government and its operatives will never cease to run out of problems to solve.

What creates perpetual problem identification in the public sector?

For one it's the imperfect world we live in and will always live in. But there's also a sociological reason for the public sector's constant search for growth.

Every person in both the private and public sectors naturally wants to proliferate their influence and personal economic success. It's just human nature, whether one is a hedge fund trader or working in middle management at the Food & Drug Administration. Each person wants to make more money. Each seeks to increase their personal influence.

So how does an individual manifest ambition in the public sector? One does so by finding a new cause/issue, even better, a bigger cause/issue that requires the growth of resources and influence under their control.

Because ambition is not stricken from the consciousness of someone going to work in the public sector there is a natural tendency for the public sector to always keep growing. Causes and issues are limitless. There is always an imperfect world the public sector seeks to make perfect.

Private sector enterprise also seeks its own proliferation and sustainability but market forces naturally regulate this activity.

In a market economy, if a private sector enterprise becomes inefficient it is eventually replaced by one that is more efficient. And during the periods when innovation rises, all manner of private sector effort gets turned upside down by the forces of creative destruction.

Although it is rarely considered by ongoing private enterprise, there is mortality in the private sector. Natural forces make it so. But there are no natural forces in the public sector to reign in inefficiencies, poorly allocated resources or unproductive group think and act.

And to believe the public sector is always operating at peak productivity or peak service is very naïve.

How can the public sector be optimally efficient when there is no outside force to make it so? Are public sector employees omnisciently gifted and capable? No. They are just human beings like the rest of us, in constant struggle with the forces of social values and challenges of the time, striving to raise families and/or achieve their own personal ambitions.

Without market forces how can a public institutions become better managed, increase productivity, and deliver ever-greater value to citizens?

Historically, the regulator to unproductive public sector proliferation and perpetuation was a government's accessibility to capital.

Tax collections are always the primary source of public sector resources but no "advanced" economy today is able to fund themselves entirely from the "benevolence of its citizens". To make up the difference, countries issue sovereign debt.

On the open market, accessibility to capital was historically regulated by a sovereign's ability to pay it back. The cost of capital reflected that risk. Countries with well-functioning economies had access to plenty of capital. Countries struggling economically had less access to capital and had to pay more for it.

This natural regulating mechanism to sovereign public sector activity was initially diluted when the world went off the gold standard. At that point government central banks could print more money when needed, manipulate interest rates when needed, all to “help manage the business cycle”.

Many critics of central banking believe going off the gold standard just allowed the public sector to run more and more unsupervised.

Sovereigns that did not possess enough economic power were relegated to constant volatility. Because the public sector is always cause/issue insatiable over the years many sovereigns got themselves upside down with debt. Deflating their currency became the dominant solution. Because the public sector was already commanding too many resources private enterprise wasn't able to create enough economy to solve the problem.

This is one reason so many countries decided it was a good idea to join the EU. Better to be part of a large force with options than a small force with few options and greater volatility.

Then came the global financial crisis of 2008-2009. Since then central bank monetary manipulation around the world has further destroyed the natural mechanism to public sector inefficiency and profligacy. Thus, sovereign debt-to-GDP ratios have exploded.

Given that governments have taken away the natural market regulator of public sector influence, the only other way to rein them in is through a change in government leadership. This is the trend that started with Brexit, fell on to America's shores with Trump and is festering in Europe proper.

What should be, but has not been obvious, though, is that the swamp did not surface over night. In the U.S. it's almost 250 years in the making. Over those years the swamp has carved out measurable influence and control over a great deal of territory.

All government agencies and their operatives have outlasted every president. And for reasons described above, this influence is not something any swamp stakeholder wishes to lose.

The Trump administration is never going to drain the swamp. It does have a chance to pump out a little water, but it best be careful stepping into any swamp quicksand. As we've seen in those old Tarzan movies, once caught in quicksand, flailing away to get out is apt to suck you down deeper.



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