

Why Empires Fail

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Change is a constant in the world. It is really the only constant. Everything is always changing, every second of every minute of every hour of every day. Yet even as everything is changing, there is some predictability to it.

Everything that exists in the physical universe experiences the exact same birth, life and death cycle. Actually, the cycle may be better described as birth, life, death and rebirth. The theory goes that energy is neither created nor destroyed, it just changes form over time. When we die, our body decays, blending together with the rest of organic matter that exists on earth. In death we remain, just in a different form.

The lifecycle of everything will carry on. This is the most important rule of our physical world. Stars, planets, trees, plants, fish, animals and even rocks are born, live a life in some form and then die. Then they are reborn, recycled, if you will, into a different form.

Just as life cycles exist with everything in the known universe, they also exist in socioeconomics. All economic periods are themselves always changing, always evolving, always moving through their own life cycles. From hunter-gatherer we moved to farming, to and through the Iron Age, the Bronze Age, the Dark Ages and then to the Industrial Revolution. Through each period we experienced constant change, in most cases incremental to the fundamental shift that ushered in each period. We started farming by planting seeds and harvesting crops by hand, but over time the process was incrementally changed to gain efficiency. Now few human hands are used in farming.

During each socioeconomic period, certain contextual circumstances provided different societies an advantage over others. The first and historically most important of these advantages has been access to natural resources. But just having access to natural resources doesn't ensure prosperity. In order to exploit those resources productively, there must be some force that allows people to mold them into economic value. The societies most effective at combining resources with productive order and systems, their institutions and infrastructure, developed into empires.

History has witnessed numerous empires. We know of the Egyptians, Greeks and Romans in the Mediterranean. Genghis Khan and several other Chinese emperors ruled the East. Once the industrial period began, several European empires emerged in the New World. But none of these empires exists today. They all succumbed to that invariable and inescapable life cycle. Why?

This may seem odd, but it is in the nature of empires to fail. The biggest reason they fail is the very thing that makes them an empire: Scale. Scale makes an empire, but it is also what eventually brings them down.

Recall that to become an empire, order and systems, institutions and infrastructure, must exist to productively exploit the valuable resources of any given socioeconomic period. The bigger an empire grows, the bigger its institutions and infrastructure must grow as well. In doing so, they solidify their own eventual demise. Scale introduces two inherent risks, both of which stem from the most powerful force in human nature.

Armchair Economic Perspective

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There isn't any more powerful instinct than self-preservation. We all want to live. Project that instinct one step further and you find our nature to perpetuate. Perpetuation ensures our self-preservation.

Just as individuals seek self-preservation and perpetuation, so too do the institutions and infrastructure that enable an empire. But the larger an empire grows, the larger the scale, the more rigid its institutions and infrastructure become.

Think of institutions and infrastructure as a super tanker. Super tankers can't turn on a dime, their scale and momentum prevents them from doing so. Scale diminishes responsiveness and adaptability, and the self-preservation instinct makes large-scale organizations more resistant to a certain type of change.

There are two basic types of change: incremental and step change. Incremental change is normally to an empire's advantage. Because of its control over order and systems, because of its scale and power, empires tend to control incremental change. Incremental change helps empires grow even larger.

The big threat comes from step change. Step change destroys legacy order and systems. Think of going from hunter-gatherer to farming, from the Bronze Age to the Iron Age, and then to the Industrial Revolution. These are step changes, and when they occur, an empire's scale and momentum puts it at severe risk because step change destroys the legacy order and systems that created the empire. Throw self-preservation and perpetuation instincts into a step change environment and you get institutions and their infrastructures actually fighting the change. The Post Office seems one very easy and obvious example, but let's dig a bit further.

Look at the institution of education today. With all information an Internet connection away, plus today's technological tools, the legacy institution of education is under attack. Just as technology has lowered the cost of many things already, it should naturally do so with education. Information is now free and easily accessible by almost everyone, so why should education cost so much today?

Why is one great professor teaching 60 students a semester instead of 600, or how about 6,000? Today, step change has created an entirely new potential infrastructure. But then will we need as many teachers as we have today? If not, what jobs will they now do? And what will come of all our schools, their administrators, their buildings, and the entire financial system that supports the current educational institution and its infrastructure?

We are told that America has an education problem. The education institution tells us they don't have enough money. But just the opposite should be happening. The cost of education should be plummeting. Step change is there to make that so, but institutional scale prevents it. Instead, the education institution needs more money to support its dying value proposition.

Pumping more money into a dying system is a hugely inefficient use of capital. Perpetuating its existence is enormously unproductive. But self-preservation makes institutions, makes empires, resistant to step change. Institutions don't want to die and be reborn. Too many people, too many jobs, and too much infrastructure are dependent on institutional perpetuation.

Inefficient order and systems perpetuated for too long act as an anchor to empires. And inefficient use of capital eventually devolves into too much owed by the future that was used to save the past. Does

Armchair Economic Perspective
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this sound familiar? The developed markets – the current empires – have sovereign debt problems because they are supporting decaying institutions and infrastructures resistant to change. The scale that made them is now drowning them in debt.

In addition, the larger an empire gets, the more corrupt it becomes. That corruption manifests both institutionally and individually. Consider the Catholic Church during the Dark Ages, or quite possibly, our own political system today.

Self-preservation and perpetuation on a large scale leads to institutional corruption. The institution puts its own interests ahead of its stakeholders. And then self-preservation and perpetuation on the individual level ensures situational ethics reign in a desperate attempt for the individual to remain afloat in the institutional world. “Playing politics” becomes more important than doing one’s job.

When step change is ominously hovering over institutions and infrastructure, the mad scramble for survival explodes. There is just too much at stake to readily embrace step change. So they resist and make every excuse not to give way to new order and systems. They make every argument possible to reinforce their legacy. They change the rules, divert attention to different issues and apply their power in every way to ensure self-preservation. And the larger the scale, the more each individual must calculate and manipulate to ensure his or her own self-preservation.

None of these survival tactics works. There is no way to deflect or avoid the threat to empires during step change periods. Eventually, something has to give, and the cycle of life – birth, life, death and rebirth – ensures that something eventually will.

What will the rebirth look like? What will the new order and systems look like? We likely will only know by looking back many years after the step change has fully worked its way through the socioeconomic environment. One can’t manage towards an end game they have not yet experienced. There is no model to follow. In rebirth, though, the new order and systems will not be based upon theory or emotional desires, but instead on necessity and common sense.

As is the case with each step change, the new economic leaders that emerge from the rebirth phase will likely be those not burdened by legacy order and systems. They have the advantage. For them, step change is the catalyst for birth, a rebirth of the overall socioeconomic order. Step change is what created the United States of America.

Many will debate whether we are currently going through a step change period. Over the last thirty years, countless people have proclaimed new paradigm periods, only to be proven wrong when the business cycle seemed to turn around. But we must keep in mind the boy who cried wolf. Eventually the wolf showed up, just as everyone had decided he didn’t exist. This is probably why these feel like such uncertain and risky times.



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