Too Big to Succeed

By Richard W. Rahn

GOOD INTENTIONS HAVE CREATED AN ADMINISTRATIVE STATE TOO BIG TO MANAGE

Have you ever wondered why it is that even the most successful companies invariably stall out in terms of growth and profits? The reason is that any organization, whether it is a business, a nonprofit, or a government, reaches a point where it can no longer be managed in an effective and efficient manner as it was when it was smaller.

When I took my first course in antitrust as a graduate student, the big concern at the time was that IBM would monopolize the computer industry, that U.S. Steel would monopolize the steel industry, and that General Motors (GM) would monopolize the automobile industry. Such concerns seem absurd today, where there is more concern about the long-run viability of these companies than fear they will engage in monopoly power and abuse.

Sixty years ago, GM had well over 50 percent of the U.S. domestic automobile market. Last week, The Wall Street Journal reported that GM's U.S. market share was down to only 16.7 percent, barely above Ford at 15.3 percent, and Fiat Chrysler at 13.4 percent, with the rest of the market share going to many different foreign automobile manufactures from perhaps a dozen different countries.

All successful organizations eventually add unnecessary costs and become less innovative. Apple, Google, and Amazon maybe at the top of the heap at the moment; but in the same way they replaced firms that were at the top two decades ago, it is almost a sure thing that two decades from now, there will be other, and perhaps totally new, firms that will enjoy the top market caps.

The U.S. government, afraid of having to do another bailout of big financial firms, has imposed much stricter regulatory requirements on those banks and others that are viewed "as too big to fail" or "systemically important." These additional requirements make it much more difficult for those subject to them to be innovative and eventually competitive. General Electric's financial unit, which had more than $660 billion in assets, and at times generated as much as half of GE's annual profit, was listed at being "systemically important," much to the concern of GE's executives. As a result, GE has been shrinking its financial unit, and last week succeeded in getting off the too big to fail list.

Economists have long understood the dangers of monopolies. Monopolies tend to become slothful and less well-managed, are easily corrupted, increase costs, reduce innovation, and thus slow progress. The dangers of monopolies are so well understood that most countries have some type of regulation to try to prevent them in the private sector. But what is too often ignored is that government monopolies of any activity also eventually exhibit all of the characteristics of private sector monopolies, but are even worse because there is often no effective check on them — even in democracies.

Last week, an old friend, Jim LeMunyon, a member of the Virginia House of Delegates wrote to me in response to my article on the "accountable" by saying: "The primary result of a 100+ years of progressivism is that the federal government (and more recently the EU) have become progressively bigger. The sum total of all of the good intentions (education, welfare, transportation, environment, etc.) has created an administrative state that is too big to manage and too big to succeed. The left is totally blind to this. As a result, we (left and right) miss big problems before it is too late, from the mortgage crisis in 2008 to U.S. and U.K. angst in 2016, among others."

The American Founders well understood the problem of ever-growing government and warned against it. The Swiss understand the problem and have instituted a "debt break" which really operates as a spending break to keep government from growing as percentage of GDP. There are many studies which show that as government grows as a percentage of GDP beyond a certain point, economic growth, job creation, and the basic welfare of the people declines.

In the almost 40 years that we have had the federal Department of Education, its budget has grown almost every year to where it now consumes about $100 billion, yet test scores have not improved. The government education monopoly has failed by almost any reasonable measure — more money in both absolute and relative terms has not resulted in better outcomes — a characteristic of monopoly abuse. Private education is not allowed to compete on an equal basis because those who support private schools also have to pay for the failed government schools.

There is an obvious solution to the problems of failed government schools, and this is to give parents vouchers so that many competing private schools have an incentive to provide the best education. The Veterans Administration is another example of a government agency too big to succeed, which could be replaced by a voucher system to each veteran.

When businesses become too big, private competitors take them down. When government units become too big to succeed, the only recourse is for the people to vote out those who have failed in proper oversight, and for the courts to exercise their responsibility to make sure that government is not going beyond what is explicitly allowed by the federal and state Constitutions. Without that, all is lost.

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http://www.washingtontimes.com/news/2016/jul/4/businesses-can-get-too-big-to-succeed/