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The Useful Myth of Running Government Like a Business

By James Ostrowski

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Greater Buffalo has been declining for nearly fifty years. That's not easy in a world where many states, cities and countries have thrived and grown during that same period of time. It takes plenty of thought to keep the miserable status quo going in the face of the public's demand for change.

Buffalo's political class—those responsible for the decline—have been up to the challenge. First, they are absolutely brilliant at making up rationalizations for the decline that keep the blame from falling onto their well-deserving selves. Here a list of some of their excuses:

- St. Lawrence Seaway
- the weather
- air conditioning
- the Marshall Plan (seriously)
- deindustrialization
- “free trade” (in quotes because we don't have free trade)
- corporate greed (as if our corporations are greedier than Florida's)
- globalization
- racism (as if we are more racist than North Carolina)

The actual cause of our decline is the excessive consumption of our capital by the political class: high taxes and fees; burdensome regulations, permits and licensing requirements; corporate welfare and the highest union membership in the country; *too many government agencies employing too many people making too much money.*

The politicians are also adept at what I call faux reform. The purposes of faux reform are to (a) con the public into thinking that real changes are being made; and (b) preserve the status quo regime: a corporate state run by and for the benefit of the political class. For a description of how the corporate state operates, see this essay.¹

There are two possible tests for distinguishing between procedural (faux) reformers and structural (real) reformers. First, do they favor proposals that will reduce the government's consumption of our capital? Second, do they favor returning political power to this region and away from Albany (New York City) and Washington?

The classic faux reform is regionalization. This makes no sense in theory and in practice has failed to cut costs. Most of the costs of government are transfer payments, not administrative costs and our largest governments, state and federal, are already consolidated.

The latest magic bullet for saving Buffalo is *running government like a business.* (Let's leave aside the fact that this idea has been around for decades.)

This is a bad idea and bad ideas are dead ends. Government can't be run like a business because it's not a business. A business is a private, voluntary entity whose capital value is the property of the owners. Government is a coercive monopoly that raises funds by threatening to throw people in jail if they don't pay up. It doesn't matter that the people may not approve of how their funds are spent, or in fact that they strongly disapprove.

Private firms get their funds through voluntary free market transactions. If a business loses money, it comes out of the owner's pocket. If government loses money, it comes out of the taxpayer's pocket; the politicians just retire to Florida with big fat pensions. So government can't be run like a business.

Politicians are not business owners. *They do not own the capital value of their enterprises;* they merely control the levers of power for a time. Therefore, they tend to exploit that power to maximize their *short-term self-interest* and that of their allies. This is why governments almost always under-invest in capital and infrastructure. The politicians won't be around when those bridges crumble. Payroll, benefits and pensions are, however, always fully funded.

The "owners" of government, the public, are not really owners. That's a myth. If you really own county government, just try to sell your shares and you will be prosecuted

¹ <http://www.lewrockwell.com/ostrowski/ostrowski51.html>

for fraud. Since you can't sell your shares and you have no managerial control over "your company," you don't have the incentive that private owners and managers have to be cost-efficient.

Since government property is rarely up for sale, there are no market prices at all for the bulk of public property. That means that there is no way to tell if those resources are being used efficiently. The classic example is the Buffalo waterfront. It has been owned by the government and not up for sale so the market is unable to determine its true worth and value.

The fact that intelligent people cling to this impossible idea of running government like a business suggests to me that they mean it as a metaphor such as "run like the wind" or "beat the stuffing out of them." However, even at the level of metaphor, it fails. A business spends frugally because it wishes to maximize profits. But it can't be too frugal or it will lose customers and revenue. A coffee shop that saved money by asking the customers to drink black coffee would quickly lose most of its customers and revenue. But consider what forces are at play here. There are *customers* who can choose another restaurant. Then there are the *subjective valuations* of the customers who trade off price and quality. There is the *price system* arising from the free exchange of property in the *marketplace*.

How does this metaphor apply to government? Government doesn't have customers. It had no competition in the same area. Since it obtains its revenue by taxation, the subjective valuations of its taxpayers are completely unknown to its officials. It is useless to take a poll or a survey or have a town hall meeting. The only way to know a person's subjective valuations of cost, benefit and price is to observe their free choices. Government can't do that or it would cease to be a government and become an entirely different entity, a business firm.

Is laying off three of the six landscapers at a county park a good idea or a bad idea? A restaurant facing the same issue but with respect to table servers would quickly find out, or would know from past experience. At some point, fewer servers means fewer customers and revenue. Only trial and error can tell and the best estimators stay in business while those who guess wrong lose revenue and even their businesses over time. The only way for a county park to replicate the efficiency of a restaurant would be to *actually become like a private firm* and charge fees to cover all its costs. Even then, without private owners, it would lack the incentive of private business to cut costs and generate a profit.

Private firms try to maximize revenue and profits. Governments make no profits but they do have revenue. Should their goal be to maximize revenue? A cynic would say that is in fact their goal—the revenues of all levels of government seem to increase year after year—but those who want to run government like a business seem to want the government to have less revenue. Again, the analogy to private business is not helpful.

Yet another reason why government can't be run like a business is the inapplicability of private sector accounting methods to government. As economist Thomas DiLorenzo writes:

There is no such thing as real accounting in government, of course, since there are no profit-and-loss statements, only budgets. Consequently, there is no way of ever knowing, in an accounting sense, whether government is adding value or destroying it. All we know is that the budget grew by a certain amount, for some ostensible purpose.²

Another critic of government accounting writes:

Governmental entities operate under the cash basis of accounting, tracking cash in and cash out. To direct their activities, these entities create budgets that list revenue and expenditures. Accounting then is simply the recording of cash flows against the budget. In this world, the cheered concept of fiscal accountability is the process of reporting how close the entity's final revenue and expenditures matched its approved budget. And nothing more. This is an important point to note: whenever government officials speak of fiscal accountability, they are only considering approved budget versus actual spending. They are not referring to worthiness of expenditures, only whether or not they spent revenue according to the budget, with no outright theft of money. Oh, sure, the officials will claim that fiscal accountability means that money was spent on productive activities since, as expected, it is assumed by the governmental entity that only productive activities were approved in the budget. Circular reasoning.³

Running government like a business is indeed an intellectual dead end that fails even at the level of metaphor. It is yet another instance of a faux reform. *Faux reforms are bad since they crowd out proposals for real change.* Real change requires that we reduce the government's consumption of our scarce capital. Free New York has proposed many ways of doing so, including the elimination of 1403 government agencies, spending cuts of \$9.3 billion statewide and \$147 million in Erie County, ending

² http://www.mises.org/freemarket_detail.aspx?control=395

³ Jim Fedako, "Money for Nothing", 2/19/2008, Mises.org.
<http://www.mises.org/story/2865>

corporate welfare and targeting public sector wages and benefits to those earned by private sector nonunion workers.

In a larger sense, our prime mission is to educate the public as to the nature of the foul regime responsible for our decline, the corporate state, the insidious partnership of big business, big government and unions to control the government and use it as their own private piggy bank.

In the corporate state, government is not run like a business; business is run like a government! Politically-connected private firms donate huge sums to politicians. In return, they get to use the government to tax citizens for “grants”. They get to use governmental power to excuse taxes the rest of the citizens must pay. Big firms benefit from overregulation that cripples their smaller and newer competitors.

So let’s put asides the schoolboy fantasy of running government like a business and get to work dismantling the corporatist regime which allows businesses to run like governments.