# *“Trusting Politicians with Our Money is like Leaving a Cat in Charge of a Cream Jug”*

## A debate on illogical endowment, rational depletion of entrusted capital in a monopoly industry, and total decentralization of governmental services.


### Abstract

Some people believe that there are two classes of politicians: the good and the bad ones; that is to say that some politicians hold the public's interest at heart and will make good use of public funds (i.e. taxed capital), while other politicians, due to a plurality of possible reasons, will make inefficient or even fraudulent use of public money. These people often assert that thanks to a system of representative democracy and through a process of trial and error, we may be able to get rid of all “bad politicians” and end up with a transparent, equitable and efficient government.

The purpose of this paper is to dispel this dangerously utopian notion by using arguments derived from natural law as well as from rationalist economics in the praxeological tradition of the Austrian School of Economics.

Its conclusions are that not only is it impossible for capital that is acquired unethically, namely without a person's explicit consent (in other words, capital that is spoliated, stolen, or taxed) to be used in said person's best interest, but also that in the larger scheme of things, every ethical individual in society (every individual who would not generally opt for spoliation, theft or taxation as a means to an end) is to benefit from living in an environment where the services currently provided by governmental agencies are instead handled by private entities which do not act as monopolistic expropriators.

## Introduction

As stated *a priori* by Ludwig von Mises' praxeology, men act in order to exchange a less satisfactory state of affairs for a better one. This fundamental truth is the basis for all human action, and it is essential when explaining the success or failure of any endeavour undertaken by human beings.

As part of this mission to improve their condition, men have often seen it advantageous or necessary to delegate some of their decisions to other men who they deemed wiser or more experienced. In their role as counsellors and leaders, these persons have often required some kind of compensation for their services, by virtue of either their sagaciousness or their divinity.

By earning a significant amount of trust, respect, or even veneration from a large portion of society, some of these men became able to rule over the remaining parts of their societies that had previously been unswayed by them. Due in no small part to the support and consent of a majority, they were able to turn their influence into imposition; their advice into legislation; their salaries into a tax.

Thus the State and its statesmen were born, and having departed from the voluntary nature of their predecessors' purpose (offering the service of leadership to men who desired to be lead), it has from its very birth struggled to legitimise itself in the eyes of its constituents. The State can not plunder the majority of its constituents; in order to be able to tax and regulate a few unwilling persons, it requires the approval of a greater number of individuals.

The ways that the State has legitimised its existence have been varied, and a great transition has been seen from the monarch's claim to religious sanctity to the representative democracy's asseverations of directly representing the constituents' will, however one thing did not change: the inherent nature of the State's legitimacy causing uncooperative citizens (individuals who do not wish to associate with the State) to be marginalised so that the majority of their peers may be indifferent towards their fates – If they opposed the religiously justified rulers they would be regarded as heretics, and by opposing the democratically endorsed rulers they are considered enemies of the public interest.

In a sense it could be said that this transition has been caused by a gradual self-awareness of the constituents in regards to the State's dependency on being approved by a majority of them, hence they have demanded to become part of the government's decision-making process, and by doing this they have brought the State a final step away from its long-forgotten original purpose of voluntarily leading those who did not wish to lead themselves; it is now a system where everybody has a supposedly equal opportunity of leading everybody else irrespective of whether some individuals under this leadership actually want to be lead by another person or group, and as a matter of fact, regardless of whether they want to be lead at all.

This solves the problem of legitimacy for the foreseeable future, for most people now consider that they have the possibility of determining the actions of State, and men are prone to granting validity to such an organisation which they think they are able to influence to their benefit (just as most stakeholders in a company would not campaign towards this company's destruction), however it also comes with an abundance of ethical and practical issues.

For the purpose of this paper I will not explore these issues in full depth, but I will instead look into three related and equally as important matters: the cognitive dissonance that arises in individuals who endorse taxation, the rational (however morally questionable as it may be) behaviour of statesmen, and finally the potential solutions that could restore natural order.

**Illogical endowment**

We will now turn to examine the *approving* taxpayer, that is to say the citizen who not just funds their government (or for that matter any monopoly entity which demands payment for services provided outside of voluntary contractual relations) out of their own volition, but who also advocates the existence of taxation.

Unlike many other taxpayers who, albeit disapproving of taxation, make a cost-benefit analysis and decide that the disadvantages of not paying their taxes (which can ultimately amount to expropriation and potential incarceration) outnumber the possible advantages, and also unlike non-taxpayers who have likewise made a cost-benefit analysis but arrived to the opposite conclusions, an approving taxpayer is an individual who believes it to be either fair or efficient (or both) to entrust, or endow, their capital to a monopolistic service company which *does not expressly need* their permission or endorsement in order to collect said capital.

The fairness or ethic of such a system has often been explained in the form of the *Social Contract,* a tacit agreement between every member of society to accept the services of the State and duly compensate it as we would in any other contract with a service company. But if it is agreed that this contract is indeed implicit, the question remains: how and when is this implication made? In other words, is it at all possible to avoid implying our agreement to the contract?

We may then want to look at other examples of tacit contracts to see if there is any parallel. One of the most common tacit contracts actually happens in the restaurant industry; when a customer comes in and makes an order, he is de facto agreeing to pay the bill, and the waiter does not usually need to confirm this fact. However, this customer was not born with the duty of paying this bill, and it was indeed a series of active actions which made this responsibility befall upon him. Had he not entered the restaurant, sat down and expressed his desire of ordering, he would never have been made liable to such a contract. Furthermore, the restaurant ought to make it clear that people who make the aforementioned actions are entering a contract – for this reason, the menus will almost certainly show each item's price, and some people might, based on whether they appear to be able to pay, be asked to do so in advance, and if they do not they may be asked to leave (thus stopping them from entering a contract which they can not or do not want to fulfil).

We can therefore conclude that, the concept itself being a contradiction in terms, there can be no validity in natural law for the so-called “Social Contract” which nobody can avoid entering, and which everybody supposedly agrees to from the mere fact of being born (a passive rather than an active action). However, we should also attempt to answer the nihilistic and utilitarian perspectives, thereby seeing whether approving taxpayers have a case that stands outside of the law of nature.

Some taxpayers judge that the tax system is just efficient rather than moral (and for some others, its morality is derived not from a social contract, but instead from its efficiency). They know, for the most part, that the services provided by the government could also be offered by private companies in a free market, but several reasons bring them to prefer a government monopoly. We will now examine the common belief that an imposed monopoly is able to offer some services for a lower price than a market economy, and that a larger quantity of people, including the poor and disenfranchised, can thus benefit from said services.

In reality, those prices are not actually universally lower, instead, government monopolies openly charge more to the wealthier members of society who subsequently have to subsidise their use by everyone else. This is the inevitable result of price control.

Before coming back to the subject of government monopolies, let us explain the policies that make them possible. To the largest extent, price control policies appear to contest the law of supply and demand; they assert to be able to increase or keep constant the supply while not affecting the demand. The praxeological truth is that artificially low prices will always create abnormally high demand and result in increased scarcity or even situations of shortage. If the price of cars is, through legislation, set at $0.01 per unit, it is to be expected that many people will try to buy as many cars as the suppliers will sell, and if the suppliers of cars can be forced to keep selling them till they empty their stock, it shall never be replenished, as the production of cars will invariably cease.

In order to counter this, the government may then try to directly expropriate or otherwise modulate the means of production to artificially alter the supply as well as the price. This is what can be referred to as a government monopoly, and in order to create such a state of affairs the government may try to become the sole producing entity in the specified industry, whilst it may also (or instead) start heavily regulating (or heavily subsidising) one or multiple producers in said industry.

This is indeed what has happened to such services as currency minting, arbitration, rights enforcement (police) and defence, road building and maintenance, and several others, sometimes including to varying extents welfare, education, healthcare, insurance, electricity, water, natural gas, telephone, internet, agriculture, and transportation services. These services are now run partially (through selective subsidies and heavy regulation) or fully by the State. Though the services offered by those industries are more or less available to almost all individuals in most societies, the efficiency of this system is to be debated.

For one, due to the economic calculation problem as explained by Mises, we do not know the real market price for these services, and it is very likely, if not certain, that the amount of capital invested into these industries is generating only a fraction of what the same capital could produce in a market economy.

What we do know is that the legal and financial barriers for entrepreneurs to enter any of these industries (where it is even still lawful to do so) have been heightened tremendously, and that this invariably limits innovation (which in itself often reduces the cost of production) by removing competition. There is hardly any incentive for improvement within those industries, either because they have a fixed demand due to the non-competitiveness of their monopoly status, or sometimes even because the profits they bring forth are no longer affected in any way whatsoever by changes in the demand for their product (as is the case in heavily subsidized industries).

In order to allow access to these services to even the poorest citizen, the exponentially multiplied cost of producing them is borne unto the wealthiest citizens; this reduces the utility of capital accumulation which in itself depends on investment (either of labour or of pre-existing capital), thus increasing time preference and disutility of labour (disincentivising saving), and therefore increasing poverty. It is a perpetual cycle of reducing productivity which creates the very impoverishment it claims to aid.

**The rational statesman**

Statesmen, or politicians as they may often be referred to, are in a sense the financial managers of the system described above. Aside from advocating these policies and attempting to pass legislation that will permit their enforcement, part of their job is also to redact government contracts which allocate public funds to certain projects.

Now let us review the incentives of an individual who has the above job description. To their credit, they have been elected to their position, they may also seek to be re-elected in the future, and this may entail some accountability towards their constituents. However unlike a regular employee's accountability towards their employers, the politician's constituents do not have a clear insight of his productivity; they can not go into his place of work, much less make an accurate value judgement of his work ethic, so they base their perception of the politician from other factors, such as compatibility of opinions and overall reputation, for this reason, the politician is probably going to want to maintain a good public image.

Aside from this slightly uncommon incentive for public relations (an interest that is also shared by actors, CEOs, journalists and celebrities in general), a politician's motivations are not that different from any other individual's. They too have disutility attached to labour as all men do, meaning that they will want to do the less possible amount of work for the greatest possible amount of compensation; in other words, that they will seek to maximise the utility derived from their employment. While this is a natural and completely unproblematic position for the rest of individuals in society, a politician has the unique distinction of being able to increase their own salaries at the cost of the rest of society, completely irrespective of their constituents wishes; they only require the approval of fellow politicians (who, I must emphasise, also share the same disutility of labour) to do this.

The opinion of their constituents is then only a limiting factor insofar as they can still get re-elected, and an efficient statesman (that is, a politician which does their job in a way that maximises both their utility and the public's opinion of them work at the same time) will find a way to match their voters'  interests with his own.

We must remember then, that this job is a highly competitive one, since there is only a very limited amount of positions available compared to the extremely large pool of available candidates. In such a competitive environment, only the most efficient candidates will come ahead, because in the democratic system, an artificial “market” (this analogy is also made multiple times by Ludwig von Mises in Human Action) is formed where the customers are voters, the products are politicians, and the “money” is in the votes themselves. Not surprisingly, the democratic market is not a free market, many rules and regulations apply to it, and some candidates may even be “subsidised” (usually by influential lobby groups), therefore creating an artificial demand for them.

One of the ways in which a politician can derive utility from their jobs is by pandering to such lobby groups who can in return offer them money, potential votes, or job security for themselves (after their career in politics) or their family. An inefficient politician may do this once or twice, be criticised by their constituents and never be voted into office again, but an efficient politician, one who is likely to have a long career in politics, is a politician who can consistently convince a majority of their voters that the actions they take are in accordance with society's best interests.

In this way and in other more subtle ways, a politician's actions are almost always traceable to some individual's (or group of individuals') private interests, in contrast to the so-called  “public interest”. Since re-elected politicians are those who can conceal this the most efficiently, we must conclude that political positions inherently attract the most psychotically charismatic persons in society, and that the entire governmental structure gives opportunities to completely rational human beings to act with impunity in ways that no other individual could; only a man who derives a very high amount of utility from acting in the interest of society could ever really do so in a political position, and these men are for the most part taken up in other lines of work such as charity, entrepreneurship or scientific research, where they can do good without being given morally questionable privileges.

Another important contrast that must be made is that of the top-ranked politician in the democratic system, the president or prime minister, and the kings or princes from the old monarchical regime. Hans-Hermann Hoppe makes a very good argument about this in his book, Democracy: The God that Failed, when he compares the intrinsic natures of these two types of leaders.

To resume it concisely, Hoppe argues that a monarch typically considers the State over which he rules as his inherited property; one day, after he passes away, his son will be bequeathed ownership of the State and on it will depend the livelihood of all of his descendants. For this reason, a monarch's strongest wish is not necessarily to maximise the monetary revenues which he receives from his kingdom or principality; he has a potentially stronger incentive to safeguard its value as an asset, and therefore, as long as he has a sufficiently low time preference, he will attempt not to overtax his subjects, and he might as well allow competition and innovation to flourish in as many industries as possible by abstaining from overly regulating or subsidising them.

In severe contrast, a democratically elected leader is merely a temporary caretaker of the State; his position carries no inherent incentive to protect the worth of the State, and thence the president or prime minister will typically try to maximise his revenue (both monetary and psychic) with no regards to the future of the nation, regardless of his time preference.

**Decentralization**

Although monarchy might be the lesser evil when compared to democracy, it remains an evil and can never be compared to the efficiency and ethic of a natural order society. One thing that the first two systems have in common is that they centralise a number of services by the aforedescribed monopolising policies. There exists many degrees of centralisation, and perhaps the most extreme example of an almost fully centralised economy has been within the USSR, where communist ideology pushed the State to attempt to own all the means of production. Most modern States do not try to be as centralised as the USSR, but there are indeed a few industries which are almost universally centralised across all nations, the minting of currency, the courts (arbitration services) and national defence (armies) are a few prominent examples.

We will begin our investigation into decentralisation by looking at an industry which was previously centralised through State regulation and which was subsequently deregulated by the government itself. The industry in question is the trucking industry in the United States, which was at first heavily regulated by the Motor Carrier Act of 1935, thereby creating extremely high barriers for entry due in part to extremely prohibitive (almost impossible) licensing; in 1976 the Associated Transports Inc sold its operating rights for $20 million at a public auction, which adjusted for inflation would be about $84 million today.

Of course, a few individuals were able to profit from this regulation, for example the American Trucking Association (ATA), which transported 40% of all trucked goods and had a turnover of $31 billion dollars (about $130 billion adjusted for inflation) with its team of 17,000 regulated truckers. By exemption from the antitrust laws, they had been given the right of setting the industry-wide minimum rates through the rating bureaus, and they enacted this privilege of price control in a way that further decreased competition. Compared to countries (such as Great Britain) where the trucking industry was unregulated, the charges for trucking services in highly regulated countries such as the US were 75% higher.

The ATA heavily opposed the deregulatory Motor Carrier Act of 1980, they predicted that quality of service would decline and that small communities would lose access to trucking services. In reality, when the deregulatory act was passed, the service to small communities improved and the number of complaints filed to the Interstate Commerce Commission (ICC) decreased, from 390 reports made in 1976 to only 23 that were filed in 1980. The act reduced the price of licensing and prohibited rates bureaus from interfering with any carrier's rights to publish its own rates. Some 2 years later, several shippers reported declines of up to 40% in service rates, and by 1990 there had been an influx of new firms, with the number of licensed carriers exceeding 40,000 (more than double the amount in 1980).

In this way, and thanks to an unusually wise change in State policy, the centralised authority of the American Trucking Association was abolished, allowing both consumers and non-associated producers to reap the benefits of decentralisation. Let us now turn to modern examples of decentralisations which are not enacted by the State, but which are occurring despite unchanging regulation.

The taxi industry suffers from similar (albeit not nearly as severe) licensing challenges as the trucking industry did; for the purpose of this research, we will be looking at the situation in a location with much lighter regulation than most European countries; Los Angeles, California.

Whilst the prices of licenses and their requirements are not overly prohibitive ($255 application fee for the business license, about $130 for the chauffeur's driving license, between $300 and $500 for the mandatory taxicab meter, and between $50 and $150 for the equally mandatory toplights), they are still a time-consuming and bureaucratic process which deter many people from entering the industry.

In essence, these requirements are completely unenforceable on persons who discretely transport other individuals which in turn are willing to compensate them for their labour. However, a successful taxi business requires advertisement or in any case a minimum of exposure to the potential client base, and this makes the above regulations enforceable at least on profitable businesses.

This is why services such provided by companies such as Uber and Lyft have arisen, permitting any car-owner to offer their services as hired transporters. These services aim to stand outside of the regulatory structure by declaring the compensation for the service a “donation”, since there are currently no regulations on transporting people for free, as well as no regulations on making a private donation of money to another individual.

As a result, people who would not otherwise have considered entering the taxi industry are now competing with State-licensed cabs and are on average offering a far better and cheaper service; an Uber ride from Beverly Hills to Santa Monica costs about 41% less than one with a licensed taxi; in addition, data gathered by Forbes Magazine from 208 respondents in San Francisco revealed that 90% of Uber passengers were picked up within 10 minutes, compared to 40% of taxi customers.

Many jurisdictions, including California, are fighting back against these ride-sharing companies and are attempting to apply new sets of regulations on drivers who use them. To avoid the aforementioned enforceability issues, they want to compel the organising companies themselves to comply to the regulations, so that they may not provide their matchmaking service to drivers who have chosen not to abide by the new rules.

Uber and Lyft are registered as companies, they have directors, stakeholders and physical offices; in other words, they are jurisdictionally liable entities run by clearly answerable individuals. They decentralise the taxi industry, but remain centralised entities themselves, and can change the rules they apply to their users at any time. This is where the breakthroughs in peer-to-peer technology and encryption may come in handy.

We can today imagine a service just like Uber or Lyft which is instead provided by the users of the service themselves. The website and mobile applications that provide the service can be written and designed by a community of (potentially anonymous, if they wish to be) internet users in an open-source format, and the servers which run these websites and applications can be provided by the very computers owned by service's users, possibly through untraceable software.

This revolutionary form of decentralisation can be applied in almost every industry, and it is exactly what an internet user under the pseudonym of “Satoshi Nakamoto” has envisioned as the future of money. Satoshi sought to permanently decentralise the money minting industry by creating a virtual coin, named Bitcoin, which could be minted by any computer owner in the world, and whose infrastructure was run precisely by whoever would run that minting software (which is referred to as a mining software, since it replicates the mining of gold by increasing the difficulty to mine new coins as more coins enter the system). He wanted to create a currency which was perfectly analogous with the fundamental properties of money; he made it scarce, ensuring that there would never be more than 21 million bitcoins in existence, and provided incentives for running the minting software beyond the mining of the very last bitcoin (see Section 6 of the Bitcoin white paper).

Crypto-currencies such as Bitcoin also seek to improve and innovate on the current state of money. If Bitcoin shares all the positive properties of gold, it also holds many advantages over it, such as its ease of transfer and storage. One of its most important properties is its existence on a permanent public ledger called the Blockchain; all the bitcoins are located somewhere on the Blockchain, which anyone can view but nobody can freely edit. The use or transit of bitcoin can be made completely anonymous or completely public, depending on whether the identity of the holder of an address on the Blockchain is known or not. This is a groundbreaking advance for the purpose of accounting, and it is in this unique payment system that Bitcoin's use-value (as required by Mises' regression theorem) can be found – in short, Bitcoin's value is inextricable from the Blockchain.

Just as bitcoin is not generated by a central entity, its value was not imposed by one either. Bitcoin gained value spontaneously through the voluntary exchange of individuals, its emergence is still occurring gradually, in a process that has been described by Menger when he himself talked about the original value of a currency; “This transition did not take place abruptly, nor did it take place in the same way among all peoples”.

In conclusion, Bitcoin and other similar breakthroughs in decentralisation are the key to a return to natural order. By obsoleting the State's regulations and providing real and unstoppable market alternatives, human actions will determine whether or not a monopoly on the use of force can truly trump individuals' desire to trade peacefully and voluntarily. I predict that, for all of the reasons exposed in this paper, the perceived legitimacy of the State will eventually vanish in the near future, as its ability to enforce economic policies is gradually destroyed by technologically-driven decentralisation. Our riches will no longer be at the mercy of the metaphorical cat who has so far enjoyed centralised control over all the cream in society.

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