Government Self-Capture and the Decline of Nations

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Abstract:

Recent research points to endogenous as opposed to exogenous factors as being responsible for the decline of nations. Among the key endogenous factors is the extent to which political-economic institutions are extractive and do not provide a society’s citizens sufficient “skin in the game” and entrepreneurial incentives to innovate.

The existing economic model of politics largely focuses on capture of the apparatus of the state at the expense of the broader public by private special-interest groups from the demand-side of the policymaking process. These groups can include producers, consumers, capitalists, economic elites, ideological environmentalists, labor unions, 1-percenters, and so on. Scant attention has been devoted to perhaps the most pernicious form of political capture by government insiders on the supply-side of the policymaking process—rulers, policymakers, and public sector employees. Yet government insiders have the motive, means, and opportunity to co-opt the machinery of the state to garner pecuniary and non-pecuniary rents at the expense of the general body politic. Furthermore, government self-capture is difficult to undo due to the incentive government insiders have to hang onto power, slack in the relationship between constituent-principals and their political-agents, and the difficulties of relying on a market for political control.

This paper outlines the factors driving government growth and thereby the potential for self-capture. The curbs, albeit imperfect, that constrain the co-opting of the state apparatus by government insiders are also catalogued. Evidence is provided both on the incentive government insiders have to hang on to power and activities and how consistently and consequentially government self-capture has diminished the wealth and well-being of nations.