

# The Crisis of the Institutions of Our Time\*

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## Niall Ferguson The Great Degeneration – How Institutions Decay and Economies Die

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In the most recent book by *Niall Ferguson* – the best-known British economic historian today – the author attempts to shed light on the causes of the decay of Western civilisation. The signs of the decay of the West surround us: slowing growth, rising debts, ageing population, increasingly anti-social behaviour. From a historical perspective, the Western countries have now accumulated unprecedented high levels of debts, while the number of active workers decreases. Since 1980, social inequality has been increasing, bureaucracy has been constantly growing and social mobility has been falling. The United States used to be the land of opportunities; today it is controlled by a new aristocracy, a so-called “cognitive elite” (a leading layer with higher education). According to *Ferguson*, the West has now become the “motionless state” explained by *Adam Smith* in *The Wealth of Nations*.

But what are the causes? *Ferguson* argues the answer is that the system of institutions of the West – which ensured its past successes – has come to a crisis. The explanations which try to explain the situation merely by “deleveraging”, globalisation, the IT boom, and financial or political changes are unsatisfactory. In the author’s understanding, after 1500 the success of Western society rested upon four pillars: representative government, free market, the rule of law and civil society. These are the institutions that have deteriorated

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by today. In accordance with this, the real causes are the democratic deficit, the fragility of market regulation, the erosion of the rule of law and the “uncivil” society.

The individual chapters of the book analyse these four causes. The first analyses the crisis of democracy, i.e. the crisis of representative government: following the glorious revolution, the English elite has been transformed and opportunities for betterment opened up, meaning that the society’s mobility increased as never before, and the power of crown became subordinated to the parliament. All these paved the way for the development of a democratic institutional system and later the development of British world power. This institutional system was taken over by the West, and today we are experiencing the crisis of this. In addition to a number of mistakes, its greatest sin is that by way of continuously high national debt it consumes in advance from future generations, thus violating the partnership between the generations.

The other strong pillar of Western society, the free market, is also in crisis. In *Ferguson’s* opinion, a deceitful debate is going on as to whether more strict regulation or deregulation is needed. Following the catastrophe in 2007–2008 the number of condemnatory judgements was surprisingly low. In fact, the quality of regulation is inadequate: it has no retarding force and does not sanction effectively. The official role of central banks should likewise be strengthened both in the monetary and in the supervisory system.

The crisis of the third pillar, the rule of law, is perhaps the most severe. At the peak of its successes, the judicial body of Victorian England acting on general affairs had only 15 members. Likewise in this era, the foundation of companies, the development of the economy was unconditionally supported – as the society’s spearheads – by the legal institutional system and the lawyers. By contrast, today the state exceeds its scope by pleading national security considerations, while the complexity of laws and the increasing costs of the legal system undermine the traditions of the rule of law, making it impossible to enforce the interests of jurisdiction and market economy. *Ferguson* claims that the main reason for the calcification of the legal and political system is that it cannot resist the “rent-seeking” activities of organised interest groups.

The fourth pillar is the civil society, which also shows signs of decay. *Ferguson* reports alarming facts about the decline of the civil sphere. In his view, the reason for this is mainly the increasingly strengthening state which has forced back the civil sphere by promising security. However, real citizenship is based on participation, self-governance, the education of our children, paying attention to the weakest in society, fighting against sin and keeping our streets clean. He contravenes the opinion according to which this task could be taken over by the nowadays popular social community networks on the Internet. According to the author, the reforms must come from outside of the institutions and emerge from the organisations of civil society, i.e. from us, the citizens.

In *Ferguson's* view, the future will be easier for those who are not indebted or who have large raw material reserves. But a number of factors are unpredictable. We don't know which raw material will rise in value or how politics will influence our lives. We cannot predict natural catastrophes, the extent of nuclear threat nor the wars that break out unexpectedly. He is also pessimistic in respect of whether a technological revolution will promote civilisation. *Ferguson* claims: more and faster information in itself is not good, and nothing guarantees that it will serve good purposes.

*Adam Smith* had the opinion that the states would reach the phase of motionlessness when the "rent-seeker" elite takes the control over the economic and political processes. *Ferguson* claims that this already has been the situation at the most important parts of the Western world. Today's generation is spending at the costs of the next and not yet born generations, and the crisis of national debt is nothing else but a symptom, the symptom of the betrayal of future generations. Complicated, but ineffective regulation only increases the fragility of the system. The rule of law or the constitutional state distorted to the regime of lawyers. The lawyers, who should play an initiating role in the renewal of the law and order and in the maintenance of a dynamic society have become the parasites of motionlessness. And the once flourishing civil society is decaying, it shrivels up in the "no man's land" between corporate interests and overgrown government. *Niall Ferguson* calls these factors collectively as the Great Degeneration.

The great challenge of the time before us is whether or not we can repair our institutions and reverse the Great Degeneration and return to the fundamental principles of truly free society. In his opinion, the civil sphere and the citizens' initiative could be the depository of this renewal.