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holds a History degree from the University of Oxford. He studied economic history at the University of Manchester and holds a PhD from the University of British Columbia. He came to the University of the Witwatersrand in the late 1960s and was Acting Head of the Department of Economic History from 1978-1983 and Head of the Division of Economic History from 1987 to 1900. He was professor at the University of South Africa from 1993-2004 and an Honorary Professor at WITS from 2005-2011. He is the founder of the South African Journal of Economic History and was the Editor from 1993 to 2011.

Now retired, he lives in Johannesburg, keeping a close watch on the South African economy and development in the Western World, having long held the view expressed by Niall Ferguson in The Great Degeneration.

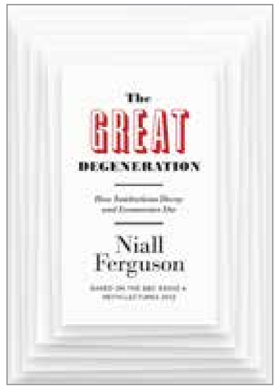
BOOK REVIEW

The Great Degeneration – how institutions decay and economies die
By Niall Ferguson

Readable, immensely erudite and deeply disturbing, The Great Degeneration is a brilliant and convincing analysis of why the west is declining and why this is happening so quickly. Ferguson argues that this process is probably irreversible, as the only way it could be arrested is for politicians to change the way they approach the process of raising and spending taxes; for them to stop trying to micro-manage the economy with excessive regulations; and for civil society to undergo a radical change in the way it reacts to the increasing intrusion of the state into people's daily lives.

The book is a sequel to *Civilization*, published in 2011, in which Ferguson identified six sets of circumstances; he calls them "killer apps", which led to the rise of the West, namely, competition, science, secure property rights, medicine, the consumer society and the work Ethic. These circumstances are now giving way to Adam Smith's *stationary state*, in which sustained economic growth is increasingly difficult to achieve, and in which laws and institutions have degenerated to the point that the elites' rent-seeking increasingly dominates the economic and political process. Ferguson analyzes the causes of this degeneration and is inspired by Adam Smith's insight that both growth and stagnation are in large measure the result of laws and institutions. Identifying the key components of Western Civilization as: democracy, capitalism, the rule of law and civil society, Ferguson proceeds to analyze each of them in a separate chapter in a way that makes one wonder whether democracy inevitably contains within it the seeds of its own destruction.

The first chapter provides an analysis of what caused the divergence between East and West; with England leading the way, because it was the first country to adopt inclusive rather than extractive political institutions, with an open access pattern of development as opposed to a limited access pattern of development. North, Wallis, Fukuyama and Acemoglu and Robinson see the break coming in the late eighteenth century at the time of the American break with Britain and the French Revolution, but Ferguson argues that the great divergence began in the sixteenth century and then widened at the time of Glorious Revolution of 1688. Here his chronology becomes a little confusing for he argues that the sequence of development is clear: "first the Glorious Revolution, then agricultural improvement, then imperial expansion, then industrial revolution" (p.33). He sees the changes taking place after England had adopted inclusive institutions, in 1688, when it may be argued that these had been adopted a century and half earlier and that the events of 1688 were a consequence of economic growth. Agricultural innovation began at the beginning of Elizabeth I's reign followed shortly by the transformation of the English wool industry and trade – all of which were well under way before the first colonies had been acquired. This led to London becoming Europe's largest city by 1640, and England becoming the world's largest exporter of wheat by 1688. England had appropriate institutions in the sixteenth and early seventeenth century. Henry VIII may have been a tyrant, but he was also a very constitutional ruler. He could not raise taxes at will and neither could Elizabeth I. Property rights were already reasonably secure, which supports Ferguson's argument, but Ferguson places it in a longer framework and sees the later political changes of 1688 as a consequence of economic growth, which was more dynamic in the later sixteenth and seventeenth century than it was in the first half of the eighteenth century.



THE GREAT DEGENERATION – HOW INSTITUTIONS DECAY AND ECONOMIES DIE
By Niall Ferguson
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The political dispensation of 1688 led to the government being able to tap into the nation's resources by means of a national debt in a way that was not possible in non-constitutional Europe. The ability of the government to borrow in times of war enabled Britain to defeat France and to establish a world-wide empire. Importantly, economic growth in the nineteenth century was always higher than that of the interest paid on the national debt, thereby allowing the country to provide evidence of Edmund Burke's dictum that society is a contract with the state in a partnership between the living, the dead, and those not yet born.

Governments should adopt the Generally Accepted Accounting Principles and draw up generational accounts. The present system is fraudulent and misleads the public.

It is this that has changed today. The enormous intergenerational transfers implied by current fiscal policies are a breach of this partnership and they are not caused by wars. Japan's total debt amounts to 512% of GDP, the United Kingdom's to 507% and France's to 346%. And these totals do not include unfunded liabilities of social security and health schemes. The net present value of future U.S. federal government liabilities, for example, is $200 trillion. That is thirteen times the debt stated by the U.S. Treasury. Unfortunately attempts to reduce them by cutting expenditure are likely to fail in our modern democracies because they run up against two well-organized opposition groups: the recipients of public sector pay and the recipients of government benefits. A possible solution proposed by Ferguson is to force governments to alter the way in which they present their accounts by comparing assets with liabilities. Governments should adopt the Generally Accepted Accounting Principles and draw up generational accounts. The present system is fraudulent and misleads the public. If this is not done Ferguson sees two possible future scenarios: default and inflation like Argentina, or more quantitative easing with borrowing costs kept down by foreign money flowing in leading to low growth and Adam Smith's *stationery state*. An "Inglorious Revolution" will occur, with China adopting most of the "killer apps" analyzed in his *Civilization* and the West reverting to China's condition in the eighteenth century.

Excessively complex and intrusive regulations reinforce the damage done to the economy by excessive government debt. Krugman and a host of other neo-Keynesian economists and TV commentators blame lax regulation for the current financial crisis and see a solution in more regulation at time when excessive regulation is strangling western economies. As Ferguson wryly notes, Bear Sterns and Lehman Brothers could have collapsed even if the Glass-Steagall Act had remained in force, while Countrywide, Mutual and Wachovia blew up without moving into investment banking. The current financial crisis was caused by bad banking practice and inadequate supervision by the Federal Reserve in America, and Brown's bureaucrats in Britain. The latter claimed to be the saviour of the world's financial system in 2008, In fact, he was the principal architect of collapse in Britain by removing supervision of banks from the Bank of England and giving the task to bureaucrats in the Financial Service Authority

The lesson of the 1990s in Britain was not that deregulation is bad but that bad regulation is bad; the same applies to the United States today (p.54). The crisis of 2007-12 was a regulatory crisis, in which excessively complex regulation is the disease of which it pretends to be the cure (p. 59). Regulation should make banks less fragile; but in the West in recent years it has made them more fragile. Ferguson's advice is to strengthen the authority of the Central Bank, giving it considerable latitude in the use of banking tools, to teach bankers financial history, and make them pay for their transgressions '*pour encourager les autres*'. This would meet the requirements of banks today, but it would not significantly reduce the flow of excessive regulations that is inherent in the degenerative process steadily overwhelming Western countries. Think of the role of Brussles in the European Community, where the Commissioners are virtually out of control and their departments spewing forth a veritable tidal wave of regulations. Nor would it arrest the declining competitiveness of the U.S. economy.

It does not however solve the fundamental problem: there are too few independent schools in both Britain and America to maintain effective competition to the failing state system and that this lack of independent schools is itself a consequence of the decline of local initiative that is a symptom of the general degeneration taking place in the West.

In the last chapter on civil society Ferguson looks at the decline of local enterprise in both Britain and America. The stifling of local initiative by the ever increasing power of the centre is very recent and has had far reaching consequences in America, where as de Tocqueville noted a century and a half ago, America's myriad of local political associations acted as a counterweight to the tyranny of the majority. This decline in social capital is widespread in the English speaking world; it was never so strong in Europe, and is perhaps most damaging in education. In America the state virtually monopolises school provision and does so badly, lacking a vibrant independent sector to act as a yardstick by which the public schools may be measured. Without effective competition the standards in the public schools have steadily declined while the teachers' unions have become the most reactionary force within society, blocking as far as possible the reforms that have in recent year transformed the schools in Scandinavia and the Netherlands. At the university level there is competition and this has forced the state sector to maintain standards.

In England it is the reverse. Independent schools set the standards and expose the failings in the state system against a torrent of abuse from the teachers' unions but, at the university level, the universities have been reduced to becoming agencies of the National Higher Education Service. The increasing number of charter schools in America and academies in Britain, forced through by the central government in Britain and regional or local reformers in America offers hope for the future. It does not however solve the fundamental problem: there are too few independent schools in both Britain and America to maintain effective competition to the failing state system and that this lack of independent schools is itself a consequence of the decline of local initiative that is a symptom of the general degeneration taking place in the West. The state has lost the battle to monopolise the production of manufactured goods but it has not lost the battle to control the provision of services where public sector unions have now become public enemy number one.

The threat to the West comes from within, from the growing debt burden, the unending expansion of the bureaucracy, the greed of bankers and parasitic lawyers and an increasingly supine civil society.

The decline of once dominant states is a well known historical phenomenon. Where Ferguson brings light to it is in drawing attention to the speed with which it occurs. Real life is not like Kenneth Clark's art history in which civilizations rise slowly to maturity, then flourish before gradually declining. In real life the collapse occurs suddenly; Examples include the experience of Rome at the beginning of the fifth century, of Spain twelve hundred years later and earlier still Ur in 2004 B.C, and both Babylon states around 1750 B.C. and 539 B.C. Ferguson's explanation for the suddenness of their collapse is by way of a comparison with the natural world, in which one small input can produce unexpected changes.

When England and America were pace setters for economic growth with constitutional government, neither of them were democracies, but they were able to prevent the tyranny of the majority and to restrain the power of exploitative elites in a way that does not seem to be possible in our more democratic age. Constitutional states were also more aware of the need to live within their means than their democratic successors. The threat to the West comes from within, from the growing debt burden, the unending expansion of the bureaucracy, the greed of bankers and parasitic lawyers and an increasingly supine civil society. Not surprisingly politicians everywhere are losing respect. They and their acolytes in business talk of the seriousness of the debt crisis and immediately propose to solve it by more borrowing with low interest rates maintained by their central bankers. Is this self- deception evidence of western societies' degeneration? Low interest rates do not cause growth (think of the 1930s). Growth is caused when managers and entrepreneurs see the prospect of increased profit from borrowing. Politicians like low interest rates because they reduce the cost of servicing the debt burden. They do not tackle the real problem which is the loss of confidence in the economy and in its managers. The inability of western governments to get to grips with their overspending may be the result of career politicians replacing men of conviction in modern legislatures at a time when the complexity of both business and government is increasing rapidly. Neil Ferguson has identified the problem and is rightly pessimistic about the prospects of finding a solution; but he has not provided an explanation of why it is happening. Older civilizations, that were just as intelligent as we are today, could not prevent their decline and that seems likely to be the West's fate. It may be an inherent part of way societies develop.