



Transforming Governance: Reducing the Cost of GOFPAU

In [Tomorrow 3.0: Transaction Costs and the Sharing Economy](#), Michael Munger asserts that technology-enabled reductions in transaction costs will drive the next economic revolution, as:

... reduced *transaction costs foster permissionless innovation* to make more efficient use of *excess capacity* [meaning that] more people can get cheaper, better access ... (p. ix)

... entrepreneurs ... specialize in selling not more stuff, but reductions in transaction costs for access to existing stuff. (p. x)

He suggests the key driver of economic disruption in the past two decades has been a steep decline in the transaction costs associated with “commodifying” many things. (p. xi) Farther back, more than eight decades ago, [Joseph Schumpeter](#) observed entrepreneurs innovating new systems and organizations to deliver goods. (p. xii) While Schumpeter referred to physical goods, his observation is potentially applicable to socially valued “goods” ([good works](#)) as well. Indeed, Munger notes:

The middleman economy arises from the ability to sell reductions in transaction costs to enable mutually beneficial exchange in commodities, **services, and activities that may not even have been conceived as commercial until now.**” (p. xiii, emphasis added)

While he does not explicitly extend that thought to encompass governmental functions, in [Your Next Government: From the Nation State to the Stateless Nation](#), Tom Bell does exactly that, [asserting](#): “The market for **governing services** ... has begun to enter a period of rapid change... This quiet revolution, working from the inside out, stands to transform government ...” (emphasis added)

Regarding economic transformation, Munger says new value will be derived by creating and selling reductions in transaction costs, thus enabling better use of stuff that already exists. (p. 3) The “stuff” of governance already exists in various forms and much of it might be more efficiently shared in lieu of being reinvented, e.g., on a regional and/or functional basis rather than in every locality and in myriad data stovepipe information systems.

Indeed, “[shared services](#)” are currently in vogue, at least in theory, [among U.S. federal agencies](#), if not necessarily yet [on an intergovernmental basis](#).

Yet a more fundamental question is how much of that sort of governance stuff is really needed in modern times, particularly in the face of increasing political polarization on one hand and, on the other, the potential for internationally standardized data and systems. Lest that potential be taken as a charge for top-down mandates from unelected international bureaucrats, however, Munger suggests:

... cooperativeness is the default, the core tendency, the central psychological fact of human society... “markets” nurture and expand this natural cooperativeness ... willingness to depend on others creates enormous potential benefits, as all of us work for everybody else.

On the other hand, he notes needlessly high transaction costs throw “sand in the gears of the system” thus preventing cooperation even when it would otherwise be beneficial. (p. 4) Moreover, while we now hoard resources needed by other people, we will be more capable of specializing and sharing resources efficiently if transaction costs are reduced. (p. 4)

By Munger’s logic, an ***understanding of transaction costs changes how we think about almost everything***. (p. 5) So let’s consider that thought in relation to the role and structure of government.

He points out that software can do “things humans have *never done*, and *never thought of doing* because until now the transaction costs have been too high.” (p. 9) As they rode their horses and carriages to Philadelphia 230 years ago, among the inconceivable things our nation’s founders could not have envisioned is the present-day possibility for self-governance that is exactly that – governance of *ourselves* – and not merely a euphemism for outmoded, politically polarizing [majoritarianism](#).

With regard to [selfhood](#), Munger proffers that society is “the aggregate consequence of many individual actions that are not planned or centrally directed.” (p. 12) However, politically motivated activists would have society conform to policies and programs centrally dictated by them and their partisans, if only they could consolidate sufficient power. Toward that end, in an [article](#) published on the World Economic Forum’s website, Teemu Alexander Puutio suggests a return to ancient [city-statehood](#) whereby should cities pick up the slack for the failure of nations to achieve “sustainable dominance” – by obtaining more “political clout” and sovereignty at the municipal level.

By contrast to such politically motivated centralization of power at any geographic level of government, Munger notes, “Capitalism is a system based upon *consumer* sovereignty, animated by the response of owners of resources to prices, and by entrepreneurs to prospects of profit and loss.” (p. 13) Those who believe they know what’s best for everyone would grant themselves the “clout” to impose their will upon anyone who disagrees with them. Implicit in their perspective is the thought that people cannot be trusted to control their own resources and behavior in ways that benefit not only themselves but others as well. If that’s their view of human nature, one wonders what that says about themselves.

Perhaps the most famous social architect was Karl Marx, who prophesied that wages “would be driven down as labor was ground-up in the relentless machine-like gears of increased productivity” – as if productivity should be taken as a bad thing. However, contrary to his prediction, the opposite occurred. Prices fell dramatically while

wages rose along with productivity. (p. 13) Meanwhile, his disciples consigned themselves to falling far behind capitalist economies, thereby needlessly and pointlessly dooming their people to impoverished lives.

Like Marx, today's social activists commonly view their actions as exempt not only from the law [unintended consequences](#) but also [Murphy's Law](#) and the [Peter Principle](#). Moreover, even to the degree adverse consequences may occur, they are excusable because, after all, the intentions were beyond reproach.

Intentions aside, Munger observes, "The development of 'society' is a process, and reductions in transaction costs on every dimension accelerate the process by allowing many basic routines and processes to be used as if they were available in the library." (p. 16) However, that assumes the process is not thwarted by those who feel morally superior and, thus, empowered to burn the books in the library while attempting to impose their will upon others, as did the [Luddites](#) in the 19th century and extremists on both ends of the political spectrum seem to feel entitled today.

As for what we may feel entitled to acquire and possess, Munger suggests what we truly seek is not ownership of things but rather access to the services they provide. (p. 21) Outright ownership of other people was outlawed many years ago. However, the right to control much of what others do as well as how much of their money is collectively spent is taken as a given in all governance systems. Progressives tend to believe more collectivity is better, despite ample historical [evidence to the contrary](#), often with disastrous results.

Taken to one extreme of the Communist point of view, Munger notes bio-anarchist [Piotr Kropotkin](#) believed the advantages of cooperation – what he called "mutual aid" – are so great that the state will eventually become unnecessary. Although cheating, like [free-riding](#), might be temporarily advantageous, he reasoned that people would eventually recognize responsible cooperation is always better. (pp. 27 & 28) That would seem potentially to be true, with a couple caveats, both of which are consistent with Kropotkin's belief in the importance of *decentralization*:

First, evidence of irresponsible behavior should be clear and readily accessible – not to [Big Brother](#) agents of government but, rather, to affected [stakeholders](#) and especially to friends, family members, neighbors, and community groups.

Doing so requires a renewed sense of privacy, one which acknowledges and appropriately forgives occasional lapses of judgment but which by no means ignores, much less hides, contemporary misbehavior. The notion of privacy has been dramatically altered by social media while at the same time national policy movements, like criminal sentencing reform, are trending toward forgiveness of those who have matured to behave more responsibly. In a very real sense, what's needed is a return to the times when neighbors, family, and members of the community essentially knew everyone else's "business". Uncivil acts were not only commonly known but also routinely forgiven, provided they were not egregious and continuing. Banishment from families and communities was relatively rare.

It is important to note, however, that a reasonable degree of tolerance does not mean [evidence](#) should be destroyed nor history re-written, as dictators and miscreants are wont to do. Altering evidence after-the-fact merely passes the problem to society at large, thereby making the entire system untrustworthy. That effect is readily foreseeable. So anyone who blunders into such a mistake will need to claim excessively [artificial ignorance](#) in order to absolve themselves of responsibility for the inevitably counterproductive result.

Second, individuals must be disabused of the notion they have been divinely endowed with the right to impose their will upon others who are “uncooperative” with their intentions. That requires an updated balance of the sense of personal [prescience](#) and entitlement versus humility and personal responsibility.

Munger asserts, “the full benefits of sharing can only be realized in an exchange setting.” (p. 31) Implicit is the notion that value is exchanged without compulsion, on terms viewed as mutually beneficial to all parties to the transaction. From a historical perspective, cities first expanded the cooperation horizon but, subsequently, it was vastly expanded by the institution of markets, thus energizing the industrial revolution. (p. 41)

Munger highlights [Adam Smith](#)’s explication of the effect of decentralized markets in promoting divisions of labor *across* political units, rather than merely *within* them. Smith recognized that exchange relations inexorably resist geopolitical restraints, thereby expanding the locus of cooperation. Thus, millions of people stand ready to work for each other, continuously extending market-based exchanges into new activities and products, limited only by transaction costs. Once markets developed, powerful incentives emerged for larger and larger groups to cooperate. (p. 43)

Citing [George Stigler](#), Munger notes the size of the cooperation horizon – formerly determined by politics – evolved into the extent of the market, limited only by transaction costs. (p. 44) While politics have long constrained markets, why should we accept the notion that politicians should be permitted obstruct progress indefinitely – not just for activities long considered to be commercial in nature but also for other activities that might be better served via decentralized cooperation rather than centralized command-and-control?

Based upon what moral value or logical principle must we continue to cede “self” governance to others? Why should we not be free to govern ourselves in cooperation with others who shares our values and objectives? Due merely to tradition, which may have some, limited moral value? Or inertia, which may have no justification other than physics?

While the majority of British voters, for example, indicated a desire to shed the yoke of political governance by unelected European Union bureaucrats, few, if any, prefer to cut themselves off from value freely exchanged across geopolitical borders. What moral principle might justify coercing them into accepting such a false choice? Perhaps the logic of an unaccountable bureaucracy, supported by unjustifiably high transaction costs?

In support of his transaction cost-reduction thesis, Munger offers definitions of two types of economies:

Middleman Economy: selling reductions in transaction costs to enable mutually beneficial exchange in commodities, services, and activities ...

Sharing Economy: making more intensive and efficient use of resources that are otherwise idle, with the consequent modification in the durable and average life of those resources ... (p. 51)

Recently it seems to have become inconceivable, politically speaking, that middlepersons other than politicians and bureaucrats might be employed to support social welfare services. However, prior to advent of the [Great Society](#) programs in the U.S., such assistance was commonly provided by the very kind of [mutual aid \(benefit\) societies](#) that Kropotkin envisioned. Moreover, just because politicians have found it beneficial to themselves to take over that role in the past half-century does not mean we should not consider other, more modern, efficient, and potentially more durable (sustainable) means of realizing common and complementary public

objectives. We need not be condemned to relive the mistakes of the past. Instead, we should build a better future based upon the lessons learned.

Addressing the historical precedents for market expansion, Munger explains, “After the Neolithic Revolution, the development of cities meant that cooperation was much cheaper *within* the walls or the political boundaries of what defined the area protected (or held captive) by political power. After the Industrial Revolution, the development of the technologies of production and exchange meant that the cooperation horizon was extended well beyond the city walls, and the logic of market exchange drove the creation of institutions for reducing transaction costs for trade *between* cities, moving *across* political boundaries. In a dynamic sense, market activity feeds back to expand the cooperation horizon. Increased division of labor pried open and integrated markets that had been segregated by distance or trade barriers. Lower production costs ‘want’ to be global, and the result was a fundamental transformation in the way that people lived in depended on each other.” (p. 55)

Might the lessons of that historical context be usefully applied in the realm of politics and governance? Might it be possible to shift power away from politicians and bureaucrats to peer-based partnerships while at the same time vastly expanding the cooperation horizon, unconstrained by geopolitics?

To succeed in the marketplace, Munger observes that entrepreneurs must first create value for those who supply labor inputs and raw materials, not only by paying more than the required inputs are valued by their current owners but also paying workers more than they value their time. Next entrepreneurs must also create value for customers, by selling products and services for less than the consumers value them. Value for society at large is created when consumers are willingly pay more than enough to cover all the costs of obtaining and assembling the inputs. Thus, the term “profit” describes the reward for creating value for others. (p. 57)

Moreover, Monger continues, the conceptualization of entrepreneurship as merely buying low and selling high misses its most important function, which is *imagining* an alternative future and then creating things that risk destruction of current aspects of reality. [Israel Kirzner](#) defined entrepreneurship as “awareness,” the constant searching for profit opportunities, and [Steve Jobs](#) said, “A lot of times, people don’t know what they want until you show it to them.” (p. 58 & 59)

Does anyone truly believe that good-old-fashioned politics as usual (GOFPAU), turbocharged by today’s increasingly worrisome polarization, is the best we can do? Can we not imagine something better? Could it be that voters simply don’t recognize there is a better alternative because they haven’t seen it? [Churchill may have been right](#) in his time but might it not be time to try another alternative besides continuation of a winner-take-almost-all struggle for majoritarian control? Just because Churchill hadn’t seen a better alternative doesn’t mean we shouldn’t.

With reference to Jobs’ assertion, Munger further observes that when consumers see stuff they didn’t realize they might want, they often feel they simply *must* have it. (p. 61) Who these days believes they can do without a mobile phone, for example? If a new, better form of governance were to emerge, who would want to return to the political, bureaucratic, and diplomatic mess in which the world now finds itself?

Munger notes that software affects the cost of services just as automation affects the cost of manufacturing. Moreover, when a platform has been readied to market reductions in transaction costs, its business model can be adapted to other activities that were unimaginable before. (p. 65) Does anyone believe the costs of government and politics cannot be drastically reduced?

According to a recent [study](#) by the McKinsey Center for Government (MCG), for example, the world's governments could save as much as \$3.5 trillion a year by 2021 – a sum equivalent to the entire global fiscal gap – simply by adopting improvements already made in centers of excellence. Why should we not begin to realize those potential reductions? Unless politics and politicians stand in the way, it shouldn't require a military intervention or civil war. Even the highly "progressive" Vice President Gore [championed](#) the reinvention of government to work better and cost less. Who could be against that?

Citing a revolutionary example from commerce, Munger observes that, as wealthy as Jeff Bezos has become, Amazon is still losing money as a seller of things. Its profits are derived from software and cloud business components. (p. 66) Whereas others view Amazon as a merchant of goods, the company's leadership realized their true value lies in bringing together buyers and sellers, providing a mechanism for clearing transactions reliably and safely, and providing information on sellers that outsourced trust to buyers. (p. 67) Likewise, the value of a new, peer-based cooperative alternative to governmental dictates can be realized by bringing together those with common and complementary objectives, to achieve them far more efficiently and effectively than ever before possible.

Munger cites Dan Richman's assertion that "Software eats the world." (p. 67) Over time, many more "middlemen" will be "eaten" by software, as online services enable individuals to engage each other directly in peer-to-peer interactions – enabled by *new*, entrepreneurial intermediary service providers.

Continuing along that line of thought, Munger notes that software platforms reducing the costs of *triangulation*, *transfer*, and *trust* can rapidly be adapted to other products or services that no one can foresee. "What is important about the middleman revolution" he says, "is that the 'products' are the reduction in transaction cost that will commodify activities, services, and unused resources in ways that until now have never been observed, or even imagined." (p. 68)

Moreover, as Ronald Coase pointed out, the "[invisible hand](#)" and pricing system don't require any plans. However, two systems have operated simultaneously – one within firms, as planned societies, and the other across firms, through the market. On the other hand, but for the cost of transactions, the entire process could be conducted through the market. Coase's genius was in observing that firms form when the costs of transactions become too great without them. In effect, firms engage in planning to institutionalize reductions in transaction costs.

Munger suggests that dynamic is applicable not just to firms but to individual products as well. That is, we need not firmly "own" anything that we can readily and rapidly rent upon demand. (p. 72 & 73) Again, however, he does not extend that thought to encompass governmental services. Nor did Coase address the potential to reduce the firm-bounded transaction costs associated with planning, thereby capitalizing on the benefits of firms, while at the same time obviating the need for them.

Theoretically speaking, the capability to dynamically compile and carry out plans formulated by freely interacting peers holds the potential not only to revolutionize governance but also to reorder "society" as the entire borderless, Internet-connected population of the world. The first step toward doing so is to begin sharing plans on the Web in an open, standard, machine-readable format like Strategy Markup Language ([StratML](#)). The second is for a new breed of truly socially motivated entrepreneurs to leverage such plans to enable [more mature networking services](#) focused on the achievement of [common and complementary business objectives](#).

No doubt, many corporate officials, politicians, and bureaucrats will be threatened by such prospects. Insightfully, Munger points out there will always be more jobs depending on obsolete technology than votes from workers whose jobs have yet to be created. (p. 92) Thus, even under the guise of “progressivism,” government is inherently *regressive* and may be oppressive as well, to the degree that politics may be allowed to stifle innovation for the sake of votes and/or the preservation of power, including corporate “clout”.

Nevertheless, he argues technologies like Uber prove invincible over time due to the underlying *economic* logic. Although politics reflect short-term biases, he believes the economic benefits of technological disruptions will always prevail in the long run. (p. 93) In support of that belief, he quotes perhaps the most famous of all economists, whose words most people might think have only become applicable in recent times:

It is common to hear people say that the epoch of enormous economic progress which characterize the [previous] century is over... that a decline in prosperity is more likely than an improvement ... The increase of technological efficiency has been taking place faster than we can deal with the problem of labor absorption. ~ J.M. Keynes, circa **1930** (p. 107, emphasis added)

Now, however, Munger suggests, “for the first time since his creation man will be faced with his real, his permanent problem – how to use his freedom from pressure from pressing economic cares ...” (p. 107) It is not that the pace of progress will slow but, rather, *we human beings will be forced to deal with our new place in a reality in which our labor is no longer required. As leaders, perhaps politicians and bureaucrats should be among the first to be expected to face that reality.*

With ironic reference to the nexus between politicians and the sharing economy, in 1981 Democratic Senator John Breaux [facetiously acknowledged](#), “My vote can’t be bought ... but it can be rented.” In a classic case demonstrating why many consider “compromise” to be a dirty word, Breaux supported President Reagan's budget in trade for preservation of tariffs on imported sugar – a form of corporate welfare that raised food prices and hurt the poor to subsidize the industry, largely based in Louisiana.

Interestingly, a presumably progressive National Public Radio host [perceived](#) Breaux’s action as reflective of bipartisanship rather than corruption. That’s the very sort of bipartisanship to which proponents of a more activist government seek to return, in which all politicians get something and the taxpaying generations of the future, who have no voice nor vote on the deal, are stuck with the bill.

Bruce Cannon Gibney has [documented](#) how such behavior comports with the definition of sociopathy. Regardless of whether such bipartisan compromise is taken to be a good or bad thing, however, it is an example of the transaction costs associated with GOFPAU. With a current [deficit ranging from \\$400,000 to \\$1.2 million per taxpayer](#), depending upon whether unfunded liabilities are included, the question arises as to how much more of such “comprise” we can afford.

We surely ought to be able to do better than that. Might it not be time to disintermediate politics and politicians from as many transactions as possible? As Kevin Williamson has inquired, “Are our institutions here to tell us where to go, or are they here to help smooth the way for us as we pursue our own ends, going our own ways?” (p. ix)

In effect, those who insist upon trying to impose their will upon others through politics are giving them a free pass to avoid considering the righteousness of the cause and joining it of their own free will. There is no better way to foster resistance than to tell people they have no choice, because you've already made it for them.

What we are seeing is what we get ([WYSIWYG](#)) from GOFPAU. Who among us would not want to see something better?