TOM WOODS
The Good News They're Not Telling You
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Due to publishing deadlines, this issue of The Austrian went off to our printer just before the presidential election. If you’re reading this, presumably the world did not come to an end on November 8 — despite the mixture of dread and apprehension that hung over us throughout the fall. Never before has an American election been watched so avidly and yet so cynically, played out in real time via social media. Do the results confirm our worst suspicions about Americans, or rather our worst suspicions about politics per se?

Throughout the campaign, Hillary Clinton suffered mightily from the well-known phenomenon that familiarity breeds contempt. This explains why many parts of the world consider her a champion, while Americans see nothing more than an amoral grifter. After 25 years, we know the Clintons.

Donald Trump, leader of the “deplorables,” was treated with complete disdain both by domestic and international media outlets — all of which expressed dismay that such a man could come within striking distance of such a powerful office. Surely the retrograde Southern red states have no right to hold America back from serving as the progressive leader of the modern world? But democracy is tricky, and the legitimacy of any election apparently depends on who wins.

That said, we’re all for decreeing the presidency too powerful and too important for any man — or woman — to hold. This is the silver lining in the aftermath of every presidential election: 40 percent of the country immediately wants to rein in executive power.

But there is another hopeful sign. The 2016 US election, much like the UK Brexit vote, will be remembered as a challenge to the relentless march of globalism. The globalist narrative, always top-down and always driven by elites, has not been kind to liberty or the fortunes of average people.

Let’s be clear: we’re talking about political globalism, an attempt to impose universalism through supranational political bodies and international agreements. Globalism is not benign liberalism or openness spread around the world, but rather a form of political imperialism that seeks to impose western social democracy on everyone.

The top-down values favored by western elites are in fact far from universal. They are the values of multiculturalism, egalitarianism, welfarism, military interventionism, mass state-sponsored immigration, and pseudo-environmentalism. Proponents who see all of these things as unquestionably good are also the least likely to experience their unpleasant effects.

“Universalism and collectivism are by necessity systems of theocratic government. The common characteristic of all their varieties is that they postulate the existence of a superhuman entity which the individuals are bound to obey.”

Ludwig von Mises

Mises’s liberalism does not require the UN, WTO, IMF, or World Bank to enforce it. Real globalism requires nothing more than open trade, travel, and communication between nations. Real free trade flows from differences in cultures and regions, not similarities. Specialization and comparative advantage are what make global trade beneficial. Autarky is a losing proposition for nations that want to be rich.

Will globalism ultimately fail? And if so, will it fail because of ideological opposition or simply because of its sheer unworkability? Time will tell, but in this issue Professor Edward Stringham argues that modes of private governance will prove more practical and workable than centralized rulemaking by sclerotic legislatures. Senior Fellow David Gordon suspects that the wisdom of central bankers will be sorely questioned in the rough waters ahead. And Tom Woods makes the case that advances in automation and efficiency will make many of today’s jobs seem like inhumane drudgery.
The Good News They’re Not Telling You

Tom Woods

As we look at things that impress us technologically we also have a certain trepidation, because we’re told that robots are going to take our jobs. “Yes, the internet is wonderful,” we may say, “but robots, I don’t want those.”

I don’t mean to make light of this because robots are going to take a lot of jobs. They’re going to take a lot of blue collar jobs, and they’re going to take a lot of white collar jobs you don’t think they can take. Already there are robots that can dispense pills at pharmacies. That’s being done in California. They have not made one mistake. You can’t say that about human pharmacists, who are now free to be up front talking to you while the robot fills the prescription.

This article is adapted from Tom Wood’s talk at the Boston Mises Circle on October 1, 2016.
Much of this is discussed by author Kevin Kelly in his new book *The Inevitable*, with the subtitle *Understanding the 12 Technological Forces that Will Shape Our Future*. It’s incredible what robots can do and what they will be able to do.

**Automation Really Is Taking Our Jobs**

To me, just the fact that one of Google’s newest computers can caption a photo perfectly — it can figure out what’s happening in the photo and give a perfect caption — is amazing. Just when you think “a machine can’t do *my* job,” maybe it can.

What kind of world is this we’re moving into? I understand the fear about that. But, at the same time, let’s think, first of all, about what happened in the past.

In the past, most people worked on farms, and automation took away 99 percent of those jobs. Literally 99 percent. They’re gone. People wound up with brand new jobs they could never have anticipated. And in pursuing those jobs we might even argue that we became more human. Because we diversified. Because we found a niche for ourselves that was unique to us. Automation is going to make it possible for human beings to do work that is more fulfilling.

How is that? Well, first let’s think about the kinds of jobs that automation and robots do that we couldn’t do even if we tried. Making computer chips, there’s no one in this room who could do that. We don’t have the precision and the control to do that. We can’t inspect every square millimeter of a CAT scan to look for cancer cells. These are all points Kevin Kelly is trying to make to us. We can’t inflate molten glass into the shape of a bottle.

So, there are many tasks that are done by robots, through automation that are tasks we physically could not do at all, and would not get done otherwise.

**Automation Creates Luxuries We Didn’t Know Were Possible**

But also automation creates jobs we didn’t even know we wanted done. Kelly gives this example:

“Before we invented automobiles, air-conditioning, flat-screen video displays, and animated cartoons, no one living in ancient Rome wished they could watch pictures move while riding to Athens in climate-controlled comfort. ... When robots and automation do our most basic work, making it relatively easy for us to be fed, clothed, and sheltered, then we are free to ask, “What are humans for?”

Kelly continues:

“Industrialization did more than just extend the average human lifespan. It led a greater percentage of the population to decide that humans were meant to be ballerinas, full-time musicians, mathematicians, athletes, fashion designers, yoga masters, fan-fiction authors, and folks with one-of-a-kind titles on their business cards.”

The same is true of automation today. We will look back and be ashamed that human beings ever had to do some of the jobs they do today.

**Turning Instead to Art, Science, and More**

Now here’s something controversial. Kelly observes that there’s a sense in which we want jobs in which productivity is not the most important thing. When we think about productivity and efficiency, robots have that all over us. When it comes to “who can do this thing faster,” they can do it faster. So let them do jobs like that. It’s just a matter of — so to speak — robotically doing the same thing over and over again as fast as possible. We
Where can we compete? Well, we can compete in all the areas that are gloriously inefficient. Science is gloriously inefficient because of all the failures that are involved along the way. The same is true with innovation. The same is true of any kind of art. It is grotesquely inefficient from the point of view of the running of a pin factory. Being creative is inefficient because you go down a lot of dead ends. Healthcare and nursing: these things revolve around relationships and human experiences. They are not about efficiency.

So, let efficiency go to the robots. We’ll take the things that aren’t so focused on efficiency and productivity, where we excel, and we’ll focus on relationships, creativity, human contact, things that make us human. We focus on those things.

**Automation Really Does Make Us Richer**

Now, with extraordinary efficiency comes fantastic abundance. And with fantastic abundance comes greater purchasing power, because of the pushing down of prices through competition. So even if we earn less in nominal terms, our paychecks will stretch much further. That’s how people became wealthy during and after the Industrial Revolution. It was that we could suddenly produce so many more goods that competitive pressures put downward pressure on prices. That will continue to be the case. So, even if I have a job that pays me relatively little — in terms of how many of the incredibly abundant goods I’ll be able to acquire — it will be a salary the likes of which I can hardly imagine.

Now, I can anticipate an objection. This is an objection I’ll hear from leftists and also from some traditionalist conservatives. They’ll sniff that consumption and greater material abundance don’t improve us spiritually; they are actually impoverishing for us.

Well, for one thing, there’s actually much more materialism under socialism. When you’re barely scraping enough together to survive, you are obsessed with material things. But, second, let’s consider what we have been allowed to do by these forces. First, by industrialization alone. I’ve shared this before, but on my show I had Deirdre McCloskey once and she pointed out that in Burgundy, as recently as the 1840s, the men who worked the vineyards — after the crop was in, in the fall — they would go to bed and they would sleep huddled together, and they basically hibernated like that for months because they couldn’t afford the heat otherwise, or the food they would need to eat if they were expending energy by walking around. Now that is unhuman. And they don’t have to live that way anymore because they have these “terrible material things that are impoverishing them spiritually.”

The world average in terms of daily income has gone from $3 a day a couple hundred years ago to $33 a day. And, in the advanced countries, to $100 a day.

Yes, true, people can fritter that away on frivolous things, but there will always be frivolous people.

Meanwhile, we have the leisure to do things like participate in an American Kennel Club show, or go to an antiques show, or a square-dancing convention, or be a bird watcher, or host a book club in your home. These are things that would have been unthinkable to anyone just a few hundred years ago.

The material liberation has liberated our spirits and has allowed us to live more fulfilling lives than before. So, I don’t want to hear the “money can’t give you happiness” thing. If this doesn’t make you happy — that people are free to do these things and pursue things they love — then there ain’t no satisfying you.
We’ve lived through another election season, and this year, as with every year, the candidates competed to tell us about all the ways they were going to use the power of government to make our lives better. Unfortunately, many voters appeared quite sympathetic to the idea that government action can improve living standards and generally make markets work better.

That’s the bad news. But, there are also trends at work right now that are bigger than any single election cycle, and while the candidates this year provided little reason for optimism, the voters themselves may be growing skeptical of just how much the government can solve all their problems.

Nevertheless, one of the most important things we can do is really explain and understand how markets, and not government intervention, are our best hope for an orderly and prosperous society.

To Change Politics: Public Opinion Must Change

As Ludwig von Mises and Frédéric Bastiat point out, economic policy, for good or bad, is ultimately determined by public opinion. That can give us cause for pessimism or optimism, because although a widespread misunderstanding of how markets work translates into bad policies, public opinion can, and often does, change. Until a half-century ago, arguments such as, “We need more housing, therefore government should provide housing,” or “We need more affordable housing. Therefore government should put price controls on housing,” were common. Today, few people seriously make such claims. When even the median voter in Massachusetts can understand the problems with and vote to eliminate rent control, there is hope about the spread of economic ideas.

Edward Stringham is an Associated Scholar of the Mises Institute, and Davis Professor of Economic Organizations and Innovation at Trinity College in Hartford, Connecticut.
Still, arguments such as “We need to reduce fraud. Therefore government needs more regulations” or “Risk is a problem. Therefore government should assume and manage risk” are much more accepted than they should be.

Although faith in government is still widely held, it may be passing its apex and declining. Surveys have found that in the late 1960s about 75 percent of Americans said they trusted “the government in Washington all or most of the time,” whereas today the number is only 20 percent. A 2013 survey by Gallup found that a “record high in the U.S. say big government is the greatest threat” to the country, and Pew in 2013 reported that a “majority views government as a threat to personal rights.” People are also abandoning faith in politicians, and today only 9 percent have a favorable view of Congress.

An Alternative to Politics?

But, these doubts about government intervention do not necessarily translate into support for voluntary markets.

Part of the reason that the public have skepticism toward markets is they have little understanding of how markets work. Nor do they understand how markets can work to provide order and governance in everyday life.

Among many voters, there is a fear that without governments to intervene, society cannot be structured and orderly.

This has never been the case, and in my book Private Governance: Creating Order in Economic and Social Life, I look at how governance can be achieved without what we normally call “government.”

Private governance is created wherever private institutions create order and enforce rules when governments are either unable or unwilling to do so. Time and time again, markets can be found to work even when government is not underpinning them. The standard belief that government is necessary to enforce contracts or allocate goods — to name two examples — is belied by numerous examples throughout history.

Private governance can be found, of course, in the rules imposed by any private club. But private governance is also employed to govern complex institutions, as it was first used by the founders of the London and
New York stock exchanges. Similar institutions and rule-making are used today to govern electronic commerce.

In fact, once we begin to contrast the voluntary marketplace with government institutions, we find that the rules of the market are much more orderly, stable, and potentially enduring than rules from a monolithic bureaucracy.

Moreover, although progressives worry about corporate power, market-based rules and private governance allow for more choice and are markedly more liberal than government impositions and regulations.

Allowing people to voluntarily opt into, or out of, different systems, markets, and communities lets people find the rules that benefit them. In *The Constitution of Liberty*, Friedrich Hayek explains why this is so. “There is an advantage in obedience to such rules not being coerced,” Hayek begins, “not only because coercion as such is bad, but because it is, in fact, often desirable that rules should be observed only in most instances. … It is this flexibility of voluntary rules which in the field of morals makes gradual evolution and spontaneous growth possible, which allows further experience to lead to modifications and improvements.”

Hayek goes on to note that non-coercive governance — such as that found in the marketplace — is more likely to allow for the sort of change that leads to economic progress: “Such an evolution is only possible with rules which are neither coercive nor deliberately imposed. … Unlike any deliberately imposed coercive rules, which can be changed only discontinuously and for all at the same time, rules of this kind allow for gradual and experimental change. The existence of individuals and groups simultaneously observing partially different rules provides the opportunity for the selection of the more effective ones.”

Widely desirable structures of private governance will become profitable and encourage others to mimic them without any need for coercive “harmonization.” In other cases, variety across different markets is a good thing. Just as it does not make sense for the corner store to comply with the listing requirements of the New York Stock Exchange or recreational sailors to comply with the rules of the America’s Cup, a market for private governance allows people to select from different structures that make sense for them. In contrast to government institutions that apply rigid rules universally, the market allows people to opt into different rule-enforcing clubs and institutions in different areas of their lives in various ways they like.

Politics, of course, represents very much the opposite of the flexibility and variety found in private governance. We just spent most of the year hearing from politicians about all the things they were going to do to force markets to behave themselves. But, in spite of what the politicians tell us, the fact remains that order in markets is as attributable to government as much as good literature is attributable to the Government Printing Office.
2016 Mises Events Coast to Coast

Every year, the Mises Institute presents numerous outreach programs across the country in the form of our Mises Circle events, live podcast recordings, seminars, and other events with Institute speakers and interesting, and informed guests. This year we held Mises Circles in Houston, Seattle, Boston, and Ft. Worth-Dallas.

At each Mises Circle event, hundreds of students, entrepreneurs, and families turn out to hear timely presentations from our top speakers and writers including Tom Woods, Walter Block, Lew Rockwell, Jeff Deist, and Bob Murphy. Special guests included national figures Ron Paul and political consultant Roger Stone. Attendees have the opportunity to meet and interact with our speakers as well as the Mises Institute staff.
This year, the Mises Institute also sponsored and participated in a variety of other events around the country. Lew Rockwell and Ron Paul met up in Washington, DC this year for the Ron Paul Institute’s Peace and Prosperity conference, while Jeff Deist spoke at the Free Market Medical Association’s annual conference and at the Texas State Convention for the Libertarian Party. The Mises Institute sponsored a reception at the International Students for Liberty Conference where Bob Murphy delivered a talk called “Why Rothbard Matters” to commemorate the 90th anniversary of Murray Rothbard’s birth.

Asheville, NC was the site of the annual Supporters Summit, while three academic conferences were held on the Institute’s campus in Auburn.

**The Mises Circle in Boston, MA**

**October 1**

Edward Stringham speaks on “Beyond Politics” at the Boston Mises Circle

Jeff Deist, Edward Stringham, and Mark Thornton address attendees at the Boston Mises Circle

Join Tom Woods and Jeff Deist in Orlando, FL on December 1 for the Election Postmortem!

Bob Murphy speaking on “Why Rothbard Matters” at the International Students for Liberty Conference in Washington DC.
Mervyn King is the British Ben Bernanke. An eminent academic economist, who now teaches both at New York University and the London School of Economics, King was from 2003 to 2013 Governor of the Bank of England. In short, he is a very big deal. Remarkably, in *The End of Alchemy* he frequently sounds like Murray Rothbard.

King identifies a basic problem in the banking system that has again and again led to financial crisis. “The idea that paper money could replace intrinsically valuable gold and precious metals, and that banks could take secure short-term deposits and transform them into long-term risky investments came into its own with the Industrial Revolution in the eighteenth century. It was both revolutionary and immensely seductive. It was in fact financial alchemy — the creation of extraordinary financial powers that defy reality and common sense. Pursuit of this monetary elixir has brought a series of economic disasters — from hyperinflation to banking collapses.”

How exactly is this alchemy supposed to work? “People believed in alchemy because, so it was argued, depositors would never all choose to withdraw their money at the same time. If depositors’ requirements to make payments or obtain liquidity were, when averaged over a large number of depositors, a predictable flow, then deposits could provide a reliable source of long-term funding. But if a sizable group of depositors were to withdraw funds at the same time, the bank would be forced either to demand immediate repayment of the loans it had made, ... or to default on the claims of depositors.”
Readers of Rothbard’s *What Has Government Done to Our Money?* will recognize a familiar theme.

Many have sought to salvage the alchemy of banking by resorting to a central bank. By acting as a lender of last resort, a central bank can bail out banks in need of funds to satisfy anxious depositors and thus avert the danger of a bank run. The alchemy of transforming deposits into investments can now proceed.

Though he was one of the world’s leading central bankers, King finds fault with this “solution.” A local bank can be rescued by getting money from the central bank, but the process generates new problems. Thomas Hankey, a nineteenth-century Governor of the Bank of England, pointed out some of these in response to Walter Bagehot, the classic defender of the central bank as the lender of last resort: “[i]f banks came to rely on the Bank of England to bail them out when in difficulty, then they would take excessive risks and abandon ‘sound principles of banking’. They would run down their liquid assets, relying instead on cheap central bank insurance — and that is exactly what happened before the recent [2008] crisis. The provision of insurance without a proper charge is an incentive to take excessive risks — in modern jargon, it creates ‘moral hazard’.”

Given the dangers of financial alchemy, what should we do about it? Again, King strikes a Rothbardian note. He writes with great sympathy for one hundred percent reserve banking. “Even though the degree of alchemy of the banking system was much less fifty or more years ago than it is today, it is interesting that many of the most distinguished economists of the first half of the twentieth century believed in forcing banks to hold sufficient liquid assets to back 100 percent of their deposits. They recommended ending the system of ‘fractional reserve banking’, under which banks create deposits to finance risky lending and so have insufficient safe cash reserves to back their deposits.”

Like Rothbard, King calls attention to the insights of the nineteenth-century Jacksonian William Leggett. King cites an article of 1834 in which Leggett said: “Let the [current] law be repealed; let a law be substituted, requiring simply that any person entering into banking business shall be required to lodge with some officer designated in the law, real estate, or other approved security, to the full amount of the notes which he might desire to issue. ...”

King may to an extent resemble Rothbard; but unfortunately he is not Rothbard; and alert readers will have caught an important difference between King’s idea of one hundred percent reserve banking and Rothbard’s. King’s notion, unlike Rothbard’s, still allows banks to expand the money supply. The “liquid assets” need not be identical with the deposits: they need only be easily convertible into money should the need arise to do so.

King’s own plan to “end the alchemy” allows for substantial monetary expansion. He calls his idea the “pawnbroker for all seasons (PFAS)” approach. This is a form of “liquidity” insurance. Banks would have to put up in advance as collateral with the central bank some of their assets. This would act as a “form of mandatory insurance so that in the event of a crisis a central bank would be free to lend on terms already agreed.” So long as the insurance had been paid, though, the central bank would still bail the bank out in a crisis by giving it more money. Contrast this with the plan suggested in the quotation from Leggett, in which if a bank could not redeem its notes, depositors could proceed directly against the bank’s
Having come so close to Rothbard, why does King shrink from the final step?

It is encouraging that King cites the Austrian economist James Grant, but he draws from his work an insufficient message. “The key lesson from the experience of 1920–21 is that it is a mistake to think of all recessions as having similar causes and requiring similar remedies.” In view of the manifold invidious consequences, fully acknowledged by King, of government intervention, should we not rather emphasize the need to rely on the unhampered market? King nevertheless merits praise for coming close, in his own way, to many Austrian insights.

David Gordon is Senior Fellow at the Mises Institute, and editor of The Mises Review.
Scholar and Alumni News
Recent news from our supporters, alumni, and scholars


Senior Fellow MARK THORNTON co-authored “Investment in New Proved Oil Reserves: An Austrian Perspective” with Bradley T. Ewing and Mark Yanochik. The paper was presented at the Free Market Institute at Texas Tech University and published in the *Journal of Business Valuation and Economic Loss Analysis*.


Associated Scholar JOSEF ŠÍMA — who recently completed a Czech translation of Hans-Hermann Hoppe’s *A Short History of Man* — launched a new MA-program in Philosophy, Politics, and Economics (PPE) at the CEVRO Institute in Prague, Czech Republic.

Senior Fellow GUIDO JÖRG HÜLSMANN, among other Mises Institute scholars, will be included as guest speakers for the program.

2009 Mises Research Fellow ED PERRY has been appointed to the faculty of Kansas State University as Assistant Professor of Economics.

Associated Scholar T. HUNT TOOLEY’s newly revised and updated history of World War I, *The Great War: Western Front and Home Front* is now in its second edition. Tooley also recently published a novel titled *Anima and the Goat*.

Mises University alumnus RAYMOND WALTER was selected for a U.S. Department of Energy Office of Science Graduate Student Research award to collaborate with scientists at Lawrence Berkeley National Lab. His yearlong appointment begins in November.

Associated Scholar RANDALL HOLCOMBE has completed a new book titled *Advanced Introduction to Public Choice*, released in October by Edward Elgar Publishers.


Associated Scholars JO ANN CAVALLO and CARLO LOTTIERI co-edited *Speaking Truth to Power from Medieval to Modern Italy*. Cavallo also published the book chapter “National Political Ideologies and Local Maggio Traditions of the Reggio Emilia Apenines: Roncisvalle vs. Rodomonte” in *Conquistare la montagna: la storia di un’idea*.
This year, Mises Institute Associated Scholar Per Bylund released *The Seen, the Unseen, and the Unrealized: How Regulations Affect our Everyday Lives*. This new book, published by Lexington Books, was written for a popular audience in the tradition of Hazlitt’s *Economics in One Lesson*. We recently spoke with Professor Bylund about his book and how the effects of government regulation are more far-reaching and more damaging than many people realize.

**MISES INSTITUTE:** Why is the concept of the “unseen” so important to understanding the effects of regulation?

**PER BYLUND:** It is essential for understanding regulation, but the “unseen” is actually fundamental for economic understanding and analysis in general. What’s “unseen” is the proper benchmark. We need to consider both what didn’t happen but *would have* happened.

Oftentimes people, including so-called experts, compare apples and oranges by looking at data “before” and “after” an event, for instance, when discussing the effects of raising the minimum wage. So they might say that employment before was similar to after the hike, and then conclude that the change had no effect. But this is wrong, because there are plenty of changes in the economy that took place between the before and after — not only the minimum wage. So in order to figure out the effect of the minimum wage specifically, we must compare the “after” situation with what would have been had there been no minimum wage hike — the unseen.

This of course applies to any change in the economy, and not only regulation. Bastiat, in his classic essay on the broken window fallacy, discusses the effects as a boy smashes a window. But in modern state-planned economies, regulation is by far the most common and most destructive change, so that’s where we also find most analysis. As economic analysis is used to assess the effects of regulations before they’re implemented, it’s important to use the proper comparisons — the seen and the unseen, not the seen at different times (before and after).

**MI:** You also employ the concept of “the unrealized.”
PB: The unrealized is really my own extension to Bastiat’s famous analysis, and it is intended to redirect our attention from the macro level of the economy to how changes affect individuals — and especially what options they’re presented with. The point of the book is to show that regulating one part of the economy will have effects throughout the economic system, and that this type of artificial restriction will lead to some people being stripped of the choices they otherwise would have.

I exemplify this with the sweatshop, which is often argued against using only “the seen.” The working conditions are terrible in a sweatshop, especially compared to our cushy jobs in the West. Ben Powell and others have done great work pointing out that there’s also the unseen in the sense that without the sweatshop those workers would be in even worse shape. In fact, they are very eager to get jobs in the sweatshop because they’re so much better than all other options they have.

With the “unrealized,” however, I think we get a more nuanced picture. I argue that the reason the sweatshop workers make a choice between the hard work in a sweatshop, and something that is much worse, is regulation. Had this been a free market, then there would likely have been many businesses offering jobs in sweatshops, and they would probably compete with each other by offering higher pay, better work conditions, and so on. There’s obviously money to be made from running sweatshops, so why don’t more businesses do this?

The existence of a sweatshop shows that the market is sufficiently developed to support it: the technology and capital structure, including transportation and supply chains, are obviously there. The economic conditions also speak in favor of sweatshops over toiling in the fields and the other much worse options sweatshop workers are presented with. The workers are more productive in sweatshops. So there’s really no reason why there wouldn’t be competition for their labor by several sweatshops. But, the many options that should be there aren’t.

So it’s likely that something is restricting the creation of these other options. Those other businesses that never came to be are the unrealized alternatives, and the argument in the book is that these options would have been available had it not been for regulation.

Moreover, those regulations can really be very distant from these workers, since a restriction redirects economic actors to other, and comparatively less valuable, actions. In turn, the regulations have ripple effects — a type of Cantillon effect, you might say — throughout the economy as seen actions replace the unseen, or what should have been.

These other things happen instead of what should have happened, if actors had not been arbitrarily restricted by regulations. But, these “other things” are suboptimal and harm people since they’re not what people would have chosen to do in the absence of the regulations. In this sense, a regulation anywhere in the economy causes harm, and this harm primarily affects those with little or no influence over policy or the means to avoid it. So the major harm is on poor people in poor countries, even where regulations appear to be limited to relatively rich people in rich countries.

MI: In the case of a business being regulated, how much of that burden falls directly on that business? Are other groups — such as the customers — affected by the regulations also?

PB: It really depends on the business. Regulations make it costlier to act — and therefore some actions are no longer profitable when they would have been otherwise. So, for those businesses that lack political influence and aren’t the most effective, a regulation may decide whether there is a business or not. At the
same time, businesses that survive the regulation might benefit from a protected situation because the regulation raises barriers to entry. This is why, for instance, it is rational for Walmart to support a high minimum wage — it will hurt Walmart’s competitors more than it hurts Walmart.

The real losers are common people who, as consumers, do not get the valuable goods and services they otherwise would have, and, as producers, cannot find the jobs they otherwise would. The winners are the incumbents, at least short-term, and — as always — the political class.

MI: You refer to markets using terms like “messy,” “approximate,” and “imperfect.” Isn’t this an argument against markets? Can’t government regulation give us more rational results?

PB: On the contrary, the messiness is an argument for markets. Rational government planning might be doable in an economy with fixed boundaries. That is, where there is no growth, no new value creation, and thus the “extent” of the market stays the same. But there are no such economies in the real world, and I’m not sure it is even possible long-term. An economy is really the combined uses of resources devoted to satisfying wants. So, it is inconceivable to have an economy that doesn’t get better over time — or which malfunctions and declines. In an entrepreneurially driven and creative market process, there is no basis for planning an economy through a governmental central plan. I elaborate on how this process of market expansion happens in my previous 2016 book, The Problem of Production: A New Theory of the Firm (Routledge).

Growth and entrepreneurship in a market is not so much about allocating existing resources within the market as it is about speculating about how resources can be created and used in more valuable ways. The market is a creative enterprise always aiming for the future and satisfying more wants and newly discovered wants. Thus, a governmental regulator or central planner has no data to use in making a “rational” plan because the data doesn’t exist yet. That’s the problem with central planning — you cannot plan with only unknowns and unknowables. That’s also why markets are messy, but decentralized decision-making within a profit-and-loss system generates the very structure needed for such decision-making.

MI: But in a purely unregulated economy, won’t businesses exploit workers?

PB: I conclude exactly the opposite in the book. There’s a case to be made for Marxist-type exploitation of workers in factories, perhaps more so in countries where there are sweatshop-style factories than elsewhere. But, the reason for this exploitation is regulation. Had the workers not been stripped of their choices — the unrealized — they wouldn’t be satisfied with the sweatshop jobs they’re relatively content with as things are today. Exploitation is not so much a result of capitalists paying workers less than they otherwise could have been paid. It is a result of the workers’ options having been taken away. The business with a sweatshop in a poor country isn’t the party taking away workers’ options. The business is the one giving workers an option. It’s not as good as it otherwise would’ve been, but that’s not necessarily the fault of the business. What hurts the workers — and keeps them poor by not putting sufficient competitive pressure on the business — is regulation, which restricts competition, and thus empowers business at workers’ expense.

So the issue of exploitation, and especially how to get rid of it, is a matter of finding the real and ultimate cause of the situation. It’s usually not a matter of employers having “power” over the worker. Such power does not occur naturally, but is caused by something, and my argument suggests that the employers’ economic power is a symptom, but not the cause. The real cause is government regulation.
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  - Reserved seating at all events
  - Your name will be displayed at the Mises Institute

In addition to these benefits, Members receive the gratitude of the students and teachers of liberty.

For more information about Mises Institute Memberships, phone or email Kristy Holmes (334.321.2101; kristy@mises.org).

Save the Date!

Mises Institute Anniversary Celebration

October 6–7, 2017
New York City

in honor of Murray Rothbard

35 years
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Please make any corrections to your address above and mail to: The Mises Institute • 518 West Magnolia Avenue • Auburn, AL 36832-4501 USA. Phone or write Kristy Holmes for more information (kristy@mises.org • 334.321.2101).