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Protectionism

Economics, Philosophy and (Individual) Way Out of It

(Part 1 of 2)

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Introduction:
- preliminary notes
- work plan
Scope of these lectures:

• not to teach, but to stimulate individual, critical thinking on the subject of protectionism;

• to stimulate curiosity in non-conventional areas of thought and action (libertarianism, Austrian School of economics, Bitcoin and blockchain technologies);

• to discuss: not only Q&A. I’m interested in knowing your opinion. Feel totally free to challenge anything I will be saying. I think I have as much to learn from you as you from me.
1. **Economics’ basics**: definition, value, spontaneous order, methodology.

2. **Protectionism (narrow sense)**: Austrian economic analysis + basic graphical textbook SD analysis.

3. **Protectionism (broad sense)**: State interventionism.

4. **The root-cause of protectionism**: the philosophical idea of law.

5. **The (individual) way out of protectionism**: Bitcoin and blockchain technologies.
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5. **The (individual) way out of protectionism**: Bitcoin and blockchain technologies.
1. Economics’ basics:

- definition - subjectivity of value
- spontaneous vs. positive order,
- methodology
Many **Definitions of economics**. e.g.:

Paul Samuelson (1951): “*Economics is the study of how societies use scarce resources to produce valuable goods and services and distribute them among different individuals*”

Lionel Robbins (1932): “*Economics is a Science that studies human behavior as a relationship between ends and scarce means which have alternative uses*”

**Opposite approaches** to economics.
Samuelson’s definition:

“Economics is the study of how societies use scarce resources to produce valuable goods and services and distribute them among different individuals”

1. “Only the individual thinks. Only the individual reasons. Only the individual acts” (Ludwig von Mises*): ‘Societies’ cannot act: e.g. “use” or “distribute” resources.

2. This definition uses the fundamental term “value” without defining it.

Robbins’ definition:

“Economics is a **Science** that studies **human behaviour** as a relationship between **ends** and scarce means which have alternative uses”

1. **“Science”**: **objectivity** of economic laws (see later: methodology).

“The physicist does not mind if someone stigmatizes his theories as bourgeois, Western or Jewish; in the same way the economist should ignore detraction and slander” (Mises*).

“You will never need to worry that newly published economic research will render [economic laws] false” (Robert P. Murphy**).

Robbins’ definition:

“Economics is a Science that studies human behaviour as a relationship between ends and scarce means which have alternative uses”

2. “Human behaviour”: economics as the study of human action (i.e. purposeful behaviour).

Behavior of the actual human being:

“Economics deals with the real actions of real men. Its laws refer neither to the perfect man, neither to the phantom of a fabulous economic man (homo oeconomicus) nor to the statistical notion of an average man […] Man with all his weakness and limitations, every man as he lives and acts, is the subject matter [of economics]” (Mises*).
Robbins’ definition:

“Economics is a Science that studies human behaviour as a relationship between ends and scarce means which have alternative uses.”

3. Human behaviour + ends = individual ends = subjectivity of value.

- Economic value is subjective (not objective): it is the importance that something has for an individual (see Menger C., 2007 [1871])

- The value of sth. for John in a specific moment is measured by how much of his own property John is willing to voluntarily exchange for it in that moment.

- Because value is subjective > “social good”, “interest of the community” etc. = logical nonsense.
Robbins’ definition:

“Economics is a **Science** that studies **human behaviour** as a relationship between **ends** and scarce means which have alternative uses.”

3. Human behaviour + ends = individual ends = **subjectivity of value**

(… continues)

- economic value is produced **only** by **free exchange**

- **market prices** derive from value but **price** is different (<=) from value;

- **economic calculation** impossible without **market** prices: “The paradox of "planning" is that it cannot plan, because of the absence of economic calculation. What is called a planned economy is no economy at all. It is just a system of groping about in the dark” (Mises*).

Order: structure, pattern.

There are only two possible kinds of social orders (i.e. orders concerning human beings):

1. **Positive** (or made) order: result of human action and of human design (e.g. an organization; Mozart’s 3rd symphony).

2. **Spontaneous** (or grown) order: result of human action but not of human design (e.g. language; the ‘market economy’).
Positive order: result of human action \textit{and} of human design:

1. unitary hierarchy of ends.
2. knowledge used: \textit{centralized}.

Spontaneous order: result of human action \textit{but not} of human design:

1. no unitary hierarchy of ends
2. knowledge used: \textit{peripheral} (\textit{not} available to any number of ‘directing minds’)
From an economic point of view, which one of the two social orders is better?

No univocal answer: it depends on the relevant knowledge:

1. if relevant knowledge is mostly concentrated, positive order is better (e.g. a company producing smart phones: without an organization, smart phones cannot be produced);

2. if relevant knowledge is dispersed, spontaneous order is ‘better’: (e.g. market interest rate: an artificially low interest rate - and, more in general, non-market prices - produce economic crises).

In case #2, absence of design (liberty) is not chaos, but order.
When knowledge used is not the relevant one, there are structural economic problems.

E.g., relevant knowledge is dispersed but the knowledge used is centralized: the economy or society itself are treated as a positive order (e.g. in the case of economic or social ‘policies’),

1. **economic crisis**: relevant (dispersed) knowledge cannot be available to any directing mind.

2. (but 1) **loss of liberty** defined in terms of illegitimate coercion of some by others (illegitimate ≠ illegal).
Methodology:

The definition of economics in terms of human action implies, as sole method of study, logical deduction:

- e.g. the economic Law of Demand: given that, at a certain price, you’d be willing to buy your partner a certain number of dinners in a fine restaurant, other conditions being equal you’d never be willing to buy him/her more dinners if their price was higher (and vice-versa in case of the Law of Supply).

A fundamental implication of having logical deduction as method:

**Empirical data cannot proof or disproof an economic theory.** Only *a priori* logical reasoning (i.e., abstract consistency) can.
"The experience of a complex phenomenon - and there is no other experience in the realm of human action - can always be interpreted on the ground of various antithetic theories. Whether the interpretation is considered satisfactory or unsatisfactory depends on the appreciation of the theories in question established beforehand on the ground of aprioristic reasoning" (Mises*)

Controlled experiments impossible in social science: “It is the inability to perform controlled experiments that allows the persistence of such diametrically opposed economic theories” (Murphy R.**)

- Social sciences ≠ natural sciences;
- Scientific vs. scientistic approach (see Hayek F.A., 1955).
- Macro from micro.

2. Protectionism (narrow sense):

- introduction,
- tax (tariff) on producer,
- tax (tariff) on consumer,
- subsidy on producer,
- subsidy on consumer,
- tax on producer + subsidy on consumer (BOA).
Protectionism (in the narrow sense) can be defined as the government’s coercive activity aimed at hampering free exchange in international trade.

In practice, this coercive activity includes the following:

1. tariffs.
2. subsidies.
3. quotas.
4. regulation.
5. other…

Protectionism is a hot topic: Wilbur Ross, US commerce secretary: “we are really in a trade war” (31 March 2017)
Before we move to more technical analysis, let us notice the fact that the abstract analysis of Part 1, even though it was not specifically about protectionism, has already given us some fundamental tools to evaluate it economically.

For example, let’s consider a tariff. We already know that economic value (which is strictly subjective) is created by free exchange. Since a tariff limits/eliminates free exchange, it destroys economic value: it worsens the condition of non-privileged market participants.
In particular, consumers are made to pay a **higher price** for a product/service that they consider to be **worse** than the one they would have bought otherwise. And inefficient producers are rewarded.

“The protectionists are out to cripple, exploit, and impose severe losses not only on foreign consumers [and producers, ed.] but especially on [domestic ones]. And since each and every one of us is a consumer, this means that protectionism is out to mulct all of us for the benefit of a specially privileged, subsidized few — and an inefficient few at that: people who cannot make it in a free and unhampered market” (Rothbard M.N.*).
D, S: graphical transposition of Laws of Demand/Supply

- **individual** D&S: not aggregate (macro **from** micro);
- in reality curves are **irregular** and change in **time**;
- geo-political borders are **irrelevant** for economic theory (remember: the key is **exchange**);
- to make things simple, initially we’ll assume trades in global currency, (e.g. gold or bitcoin);

\[ P \quad Q \]

- in real life, **equilibrium does not exist**;
- real life is **much more complex** than textbook graphical analysis;
- previous qualitative analysis **less fancy** and precise but **more meaningful**.

- **consumer surplus**: value a consumer gets beyond what they pay.
- **producer surplus**: profit: income above cost of production.
The following SD analysis will show that:

1. depending on the **elasticity** of D & S, a **tariff** (subsidy) affects **all** parties participating in the exchange (e.g. consumer/producer);

2. its **direct** effect on the consumer **and** on the producer is exactly **the same** whether the tariff is applied to one or the other.

The following graphical analysis will **not** show the full damage of protectionist measures, in particular its **indirect effects** (both sort term and long term). These will be briefly discussed later.
1. Supply shifts up by $T$
2. In new eq. (b),
   - Consumers pay $P_{tp} (> P)$ and purchase $Q_{tp} (< Q)$;
   - Producers receive $P_{tp}-T (< P)$ and sell $Q_{tp} (< Q)$;
Tax on producer: loss of value to the exchanging parties

- **Yellow** shape (P;Ptp;b;a): *loss of value to the consumer*.
- **Green** shape (Ptp-T;P;a;c): *loss of value to the producer*. 

### Explanation

#### Price vs. Quantity

- **Price (P)**
- **Quantity (Q)**
- **Demand (D)**
- **Supply (S)**
- **Tax on Producer (Ptp)**
- **Subsidy on Producer (Ptp-T)**

#### Key Points

- **Point a** represents the original equilibrium before taxation.
- **Point b** represents the new equilibrium after tax imposition.
- **Point c** indicates the loss in value due to taxation.

### Graphical Representation

- The yellow shaded area represents the loss of value to the consumer.
- The green shaded area represents the loss of value to the producer.

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**References**

- **Intro.**
- **Tax on Producer.**
- **Tax on Consumer.**
- **Subsidy on Producer.**
- **Subsidy on Consumer.**
- **Tariff+Subsidy.**
- **Conclusion**

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**Key Concept**

- **Protectionism (narrow sense)**
- **Protectionism (broad sense)**
- **The Root-Cause**
- **(Individual) Way Out**
- **Discussion**
Tax on producer: tax burden

- Yellow shape (P;Ptp;b;a): loss of value to the consumer.
- Green shape (Ptp-T;P;a;c): loss of value to the producer.
- **Tax burden** (or ‘revenue’): grey rectangle (Ptp-T;Ptp;b;c);
- the loss of value to the market participants > tax burden (or ‘revenue’): “dead-weight loss” (a;b;c)
- however, the concept of dead-weight loss implies that tax revenue = ‘social gain’.
- ‘social gain’ **does not exist**.
Tax on producer: tax burden distribution

- Yellow shape \((P;P_{tp};b;a)\): loss of value to the consumer.
- Green shape \((P_{tp}-T;P;a;c)\): loss of value to the producer.
- **Tax burden** (or ‘revenue’): grey rectangle \((P_{tp}-T;P_{tp};b;c)\);
- The loss of value to the market participants > tax burden (or ‘revenue’): “dead-weight loss” \((a;b;c)\)
- however, the concept of dead-weight loss implies that tax revenue = ‘social gain’.
- ‘social gain’ **does not exist**.
- **Tax burden** is distributed between consumers \((P;P_{tp};b,c)\) and producers \((P_{tp}-T;P;a;c)\);
Tax on producer: tax burden distribution (elastic demand)

- Yellow shape (P;Ptp;b;a): loss of value to the consumer.
- Green shape (Ptp-T;P;a;c): loss of value to the producer.
- Tax revenue: grey rectangle (Ptp-T;Ptp;b;c);
- The loss of value to the market participants > tax burden (or ‘revenue’): “dead-weight loss” (a;b;c)
- however, the concept of dead-weight loss implies that tax revenue = ‘social gain’.
- ‘social gain’ does not exist.
- Tax burden is distributed between consumers (P;Ptp;b,c) and producers (Ptp-T;P;a;c);
- The distribution of the burden between the market participants depends on the elasticity of D.
- Elasticity refers to how sensitive the demand (or the supply) of a product is to changes in other economic variables (e.g. price)
Tax on producer: tax burden distribution (inelastic demand)

- Yellow shape (P;Ptp;b;a): loss of value to the consumer.
- Green shape (Ptp-T;P;a;c): loss of value to the producer.
- Tax revenue: grey rectangle (Ptp-T;Ptp;b;c);
- Tax burden is distributed between consumers (P;Ptp;b,c) and producers (Ptp-T;P;a;c);
- the loss of value to the market participants > tax revenue (which, by the way, by itself implies further losses to the market participants: both in the short term and in the long run): “deadweight loss” (a;b;c)

- The distribution of the burden between the market participants depends on the elasticity of D.
- Elasticity refers to how sensitive the demand (or the supply) of a product is to changes in other economic variables (e.g. price)
1. D shifts down by $T$
2. In new eq. (c),
   - Consumers pay $Ptc+T (>P)$ and purchase $Qtc (<Q)$;
   - Producers receive $Ptc (<P)$ and sell $Qtc (<Q)$;
   - Tax burden is distributed (as before) between consumers and producers

Symbols:
- $S$: Supply
- $D$: Demand under free trade
- $Dtc$: Demand after tax on consumer
- $T$: Tax per unit (€)
- $Q$: Quantity sold under free trade
- $Qtc$: Quantity sold after tax on consumer
- $P$: Price under free trade (€)
- $Ptc$: Price after tax on consumer (€)
- $Ptc+T$: €/unit spent by consumer after tax

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Tax on consumer

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Price

32 Quantity

Dtc

D

S

Ptc+T

P

Ptc

Qtc

Q

T

tax burden consumer
tax burden producer

a) Intro. b) Tax on Producer. c) Tax on Consumer. d) Subsidy on Producer. e) Subsidy on Consumer. f) Tariff+Subsidy. g) Conclusion

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Remember Tax on producer: **exactly the same effect**
1. Supply shifts down by $\text{Sy}$

2. In new eq. (b),
   - Consumers pay $P_{sp}(<P)$ and purchase $Q_{sp}(>Q)$;
   - Producers receive $P_{sp}+\text{Sy} (>P)$ and sell $Q_{sp}(>Q)$;
   - Subsidy benefit is distributed between consumers (yellow area) and producers (green area).

Symbols:
- $D$: Demand
- $S$: Supply under free trade
- $S_{sp}$: Supply after subsidy on producer
- $\text{Sy}$: Subsidy per unit (€)
- $Q$: Quantity sold under free trade
- $Q_{sp}$: Quantity sold after subsidy on producer
- $P$: Price under free trade (€)
- $P_{sp}$: Price after subsidy on producer (€)
- $P_{sp}+\text{Sy}$: €/unit received by producer after subsidy
1. Demand shifts up by $\text{Sy}$ and purchase $\text{Qsc} (>\text{Q})$;
2. In new eq. (c),
   - Consumers pay $\text{Psc-Sy} (<\text{P})$ and purchase $\text{Qsc} (>\text{Q})$;
   - Producers receive $\text{Psc} (>\text{P})$ and sell $\text{Qsc} (>\text{Q})$;
   - Subsidy benefit is distributed between consumers (yellow area) and producers (green area).
With subsidy: consumer gains, producer gains. **All good then?**

1. **Don’t forget taxation** (free lunches do not exist).

In the case of a tariff (tax on producer/consumer), the **damage** of taxation to the consumer/producer was **visible** in the graph. In the case of the subsidy, however, the damage of taxation is not immediately clear because it happens **“outside of the graph”**.

Because subsidy presupposes taxation, **taxation** should also be economically considered **per se** (though briefly).
With subsidy: consumer gains, producer gains. **All good then?**

1. **Don’t forget taxation** (… continues).

From the **subjectivity of value** we know logically that, even though taxation produces short term **benefits** for **specific** and **privileged** groups (**as in the case of the subsidy**), it always and necessarily implies a destruction of economic **value** because it **limits/distorts/eliminates free exchange** which is logically the **only** way economic value can be created.

See *Rothbard, 2004 [1962], pp. 914-938.*
With subsidy: consumer gains, producer gains. All good then?

1. Don’t forget taxation (… continues).

Economically, taxation is generally justified:

A. on the ground of superstitions deriving from the absence of intellectual familiarity with the concept of the spontaneous order: in particular, fears that without authority’s violent imposition, certain services (often called ‘public goods’) could not exist;

B. on the ground of non-scientific economic theories (e.g. Keynesian theories) see Hazlitt H., 2007 [1959];

C. on the ground of the “interest of society”, which we know is a logical nonsense.
With subsidy: consumer gains, producer gains. **All good then?**

1. **Don’t forget taxation** (… continues).

In short, taxation can **never** be economically justified.

**Not even** in the so-called ‘hard cases’ (police, courts, legislation, roads, etc.) - See Rothbard M.N., 2006 [1973].

On Monday I will argue that, **above all**, taxation can **never** be justified also on **ethical grounds**. Even though it is legal, taxation in and of itself is **illegitimate**.
With subsidy: consumer gains, producer gains. All good then?

2. Non-subsidized, competitive producers.

Competitive producers hit by the subsidy (e.g. foreign producers) are prevented from exchanging at market conditions and thus are kept in a state of poverty:

“Why are the poor countries of the world poor? There are a number of reasons, but one of them [is] the trade policies of the high-income countries. […] High-income countries of the world—primarily the United States, Canada, countries of the European Union, and Japan—subsidize their domestic farmers collectively by about $360 billion per year. […] The support of farmers in high-income countries is devastating to the livelihoods of farmers in low-income countries. […] As Michael Gerson of the Washington Post describes it: ‘[T]he effects [of protectionism, ed.] in the cotton-growing regions of West Africa are dramatic . . . keep[ing] millions of Africans on the edge of malnutrition” (Greenlaw S.A., Taylor T.*)

With subsidy: consumer gains, producer gains. **All good then?**

3. **Backfire**

In the **long run**, subsidies (and more in general protectionism) hit also the interests of **those who are protected**. In fact, if you prevent foreign producers from exchanging with your country, in the long run you prevent them from increasing their wealth and therefore also from importing goods/services **from** your country.

**Say’s law:** “the more men can produce [and sell, ed.], the more they will [be able to, ed.] purchase”*

(*) Say J.-B., 1967 [1821], p. 3.
With subsidy: consumer gains, producer gains. All good then?

4. **Structure of production.**

If the government subsidizes a product/service, the structure of production will be **distorted** (see Rothbard M.N., 2004 [1962], pp. 319-366). Investments will be made in sectors where the market process, left to itself, would not create opportunity for **sustainable** investments (or not to this extent): e.g. solar panels, building construction, etc. And **vice versa** (investments will not be made where the market process, left to itself, would create opportunity for sustainable investments).

In this way, the productive structure of the economy becomes dependent on the **arbitrary** decisions of authority rather than on what **individuals** value according to their preferences.
With subsidy: consumer gains, producer gains. **All good then?**

4. **Structure of production** (… continues)

In other words, the economic structure becomes **fragile**, and more so in **time**.

It becomes dependent on **centralized decisions** rather than on **dispersed, individual knowledge**, courage, creativity, entrepreneurship.

An arbitrary decision of authority (say the end of a subsidy) will suffice to produce a **sectorial crisis**.

When the arbitrary decision influences **interest rates**, the crisis is **systemic**.
1. Supply shifts up by $T$;
2. Demand shifts up by $Sy=T$;
3. In new eq. (b),
   - Consumers pay $Psctp (>P)$; however, they receive $Sy$, so actually they pay $P$; thus they buy $Q$.
   - Producers receive $Psctp (>P)$; however, they have to pay $T$, so actually they receive $P$; thus they sell $Q$.
   - If prices (exchange rates) can fully adjust, no effect.
Why to do all this if it has no effect?

If imports = exports, then tax revenue from tariff = tax expenditure for subsidy

BUT

If imports > exports, then tax revenue from tariff > tax expenditure for subsidy: **net tax revenue**.

Combination of subsidy and tariff (…continues)

This subsidy-tariff combination has been proposed by the new US Administration ("Border Adjustment Tax" (BAT): the US import significantly more that they export (see previous chart). According to some of its supporters, the BAT would generate $120 billion in tax revenue without being protectionist because the dollar would appreciate.

However, free lunches do not exist: “If the Treasury could somehow raise revenue without changing the pattern of international trade and the options available to American consumers and producers, then that would be a magical free lunch money pump [...] if the US government collects more in import taxes than it pays out in export subsidies, [the tariff +subsidy measure] acts as a “protectionist” measure that distorts trade flows and has negative economic consequences” (Murphy R.)*

(*) Murphy R., 2017
If prices can adjust, then **(in theory)**, starting from an **oneiric** situation of equilibrium there’s **no ‘graphic’ protectionist effect.**

In a fiat money world, the adjustment of prices happens via the **exchange rate**: thus, if the currency of the protectionist country **fully** appreciated, there’s no ‘graphic’ protectionist effect.

**Both the tariff on imports and the subsidy of exports have the effect of strengthening the currency of the protectionist country** (say, the USD) against the the currency of the other country (say, the EUR):

**Tariff on imports**: tax on US imports makes European goods more expensive to Americans: these will import less EU products. Demand for euros will decline: the USD strengthens.

**Subsidy on exports**: supply of US goods in the EU will rise. At first, the price in EUR will decrease ==> higher imports from the US ==> higher demand for USD ==> USD strengthens.
Combination of subsidy and tariff: **APPENDIX** (… continues)

*If* the exchange rate does not fully adjust, there will be a protectionist effect (distorsion of international trade):

In our example, if the USD does not fully appreciate against the euro, then European goods will be more expensive than before for Americans ==> less imports.

“On the flip side, the American producers eligible for the subsidy will want to export more than before (because the dollar hasn’t strengthened enough to fully offset the subsidy). However, the non-eligible exporters get crushed (because the dollar strengthened while they received no offsetting subsidy). Furthermore, because Europeans are now selling a lower total volume of goods into the US, they have less income with which to buy American exports [Say’s law, ed.]. So US exporters would perceive that foreign demand for their goods dropped, even setting aside the issue of the exchange rate. All in all, Americans would export fewer goods than before” (Murphy R.*)
Why should the exchange rate not fully adjust?

- Some goods/services could be **excluded** from the subsidy: e.g. **stocks and bonds** (see Murphy R., 2017): e.g., if 25% of goods/services are excluded from the subsidies, then “The forces pushing up [the USD] from the import side are identical [as before. However,] the forces from the export side now operate at 75% strength” (Murphy R.*) ==> The USD does not fully appreciate: protectionist effect (distortion of intl. trade)

- In a **fiat** money/central banks world, exchange rates are in great part **arbitrary**: they are not influenced only by economic forces.
To recap:

• Protectionism coercively **limits/prevents exchange** and therefore it **destroys economic value**.

• Protectionism **is not a game of domestic gains and foreign losses**: it is a game of losses for those who acquire economic resources by **economic means** (i.e. through free exchange) and (in the short term) of gains to those who acquire them by **political means** (e.g. by coercion).

• The effect of a tariff is **exactly the same** quite independently from the fact that it is levied on the producer (the foreign exporter) or the consumer (the domestic buyer). Same for the subsidy.
To recap (… continues):

• The distortion/limitation/elimination of free exchange always replaces the spontaneous order of the free market with elements of a positive order: protectionism arbitrarily forces market participants to exchange (or to abstain from exchanging) not on the ground of what they think is good for them, but on the ground of what the policy makers think is ‘good for society’.

• In this way, by preventing the only thing that can create economic value (free exchange), value is reduced/destroyed.
Frédéric Bastiat: “In the economic sphere an act, a habit, an institution, a law produces not only one effect, but a series of effects. Of these effects, the first alone is immediate; it appears simultaneously with its cause; it is seen. The other effects emerge only subsequently; they are not seen; we are fortunate if we foresee them. There is only one difference between a bad economist and a good one: the bad economist confines himself to the visible effect; the good economist takes into account both the effect that can be seen and those effects that must be foreseen. Yet this difference is tremendous; for it almost always happens that when the immediate consequence is favorable, the later consequences are disastrous, and vice versa. Whence it follows that the bad economist pursues a small present good that will be followed by a great evil to come, while the good economist pursues a great good to come, at the risk of a small present evil.”*

Protectionism

Economics, Philosophy and (Individual) Way Out of It

(Part 2 of 2)
3. Protectionism (broad sense):

- definition and equivalence
- the case of Uber (simple)
- the case of money (complex)
Protectionism in the narrow sense (i.e. hampering of free exchange in intl. trade) is nothing but a **particular case** of protectionism (i.e. hampering of free exchange).

While the hampering of free exchange **across** political borders is usually called ‘protectionism’, the hampering of free exchange **within** political borders is usually called ‘regulation’, ‘taxation’, ‘social justice’, ‘equality’, etc. etc.
Since political borders are economically irrelevant, there is an **absolute equivalence** between protectionism and interventionism.

### protectionism = interventionism

These are two different words that refer to the **same** economic concept: the **government’s hampering of free exchange** and defense of privileged interests (usually in the name of the ‘social interest’, that is in the name of **logically nonsensical** propaganda).
A simple example of protectionism is Uber (including Uber Pop).

As in the case of protectionism in the narrow sense, regulation against Uber:

- is designed to **hamper free exchange**;
- damages **consumers and non-privileged producers**;
- **destroys economic value**;
- does so **in the name of the ‘social interest’**;
- does so in a **specific** sector (many unintended consequences, **but not systemic ones**);
Another typical example of protectionism is **money**.

This is a **very complex** case, which we’ll not have time to discuss.

However, let’s keep in mind the following:

- **Money was borne as a product of free exchange** [gold …];

- **Fiat** money/central banking/legal tender system (i.e. **protectionism in the money sector**) was introduced in order to **annihilate** free exchange in this sector;

- Government’s monopoly of **fiat** money (via ‘independent’ central banks) **damages consumers** (especially late receivers […]), **creditors/savers** […], **potential competitive producers**, and others.
Protectionism in the money sector coercively protects the interests of the most highly privileged organization: the State (also the largest debtor);

It destroys value…

… not only directly:

- ’public’ debt [i.e. taxes on future generations];
- loss of purchasing power of money;
- ‘public’ spending (including university courses);
- etc.

… but also, and most importantly, indirectly via cyclical, systemic economic crises [basic elements of Austrian business cycle theory …].

Of course, protectionism in the sector of money destroys value in the name of the ‘social interest’, ‘social justice’ and similar logical nonsenses.
• State interventionism and protectionism are **one and the same thing**: coercive hampering of free exchange (i.e. of the market process);

• Since, as cannot be repeated too often, free exchange is the **only** way economic value can be created, protectionism **necessarily and always** destroys value: that is, it necessarily and always **worsens the economic situation** of non-privileged market participants;

• Nowhere is protectionism more devastating (because of its **systemic** consequences) than in the sector of **money**.
4. The ‘root-cause’:

- what makes protectionism possible?
- legal positivism
- the non-aggression principle
- opposite paradigms
- free market and the law
Protectionism is not a problem of wrong people in power.

Some people think this because it is the easiest way to think. And it is the easiest way to think because:

a) it does not question the paradigm they have been taught to take for granted and never had the chance to critically evaluate and compare with others;  
b) it is a way to absolve themselves: to think that they are not part of the problem.

As we shall see, protectionism measures are crimes. The problem is not that someone committed those crimes (in real life, crimes are committed). The problem is that he could do it legally: that these crimes are legal.

What makes protectionism possible, legal and ever-increasing is an abstract (philosophical) idea of law: the law intended as instrument of arbitrary political (i.e. coercive) power rather than a non-arbitrary limit to any coercive power.
There are many different abstract ideas of law. However, the paradigms in the abstract ideas of law are two, and two only (and only one of them is compatible with protectionism):

1. **law = instrument** of arbitrary political (i.e. coercive) power;

2. **law = non-arbitrary limit** to any coercive power.

And please note: “non-arbitrary” does not mean “democratic”. A democratic (e.g. majority) decision can be (and usually is) as arbitrary as the command of a single dictator.

**Democracy** (intended as majority rule), **fascism** or **communism** are different particular expressions of the same abstract idea of law: **legal positivism**.

As we shall see, legal positivism makes political power unlimited. Protectionism is the consequence of this absence of limits to political power.
Legal positivism is the particular expression of the “law-as-instrument-of-power” paradigm prevailing in the modern state.

It is the philosophical idea of law that is necessary to adopt for protectionism to be legal.

Positive law is a particular decision of authority (i.e. a command): for example, a protectionist measure.

Because its origin is the decision of authority, positive law does not exist before that decision is formalized. E.g. you don’t have to pay a tariff or to abstain from running a Uber-Pop service before that tariff/regulation is imposed.
In this sense, in the case of positive law it is the law that derives from authority (not the other way round):

“It would therefore probably be nearer the truth if we inverted the plausible and widely held idea that law derives from authority and rather thought of all authority as deriving from law - not in the sense that the law appoints authority, but in the sense that authority commands obedience because (and so long as) it enforces a law presumed to exist independently of it” (Hayek F.A.*)

In other words (and to emphasize the fact that we are discussing a paradigm): it is not the law that orbits authority, but it is authority that orbits the law.

Being an arbitrary decision, positive law can be used (and is systematically used) for the attainment of particular (e.g. collective) ends arbitrarily decide from above.

More specifically, it can be used in order to force individuals to participate (one way or another, in one measure or another) to the attainment of the particular ends imposed by those who control the coercive machine (the State). Protectionist measures are the typical example.

Therefore, positive law necessarily implies that society is conceived as a positive order.

Remember section 1. Positive order = result of human action and of human design; unitary hierarchy of ends; individual, dispersed knowledge replaced with centralized knowledge.

Positive law = made law = (law of) positive order
Positive law implies an idea of **equality before the law** that is compatible with **legal inequality**.

**Legal inequality:**

- an arbitrary **criterion** is established;
- different **categories** are formed on the ground of that criterion;
- individuals (and organizations) are **grouped** into those categories;
- individuals/organizations who are grouped into the **same category** are treated equally; those who are grouped into **different categories** are treated differently.

E.g.: protectionism: slavery; racial laws; progressive taxation; taxation itself; central banking; Uber; etc.

In a positive law system, **because of legal inequality**, a privileged organization (the **State**) can commit actions (e.g. impose **protectionist measures**) that, if committed by a non-privileged individual/organization, the State itself would consider to be **common crimes**.
Because of all its characteristics, but especially because of the abstract idea of equality before the law univocally associated with it, legal positivism implies the total absence of non-arbitrary limits to coercive power (constitutions are themselves positive law). In this sense, it is a totalitarian idea of law (law of men).

“In a modern state, there is no law so ancient or so ‘entrenched’ that it lies outside the authority of the government to amend or to abolish it; and in every modern European state there is a known and recognized procedure by which this can be done” (Oakeshott M.*)

“ That the legislators, at least in the West, still refrain from interfering in such fields of individual activity as speaking or choosing one's marriage partner or wearing a particular style of clothing or traveling usually conceals the raw fact that they actually do have the power to interfere in every one of these fields” (Leoni B.**).

(*) Oakeshott M., 2006, p. 95.

In the long run, the absence of limits to arbitrary, coercive power necessarily implies its continuous expansion: **positive law implies a continuous increase of protectionism** (e.g. taxation, ‘public’ debt, monetary inflation, regulations, etc.).

Quite aside from its ethical and economic implications, it is a **non-scientific** idea of law because it is logically inconsistent (it is **purely arbitrary**).

Being itself a **positive order** (and implying a society and an economy intended as positive orders), positive law can be easily sold to the **masses** (who have familiarity with positive orders but not with spontaneous orders).
**“The wrong people are in power”**

Matt Damon is wrong. Protectionism (i.e. legalized, systematic, poverty creating crime) is not a problem of the wrong people in power, but of the wrong abstract idea of law that gives those people the power to legalize crime in the first place. In other words, the problem is the fact that many decent individuals passively accept the idea that the law is the instrument of arbitrary coercive power rather than the non-arbitrary limit to any coercive power. Arbitrary coercive power is what is necessary for the “drastic reallocation of wealth” Mr. Damon suggests (as well as for any amount and kind of taxation).
“Aggression” = initiation of force/coercion (or threat of it)

The important part in the term “non-aggression principle” is “principle” (not “non-aggression”): everyone is “against aggression”. Even the Nazis were against some particular forms of aggression against some particular groups.

The non-aggression principle implies that no-one can aggress anyone, anywhere, anytime, for whatever reason. “Principle” means that there are no exceptions whatsoever to this rule. If stealing is a crime, then also taxing is (rule of law).

Protectionism = hampering of free exchange = aggression

Protectionism is incompatible with the non-aggression principle (it’s a crime).

In order to be legal, protectionism needs a positive law system, just as racial persecution does.
We saw that the origin of positive law is authority’s decision.

What is the \textbf{origin} of the non-aggression principle?

- For some, it is \textit{nature};
- For others, it is a \textbf{spontaneous process of cultural selection} of successful uses and conventions [...].

In both cases, the law:
- exists \textbf{before} legislation (i.e. before authority’s decision);
- can only be discovered/defended (\textit{not ‘made’});
- is a non-arbitrary \textbf{limit} to any form coercive power;
- it is \textbf{incompatible with legal inequality} (no State privilege);
- it implies that society and the economy are \textbf{spontaneous orders};
- it \textbf{cannot} be used to attain particular ends (it is not justified by ends);
- it is \textbf{incompatible with protectionism}.
- it is \textit{certain} in the sense that it \textit{cannot change suddenly} (not in the sense that it is precise, as positive law): it allows for \textbf{long term individual plans}. 

\textbf{Non-aggression principle = grown law = (law of) spontaneous order}
### Positive Law vs. Non-Aggression Principle

<table>
<thead>
<tr>
<th>Origin of Law</th>
<th>Decision of authority:</th>
<th>Spontaneous order/Nature:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>What Derives from What</strong></td>
<td>Law derives from authority (rule of men)</td>
<td>Authority derives from law (rule of law)</td>
</tr>
<tr>
<td>Nature of Law</td>
<td>Command</td>
<td>Principle: general rule</td>
</tr>
<tr>
<td>Particular (e.g. Collective) End</td>
<td>Can have</td>
<td>Cannot have: only limits individual behaviour</td>
</tr>
<tr>
<td>Society &amp; Economy As</td>
<td>Positive orders</td>
<td>Spontaneous orders</td>
</tr>
<tr>
<td>Legal Inequality</td>
<td>Allows</td>
<td>Does not allow</td>
</tr>
<tr>
<td>Certainty</td>
<td>Precision</td>
<td>Impossibility of (arbitrary) change of the law</td>
</tr>
<tr>
<td>Limits to Coercive Power</td>
<td>Arbitrary = None</td>
<td>Absolute</td>
</tr>
<tr>
<td>Protectionism</td>
<td>Compatible</td>
<td>Not compatible</td>
</tr>
</tbody>
</table>
Economics is often viewed as a “value free” science: it studies human action, but it does not care whether the action is ‘good’ or ‘bad’. Its laws remain the same whether the action is producing tomatoes or robbing a bank.

This is correct, but it does not mean that there’s no link between economics and and the philosophy of law. In fact, this link regards paradigm and is extremely strong:

**Free market is technically impossible within a positive law system:**

“Even those economists who have most brilliantly defended the free market against the interference of the authorities have usually neglected the parallel consideration that no free market is really compatible with a law-making process centralised by the authorities” (Bruno Leoni*)

(*) Leoni B., 1972 [1961], p. 90.
5. (Individual) way out of protectionism:

- the Bitcoin/blockchain revolution
- individual way out
- Bitcoin’s strategic lesson
Preliminary note:

**I’m not a Bitcoin expert** (i.e. an I.T. professional).

For more detailed and precise analysis **on the technology**, you can refer to Antonopoulos A.M., 2015 and to many sources on the Internet.
Bitcoin is the first **decentralized cryptocurrency**.

A **cryptocurrency** is a **digital asset** that works as a **medium of exchange** using cryptography to secure the transactions and to manage inflation (i.e. the increase of the quantity of money).

Bitcoin is **decentralized** thanks to the Blockchain. The **Blockchain** is a **public ledger** that includes the details of **all** transactions.

This ledger is **distributed** among the nodes that constitute the network: unlike the ledger where your credit card transactions are recorded, **no one controls it** nor can arbitrarily modify it.
The key (in theory unresolvable) problem of a distributed ledger is finding reliable consensus on the information that is added to it.

The Blockchain manages to find a consensus thanks to a structure of incentives. This structure of incentives is made possible by the existence of an asset (smth. people give value to): this asset is Bitcoin.

The blockchain is kept functioning because those who record transactions on the ledger and find a consensus on it receive new Bitcoins and fees paid by users.

The blockchain could not work without Bitcoin: it would be like a car without gasoline (useless).
The blockchain is an **inefficient technology** (a centralized ledger is much less expensive and more simple to keep).

However, because it is **decentralized, pseudonymous** and **censorship-resistant**, Bitcoin/blockchain (from now on, Bitcoin) is a **game changer**. It is the **armour of the free market** (for the moment, only in the **sector of money**).

If the State had not abolished the free market in the money sector (i.e. the **gold standard**) and had not systematically and legally violated **privacy** in economic transactions, Bitcoin would probably have had **no reason to exist**.
Some characteristics of Bitcoin:

- **fixed quantity**: if success continues, increase of purchasing power;

- pseudonymous: **higher privacy** than fiat money, but **not total** (other cryptocurrencies are better in this respect);

- decentralized: **no one controls it or “prints” it**;

- **trustless and open source**;

- censorship-resistant: Bitcoins **cannot be confiscated, seized, blocked etc.**

- censorship-resistant (2): Bitcoin **cannot be stopped by the government** (but governments can make its life difficult).
As long as positive law will be prevailing, **protectionism will continue to expand**.

Unfortunately, a political (i.e. collective) way out it is **not conceivable** in the conditions existing today and in the foreseeable future.

Thanks to Bitcoin, however, today we have an **individual** way out of protectionism.

More than that, a way out that is **not** based on:

- **politics** (which is the problem);
- the **understanding of economics** (which will always be accessible to an extreme minority);
- the **standing on the side of liberty** (most people do not understand liberty/the spontaneous order).

Rather, this individual way out of protectionism is based on **incentives**: on the surface, Bitcoin is **ideologically neutral**.
For the moment, we have this individual way out of protectionism only in the sector of money (the sector in which protectionism has the most devastating effects).

However, new developments are under way:

- **e-commerce** (openbazaar.org);
- **forex** (bitsquare.io);
- **smart contracts** (ethereum);
- **notary services**;
- **iCloud** (MaidSafe Coin);
- and **many others**, especially in the future.
Internet disintermediated information.

Bitcoin disintermediated action.

And, most importantly, made it resistant against legal aggression.
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6. Open discussion: