

Study Guide to *Human Action* by Robert P. Murphy

Chapter XXIX. Restriction of Production

Chapter Summary

1. The Nature of Restriction

This chapter deals with intentional government efforts to alter production from the pattern that would have emerged on the unhampered market. Its restrictions will also alter the pattern of consumption, but this is a side effect; the goal is to alter production.

Restrictions necessarily make people poorer. On the unhampered market, there prevails a tendency for entrepreneurs to direct resources into those lines that best satisfy the desires of the consumers. If government measures redirect these resources, the consumers are less pleased with the resulting output. Government can only stimulate or encourage particular branches of production by discouraging other branches.

2. The Prize of Restriction

Government restrictions make the consumers poorer, and are thus costly. However, in principle, it is possible that the benefits of the restrictions outweigh their costs, just as one might justify a light tax burden (which admittedly makes citizens poorer) by the military and other government services financed by the tax revenues. However, the typical government restriction is unjustified because it fails to achieve its stated purpose. For example, "pro-labor" legislation does not benefit the workers as a class, and "protective" tariffs do not make a country richer.

3. Restriction as a Privilege

Although restrictions make the entire nation poorer, each restriction can bestow benefits on a subset of the population. The classic example is a tariff, which reduces per capita consumption but nonetheless provides higher wages to the workers in the protected domestic industry. However, even here the benefits are in the short run only; in the long run, the higher wages attract more workers, until there remains no special boon to working (or investing) in the protected industry. The only permanent effect is a rearrangement of global production so that the product of the industry is produced in regions where its costs are higher than in alternative locations. Despite the fact that everyone is poorer in the long run from restrictions, it is politically difficult to remove them because to do so would cause short-term losses for the privileged group.

One of the major aims of tariffs is to shield domestic industries from the immediate consequences of "progressive" regulation. Under free trade, a new measure requiring employers to revamp their factories would immediately give an advantage to foreign producers suffering no such restriction. But if a tariff is raised to "level the playing field" between heavily regulated domestic industries and their foreign counterparts, then the public cannot so easily see the harmful effects of the regulations.

4. Restriction as an Economic System

It is conceivable that the cost of a government restriction—namely, the value of the goods that would have been produced in its absence, but which now will not be produced—is judged to be acceptable, in light of the benefits. For example, a city government may set aside a piece of land to serve as a park, rather than a site for a factory or shopping mall. Economics cannot say whether the value of the park is higher than the lost output or services from the factory and mall.

However, it is clear that, even when justified, acts of restriction should be classified as quasi consumption, not as production. Because of this, restrictionism cannot be considered as an economic system.

Various "pro-labor" measures do not raise standards of living; they reduce the exploitation of a factor of production, labor, and furthermore reduce the effectiveness with which labor can be combined with capital goods. At best, maximum workweeks and other such laws force workers to consume more leisure and produce less output; it is in this sense that the regulations are part of a quasi-consumption program, not a production program.

Why It Matters

In this chapter, Mises drives home the basic yet crucial point that government restrictions on production necessarily reduce the average standard of living. Moreover, even the privileged few who benefit from a given restriction, do so only in the short run. True to his view of economics as a positive science, Mises does not pass value judgment on restrictions. He merely points out that most are ill-suited means to achieve their stated ends.

Technical Notes

- (1) Mises says that the "decision about each [proposed] restrictive measure is to be made on the ground of a meticulous weighing of the costs to be incurred and the prize to be obtained. No reasonable man could possibly question this rule" (p. 741). Actually, Mises's disciple Murray Rothbard—certainly reasonable—would question it. There is first the matter of the proper role of government; a believer in the US Constitution, for example, would oppose regulations at the federal level for which there was no authority, even if they appeared to be justified on utilitarian grounds. Furthermore, even taking Mises's argument at face value, one would have to be very careful when weighing the benefits of a proposed regulation. In order to count as a true benefit, it would need to be the case that the unhampered market could not itself deal satisfactorily with the problem. For Mises's example of fire regulations, insurance companies would probably issue codes before granting policies on buildings. In order for government to override these private-sector rules and enforce its own monopoly code, then, the benefit (if any) would have to be due to the superiority of the government's code versus the codes arising in the market; the issue would not be fire codes versus no fire codes.
- (2) In discussing Americans' importing of foreign goods, Mises says, "[T]he equivalent of the additional dollars [earned by foreign producers] must finally go to the United

States and increase the sales of some American industries. If the Swiss and Chinese do not give away their products [to Americans] as a gift, they must spend these dollars in buying" (p. 746). Strictly speaking, American imports of foreign goods do not necessarily translate into an outflow of American goods as exports. This is because the Swiss and Chinese can use their dollars not to buy American products or services but instead to buy American assets, such as US government bonds or shares of GM stock. It is true that, in the long run, a country must pay for its imports with its exports; but in any given time period, a net trade deficit can be financed by a net capital surplus, i.e., by foreigners investing more in American assets than Americans invest in foreign assets.

Study Questions

1. The Nature of Restriction

- What does restriction of production imply? What are its necessary consequences?
- What is the only thing that tariffs can achieve?

2. The Price of Restriction

- What are the consequences of protectionism?
- What are the consequences of restricting the hours of work?

Comment: "Labor legislation, for the most part, merely provided a legal recognition of changes in conditions already consummated by the rapid evolution of business."

- What is the only means suitable to eliminate the deplorable conditions for many Asian workers?

3. Restriction as a Privilege

- Why does Mises say "the eagerness of the law's pet children to acquire privileges is insatiable"?
- If each domestic industry is protected by its own tariff, will the move to free trade hurt them all?

4. Restriction as an Economic System

Comment: "Economics does not contend that restriction is a bad system of production. It asserts that it is not at all a system of production but rather a system of quasi-consumption."