

CHAPTER 3 — TRIANGULAR INTERVENTION

CHAPTER SUMMARY

Price control occurs when the intervener attempts to influence the terms on which products or services exchange. (In contrast *product control* is a coercive influence on the product or service itself, including the individuals who sell it.) A price control is *ineffective* if its penalties do not apply because the market price falls within the legally permissible range. The rest of the analysis assumes an *effective* price control.

A *maximum* price control occurs when the intervener threatens violence against anyone caught selling a good above a particular price. The immediate effect is a *shortage*. “Non-price rationing” then comes into play, including queues, favoritism for certain customers, and discrimination against unpopular groups.

A *minimum* price control threatens violence to prevent sales of a good or service below a particular price. This leads to a *surplus*. An example is the mass unemployment caused by minimum wage laws.

Outright *prohibition* leads to black markets as suppliers sell the product outside legal channels. The reduced supply leads to higher prices, but also to an inferior product as the sellers cannot resort to economies of scale and name-brand advertising.

By prohibiting sale of a good or service except for a privileged group, the government confers an artificial monopoly (or oligopoly) grant. All of the alleged effects of free market cartels and monopolies *do* apply to *government* cartels and monopolies. Following are examples of typical monopoly grants:

Compulsory cartels occur when the government forces firms in an industry to restrict output. This helps inefficient firms and hurts consumers.

Licensing is a threat of violence that limits the permissible producers to particular groups (those who have obtained the license). The ostensible purpose of most licensing is to ensure quality and safety for consumers. Even so, the intervener necessarily eliminates the option of lower-quality but cheaper services. On the free market, sellers of adulterated products could be prosecuted for fraud and/or injuring the buyer's body.

A *tariff* is a tax placed on imports in a particular industry. It directly injures domestic consumers and foreign producers, and it indirectly injures domestic exporters in other industries. *Immigration restrictions* confer a restrictionist wage to the domestic laborers, raise prices to consumers, and distort the location of workers and capital.

Child labor laws raise wages for adult workers and reduce total output. Compulsory school attendance lowers utility even more than a mere prohibition on work.

Conscription reduces the supply of able-bodied adult laborers, distorting production and raising wages.

Government unemployment benefits slow the transferal of displaced workers to new jobs, and help mask the harmful effects of unionism and other restrictionist policies.

Antitrust laws stifle efficient mergers and penalize those firms that gain market share by satisfying customers. *Conservation laws* defy the time preference schedules of individuals and confer gains to particular factor owners. On a free market, owners tend to maximize the present discounted value of their assets.

CHAPTER OUTLINE

1. *Price Control*

Price control occurs when the intervener attempts to influence the terms on which products or services exchange. (In contrast *product control* is a coercive influence on the product or service itself, including the individuals who sell it.) A price control is *ineffective* if its penalties do not apply because the market price falls within the legally permissible range. The rest of the analysis assumes an *effective* price control.

A *maximum* price control occurs when the intervener threatens violence against anyone caught selling a good above a particular price. The immediate effect is a *shortage*, when the quantity demanded exceeds the quantity supplied. “Non-price rationing” then comes into play, including queues, favoritism for certain customers, and discrimination against unpopular groups. Sellers may also reduce the quality of the product, e.g. landlords who do not maintain a building because of rent controls.

A *minimum* price control threatens violence to prevent sales of a good or service below a particular price. This leads to a *surplus*, when the quantity supplied exceeds the quantity demanded. An example is the mass unemployment caused by minimum wage laws.

2. *Product Control: Prohibition*

Prohibition leads to black markets as suppliers sell the product outside legal channels. The reduced supply leads to higher prices, but also to an inferior product as the sellers cannot resort to economies of scale and name-brand advertising. *Partial prohibitions* involve prohibitions after a certain point; examples include rationing systems and maximum-hour laws.

3. *Product Control: Grant of Monopolistic Privilege*

By prohibiting sale of a good or service except for a privileged group, the government confers an artificial monopoly (or oligopoly) grant. All of the alleged effects of free market cartels and monopolies (that are in truth illusory) *do* apply to *government* cartels and monopolies.

A. COMPULSORY CARTELS

In order to lower the embarrassing gluts of minimum price controls, governments will often impose maximum production quotas on an industry, i.e. will force all of the relevant firms to join a cartel. Inefficient producers benefit at the expense of their efficient competitors.

B. LICENSES

A popular form of monopolistic grant is the *license*, in which the government threatens violence against any producer who does not first obtain the license.

C. STANDARDS OF QUALITY AND SAFETY

The ostensible purpose of most licensing is to ensure quality and safety for consumers. Even so, the intervener necessarily eliminates the option of lower-quality but cheaper services. Moreover, such regulation locks in particular standards and slows improvements. On the free market, sellers of adulterated products could be prosecuted for fraud and/or injuring the buyer's body.

D. TARIFFS

A tariff is a tax placed on imports from foreign producers in a particular industry, designed to "protect" the domestic suppliers. It directly injures domestic consumers (by raising prices) and foreign producers, and it indirectly injures domestic exporters in other industries by restricting the sales of foreigners. (A country ultimately pays for its imports with exports, and thus to restrict another's country's exports will reduce its demand for one's own exported products.)

E. IMMIGRATION RESTRICTIONS

Restrictions on foreign workers confer a restrictionist wage to the domestic laborers. Such restrictions distort the location of workers and capital (investors will export more capital because of the artificially high domestic wages) and raise prices for consumers.

F. CHILD LABOR LAWS

Child labor laws raise wages for adult workers and reduce total output. Compulsory school attendance is an even worse means of eliminating child labor, as it not only prevents children from working but also compels them to participate in a specific alternate activity.

G. CONSCRIPTION

The draft reduces the supply of able-bodied adult laborers, distorting production and raising wages. It also allows the government to field an army for a lower monetary expenditure than would be necessary to raise a volunteer army of comparable size.

H. MINIMUM WAGE LAWS AND COMPULSORY UNIONISM

To the extent that government measures (such as the Wagner-Taft-Hartley Act) allow unions greater scope to coercively restrict the labor supply, they raise wages for the privileged workers and reduce them for the non-members.

I. SUBSIDIES TO UNEMPLOYMENT

Government unemployment benefits slow the transferal of displaced workers to new jobs, and help mask the harmful effects of unionism and other restrictionist policies.

J. PENALTIES ON MARKET FORMS

Arbitrary penalties on specific organizations harm efficient producers. Examples include taxes on chain stores, laws limiting hours of business operation, outlaws on pushcart peddlers, and corporate income taxes.

K. ANTITRUST LAWS

As the only sensible criterion of trust or monopoly is a legal privilege conferred by government, the antitrust laws are necessarily vague. They stifle efficient mergers and penalize those firms that gain market share by satisfying customers.

L. OUTLAWING BASING-POINT PRICING

On the free market, one price will prevail *at the point of consumption*, but producers may charge different prices “at the mill” (because of different costs of transportation) in order to remain competitive. Government rulings that this constitutes “price-fixing” distort the location of production centers and thus hamper efficiency.

M. CONSERVATION LAWS

Government measures designed to preserve nonrenewable resources defy the time preference schedules of individuals and confer gains to particular factor owners.

Whenever a unit of such a resource is consumed, it will be in the “present.” Why then should future generations receive special consideration, especially since they will be wealthier than the present generation? Conservation laws do not provide more for the future, but at best only provide more *natural* resources at the expense of capital goods.

Private owners tend to maximize the present discounted value of their assets. Conservation laws would only make sense if government bureaucrats were better at forecasting future uses for resources than businesspeople were.

N. PATENTS

A *patent* is a monopoly privilege granted to first discoverers of certain inventions. Far from being a legitimate form of property right, a patent is a restriction on the ability of others to use their property. The utilitarian argument for patents—that they are necessary to stimulate the “proper” amount of research and development—relies on an arbitrary value judgment that the free market level of research would be “too low.” Patents do not in fact encourage innovation *per se*, but rather distort the relative amounts of innovation in patentable and nonpatentable fields.

O. FRANCHISES AND "PUBLIC UTILITIES"

Franchises (in this context) are grants to use government streets. If they are restrictive, they are grants of monopoly. However, the issue is complicated by the fact that governments (illegitimately) own the streets and therefore must make some decision over usage.

P. THE RIGHT OF EMINENT DOMAIN

The right of eminent domain allows a privileged group to compel the sale of property (generally land). For example, a railroad may be allowed to force homeowners to sell their property located in the path of a proposed new line. Eminent domain is of course a brazen violation of property rights that results in distortions in relative levels of investment.

Q. BRIBERY OF GOVERNMENT OFFICIALS

Praxeologically, bribery is identical to sale of a government license to engage in a (nominally illegal) act. A *defensive* bribe mitigates the harm of government restrictions, while an *invasive* bribe is a further step away from the free market.

R. POLICY TOWARD MONOPOLY

All true monopolies are conferred by government privilege and can be eliminated quite easily. Limited liability corporations do *not* enjoy special government privileges; on the free market investors could form such a company and any employee or customer would deal with them at his or her own risk.

APPENDIX A
ON PRIVATE COINAGE

The typical justification for government control of the mint is that reliable standards are necessary in money. This argument ignores the abysmal record of government debasement, and it also proves far too much: Exact standards are necessary for machine-tools, yet this does not prove the need for a nationalization of this industry. On the free market private firms could certify coins and stamp them with a name brand.

APPENDIX B
COERCION AND *LEBENSRAUM*

Restrictions on trade and immigration lead to hostility between nations. If a given country is truly "overpopulated," it is only because of government restrictions on immigration by its neighbors.

NOTABLE CONTRIBUTIONS

- Rothbard continues with his exhaustive classification of intervention. In this chapter he takes his original concept of a “triangular intervention” and analyzes typical government measures from this perspective.
- Rothbard’s pioneering work in monopoly theory provide the background for his treatment of government “anti-monopoly” policy.

TECHNICAL MATTERS

- In Chapter 10 of *Man, Economy, and State*, Rothbard exploded the mainstream theory of monopoly price. In particular, Rothbard claimed that this theory rested upon an alleged dichotomy between the “competitive” price and the “monopoly” price. Yet on a free market, there is only the free market price; there is no basis upon which one could criticize the outcome of voluntary exchanges even when there are only one or a few sellers. In contrast, when the *government* establishes a cartel or monopoly, then we *do* have a sensible benchmark, namely the “free market” price and level of output.
- A government license on a business always hampers the satisfaction of the consumers, but it may not necessarily confer a monopoly price; depending on the demand in the industry, the licensed producers may find it most profitable to expand production to offset the elimination of unlicensed producers. In contrast, licensing of labor *always* raises wage rates; the licensed workers (generally) cannot sell more labor hours to completely offset the elimination of the unlicensed workers. (See p. 1096.)

STUDY QUESTIONS

- (1) Why does Rothbard call the black market “the” market? (p. 1079)?
- (2) What is Rothbard’s suggested restatement of Gresham’s Law? (pp. 1080-1081)
- (3) What caused the “dollar shortage” in Europe after World War II? (p. 1082)
- (4) Why are legal tender laws classified as price controls? (p. 1083)
- (5) How do usury laws hurt their intended beneficiaries? (p. 1084)
- (6) Why does prohibition hurt both parties to an exchange, whereas price control arguably helps at least one party? (p. 1086)
- (7) If the owner of a building would be sent to jail for manslaughter, would auto producers (or owners) be jailed after every car accident in a free society? (p. 1099)
- (8) What is the fallacy of the infant industries justification for tariffs? (pp. 1105-1107)
- (9) Why should the advocate of immigration controls also favor compulsory birth control? (p. 1111)
- (10) Does Rothbard think that children should work instead of going to school? (pp. 1111-1112)