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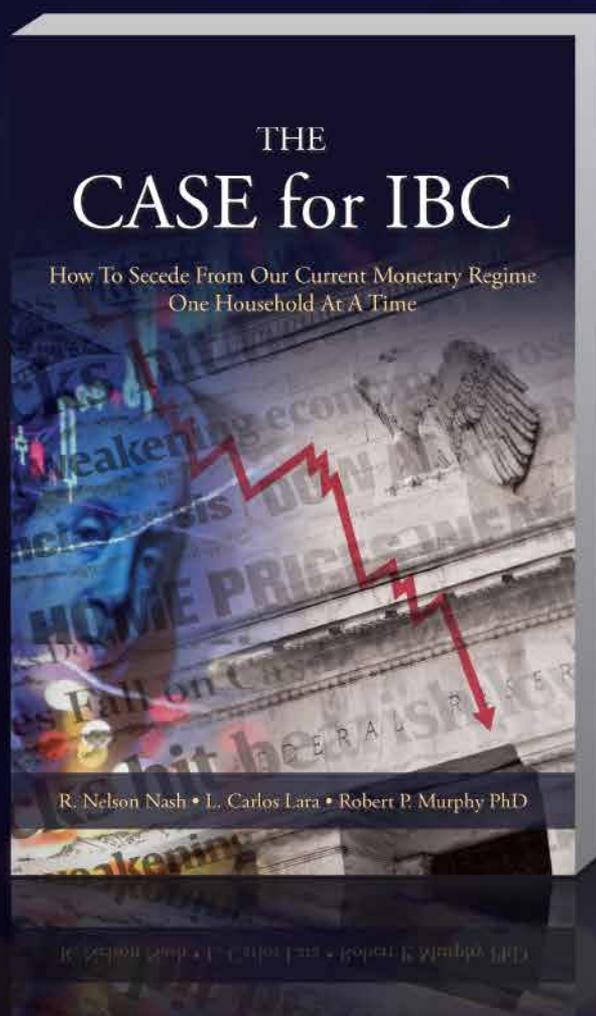
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Interview with Gary Wolfram

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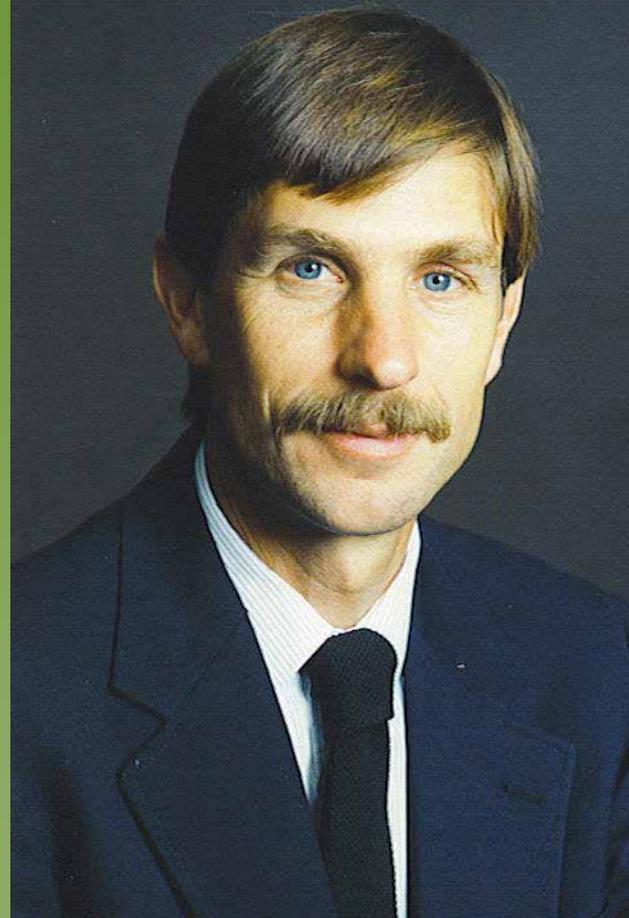
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Legislation is a Battle

Interview with Gary Wolfram



Gary Wolfram is the William E. Simon Professor of Economics and Public Policy, as well as the Director of Economics and Political Economy at Hillsdale College. As president of Hillsdale Policy Group, Dr. Wolfram is a consultant specializing in taxation and policy analysis. His recent book is titled, *A Capitalist Manifesto: Understanding the Market Economy and Defending Liberty*. Dr. Wolfram's public policy experience includes serving as Congressman Nick Smith's Chief of Staff, Michigan's Deputy State Treasurer for Taxation and Economic Policy under Governor John Engler, and Senior Economist to the Republican Senate in Michigan. Wolfram received his Ph.D. in Economics from the University of California at Berkeley, and has taught at several colleges and universities, including Mount Holyoke College, The University of Michigan, and Washington State University. He has contributed to national publications such as *The Wall Street Journal*, *Forbes*, *Human Events*, *American Spectator*, and *National Review*. He was named Hillsdale College's Professor of the Year for 2004 and received the Emily Daugherty Award for Teaching Excellence in 2011. In 2003, *Michigan Runner* magazine also named him one of the top 25 runners in Michigan of the past 25 years.



Editors' Note: Robert Murphy had Dr. Wolfram as a professor as an undergrad at Hillsdale from 1994-1998, and as a colleague when he taught at Hillsdale from 2003-2006.

Lara-Murphy Report: How did you learn about Austrian economics?

Gary Wolfram: It was a little different than most stories. I was attempting to qualify for the Olympic Trials in the marathon so was able to get a one-year visiting position at Washington State University where the world record holders in every track distance event were running. One day I was in the library and came across a book titled *Human Action*. For some reason I took it off the shelf and opened it to the chapter on markets and began reading it. I thought, "This is the best description of how markets work that I have ever seen." So I took it out of the library and began reading it. This led me to read more Mises and Hayek and I eventually became enamored with the field.

LMR: You are also heavily influenced by the Public Choice school of economics. What are their contributions, that supplement the insights of the Austrians?

GW: Mises in his little 1927 book, *Liberalism*, points out that once government intervenes in the market it creates unintended consequences. He points out that this leads to demand for more government action to deal with the unintended consequences, and then further government intervention until you get central planning. This analysis from Mises is a precursor to Public Choice theory.

Public Choice theory focuses on the political process and problems with “government failure” rather than “market failure.” Mises, again in *Liberalism*, explains why limited government is a foundation of liberal thought. You are much more likely to believe in limited government when you understand that rationally ignorant voters will elect representatives who respond to all sorts of incentives related to the demands of special interest groups, than if you see “government” as the person who went to benevolent dictator school.



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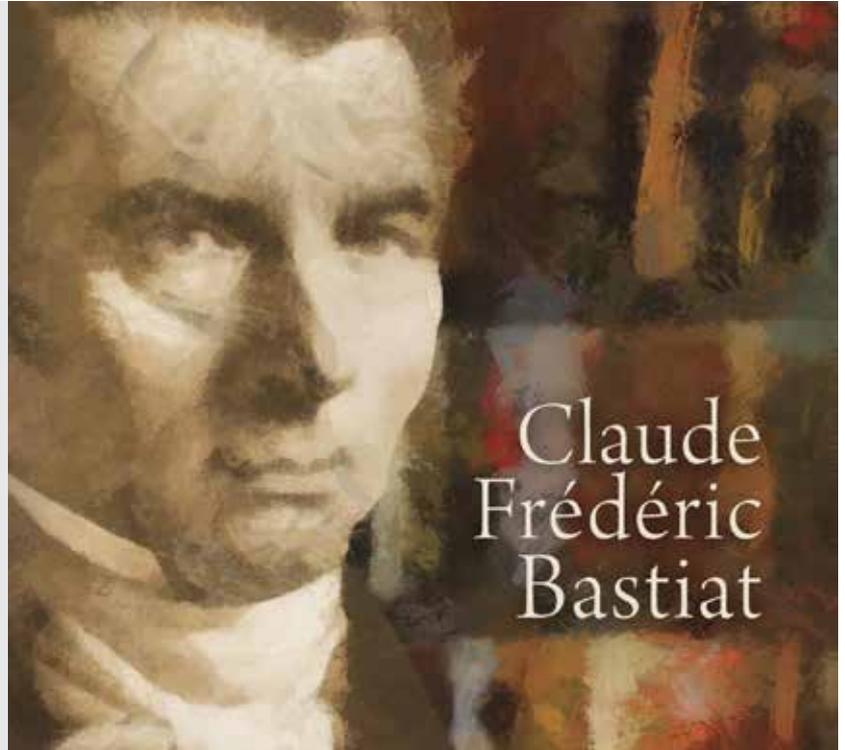
LMR: How many times do you estimate that you’ve taken an undergraduate class through Frédéric Bastiat’s *The Law*? Why is a booklet from the 19th century still so important to study today?

GW: I have been using *The Law* in the course I developed at Hillsdale, Introduction to Political Economy, since the Spring semester of 1989. Two semesters a year for nearly 30 years, would be approximately 60 classes. If you count multiple sections of the same class it is probably about 100 times.

Bastiat’s book is important because he points out, in 1850, what will happen when governments engage in what he calls “legalized plunder,” that is, when government takes from one person and gives to another or the purpose of the

law is to give one person an advantage over another. Probably the most important insight is that the plundered classes will attempt to engage in the making of the law by violent or other means. Now he had just seen revolutions in France in 1830 and 1848. In the US today we don't have violence (at least not usually) but we use lobbyists and massive campaign organizations to either engage in legalized plunder for ourselves or to protect ourselves. Special interest groups will dominate the political process once so much is at stake.

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Anyone running for office saying they will stop special interest groups from determining what is going on is blowing smoke. Campaign finance reform will do nothing other than change the way that people finance campaigns and protect incumbents. If the Senate Banking Committee can eliminate competitors, I will certainly spend lots of money making sure I am protected no matter how you have written legislation to try to keep me from doing it. Bastiat also says all issues will become political—how about what a certain nominee wrote in his high school yearbook, or whether major league baseball pitchers use performance-enhancing drugs. He says that we will lose our sense of what is just and unjust. Suppose we had a law that taxed a single mom with three kids working in a textile factory in East Los Angeles to give money to an 85-year-old billionaire. Would anyone say this is just? Well if you called it Social Security everyone would say it is just.

LMR: There's a lot of focus on inequality nowadays. For people whose primary concern is to help the poor, what policies do you recommend?

GW: First we need to distinguish between focusing on inequality and helping the poor. We must avoid what Mises termed the politics of envy. Why should I care how wealthy Oprah is? I should care how wealthy are the poor. And as Mises pointed out 100 years ago, market capitalism is the only way to produce wealth for the masses. Central planning cannot overcome the problem of how



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to get people to work hard or take on the risk of innovation, nor can it solve the problem that information is decentralized, so it cannot possibly know how to allocate resources to most efficiently produce what consumers desire.

The only way to truly help the poor is to have institutions that allow everyone to be productive, and that means market capitalism. If you don't believe market capitalism helps the poor, simply ask yourself where you would like to be born if you knew you were going to be the poorest person in that country. You would certainly pick Hong Kong over Venezuela, or Canada over Republic of Congo. Take a look at the countries in the top 25% of the Fraser Institute's Index of Economic Freedom and those countries in the bottom 25% and you will see if you are poor you are ten times wealthier if you are in the top 25% of economic freedom.

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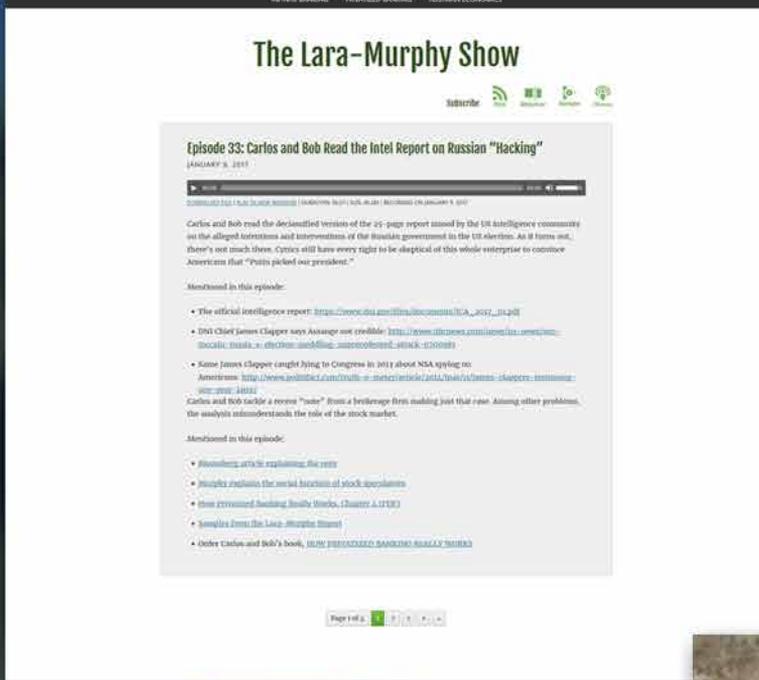


LMR: In addition to being an academic, you’ve also spent a lot of time advising political officials. Do you have a favorite anecdote that illustrates the chasm between blackboard economics and the real world of how legislation is actually made?

GW: I would say I quickly saw the importance of having a multi-client lobbyist when I first became the senior economist for the Michigan Senate Republicans. There was a bill that would have applied the sales tax on the purchase of a car to the value of the car minus the trade-in value. But this only worked if you bought a new car. So the used car dealers were going to lose valuable late model cars to new car dealers. I told the used car dealers association president that they better hire one of the multi-client lobbyists to keep this from happening. And they hired one of the new multi-clients who won the battle over an older multi-client. This created quite a stir and established the new multi-client firm. Today there are many more multi-client firms, but the point is that legislation is a battle rather than an economist figuring out the efficient solution and turning it over to the benevolent dictator to implement.



Note: The economists and financial professionals interviewed in the LMR are given the freedom to express their views, without necessarily implying endorsement from the editors.



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