

AUSTRIAN ECONOMICS AND ANARCHO-CAPITALISM: PEACE, PROSPERITY AND FREEDOM

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Austrian Economics is Reality Economics

I am a businessman which is to say I am a professional calculator of risk and risk taker. I also am the guy who faces the unknown and the unknowable; this is something extra special which economists Frank H. Knight and Ludwig von Mises called 'Uncertainty'.

Risk and uncertainty are always there and they both are something everyone wishes would go away. At least with Risk you can calculate probabilities; but there are also things that are totally unknown and unknowable – these are those pesky uncertainties about the future. Understanding risk and uncertainty and our willingness – or not – to take on risk and uncertainty tells us a lot about ourselves and how we approach the world.

For example, in *The Concise Guide to Economics* (Ludwig von Mises Institute; 3rd edition, 2007) author Jim Cox says that the entrepreneur risks and waits and you should note these are two things that the employee cannot do – the employee must be pretty darn sure that they are going to get paid at the end of the week or they just won't show up! The entrepreneur can't just quit like that. He doesn't know if there will be money left over so that he too can get paid; he must risk and wait to see.

Now risks are something that you can pretty much figure out; you can calculate the probabilities of whether the Sun is going to come up tomorrow or whether people will sprout wings and start flying tomorrow.

An entrepreneur looks into the future and looks for these probabilities and makes an educated guess. If he guesses wrong he suffers. If a sudden game changing event occurs that he could not possibly have seen coming he suffers. Back in New Orleans in 2005, all the best planning for that new store, restaurant or tourist business wouldn't have helped a bit when Hurricane Katrina suddenly blew in and put you out of business. Here in Iowa City in 2009 when a flood, the likes of which had never been seen before by any living person, destroyed many businesses that went, literally, under.

Businesses, Risk and Uncertainty

Why do businesses fail? I have tried very hard to understand why I have failed in various business ventures I have attempted in the past. The best summary statement I have come up with is that I, the entrepreneur, did not calculate all of the risks correctly and/or I got blindsided by something that I could not know was coming.

All of the many risks (and by the way each variable is a risk) needs to be constantly and correctly assess. There are two types of Risk that a business person needs to properly *and correctly* assessed:

- *Technical* risks like – in my business – assessing whether a particular market will go up or down, for one example.
- Even more importantly – all the *systemic* Risks – which

in my business means what are the factors that are making the market go up and down.

Both are vitally important. (I refer you to more info on this concept of systemic knowledge in chapter 1 of my book, *Secrets About Money That Put You At Risk* (Radio Free Market, 2010).) But notice, systemic risk is more subtle and more pervasive. If I can understand the more subtle structures of risk then I can understand why my market(s) are likely to go up or down. And – if I can do that – then I can better calculate (guess) what moves I should make next. Therefore I need to know what is real because the market unforgettingly demands of me, the business man, to Calculate and Risk correctly – or else I lose. Austrian economics provides me with the best basic tool kit for understanding how this bigger picture all fits together – for Real.

I don't want to talk too much about the method that Austrian economics uses. But I encourage you to read Hans Hermann-Hoppe's book, *Economic Science and the Austrian Method* (Ludwig Von Mises Institute, 2nd edition, 2007). It will teach you that economics – and not just Austrian economics – is purely a deductive science.

Briefly I will just mention that here you get into the realm of philosophy called "Epistemology" which is the study of "How we know things".

We are not taught logic in grade school. All of us were taught in grade School that the only valid method of how we know things is called the scientific method – which is great for the physical sciences. But it's not so great for the social sciences. Why? Because it is impossible to replicate in any controlled experiment the trillions of choices that multitudes of people make the sum total of which are the outcomes that result. In short: Because people are constantly changing their minds and they are executing those changing decisions based on constantly changing conditions ... since the world is constantly changing.

And to make it even more interesting people are evaluating and acting in this constantly changing world with constantly changing information, calculations, choices and degrees of competence. Think of a football game. This is why we don't know at the beginning of the game who will win – Green Bay or the Steelers.

But it is also true that you can collect enough data from the past that will help you guess. But you're still guessing, you are still risking. Reality economics, which is what I call Austrian economics, tries to look at both the subtle structural principles that apply to all human interaction and the historical examples which demonstrates how these principles have shown up in the past. The result is that – for the businessman – I can better understand "what" is going to happen with pretty good clarity.

What I cannot know as well is "the how – the exact circumstances that will occur" and what I cannot know at all is "the

when". For example, right now, via studying Austrian/realty economics it is very clear that fiat money is unsustainable. But when will it collapse? How long is it going to take? And what are we going to go through while that happens? Frankly, I could make the case that it could take decades more. It is entirely possible that the current fiat money "regime" may be replaced by another fiat money system that may simply kick the can further down the road, followed by even another.

Why do I say that? Keep in mind it took 100's of years for the consistent debasement of money to ultimately bring down Rome. Here I refer you to two resources. First, you should look at Edward Gibbons' *Decline and Fall of the Roman Empire*, written in 1776, in which he comments that 'the wonder was not that Roman Empire fell, but rather that it lasted so long.' The second resource that I would refer you to is the excellent lecture given in 1984 by Joseph Peden called *Inflation and the Fall of the Roman Empire* available at <http://www.lewrockwell.com/orig10/peden1.1.1.html>. Peden's essay is well worth studying so you can more properly assess the risks you are facing which I hope will allow you to understand "reality" as you encounter it more effectively and therefore create your better and happier life for yourself.

Anarcho-Capitalism and Peaceful Cooperation

How many of you have heard this term 'Anarcho-capitalism'? For those of you for whom this is a new term I want to briefly introduce it to you.

An anarcho-capitalist is the exact opposite of someone who wants a centrally controlled economy. In fact, I like to say that anarcho-capitalists can be called extreme advocates of free markets because they say that we don't need government at all for us to live harmoniously with each other. They present scholarship of how we could privatize everything. Some people dismiss this notion as silly. Others think of them politely as extreme optimists.

Yet, some of the most powerful scholars in Austrian economics present excellent arguments as to how anarcho-capitalism can, indeed, work practically in the world. I like to refer to them as peaceful cooperationists, which is a term I think better describes them.

I would like to mention here that the people that came up with this term, 'anarcho-capitalist' are serious academics. It is useful to note that when defining terms, I have found that academics are most concerned with the term's accuracy based on their understanding of language. They will debate and write volumes on which term is better until they get it just right – to them. The one thing they don't look at is how people respond to that term. Academics don't trouble themselves with that. However, we business people deeply trouble ourselves with how people respond to various words we choose to use. That is because... Well, it matters if you want people to respond to you in a positive way; you have to listen to how people react and adjust your terms so that they can hear you. Otherwise, they take their business elsewhere. I think we Austrians shoot ourselves in the foot by calling ourselves anarchists because the word is equated with chaos and violence which is the opposite of what we mean. I think it is intellectual laziness and/or arrogance to continue to insist on using this term anarcho-capitalism. It is very "ivory tower". The scholars I have mentioned this to have mostly shrugged it off. They have an attitude of "That's the world's problem, for they can't see it our way." So far, my comments on this topic have not made a dent. I think this is

very short sighted and believe it is one of *the* reasons we are continuously marginalized in the press and media. It is as if we come to school to teach little children while we are dressed like Hell's Angels and tell the parents to "get over it."

Results and Structures

Peaceful Cooperation is not only the result we are looking for, it also summarizes the structures that we need to create in order to have it. We will always need rules and laws. However, the peaceful cooperationist asserts that we don't need government to create or enforce those rules and laws.

Will the world look differently if we accomplish any measure of this? Radically so.

Will it be perfect? No, not even close. Why? Because there will always be people operating at different levels of awareness and some will not observe the rules and laws, no matter what.

A lot of what Radio Free Market is going to be exploring over the next year is to bring to the public awareness the many non-governmental options we have to create this more "peaceful cooperation". We have already done two shows that get into this: "Stateless but Not Lawless" (20th September 2010, <http://tinyurl.com/6hv4ymg>) with Dr Tom DiLorenzo and "Stateless and More Peaceful in Somalia" (23rd October 2010, <http://tinyurl.com/6czvflq>) with Dr Benjamin Powell that also featured Mr Drew Hjelm, who spearheaded and was the special commentator for that show.

And we are going to significantly explore the role of privatization which is a topic we have touched on in various shows.

We are going to build on the concept of "separation of church and state" which was a revolutionary concept when it was first introduced. A few hundred years ago it was an unimaginable concept that is still transforming the world today. In the upcoming months we will be talking even more about:

- Separation of money and state
- Separation of banking and state
- Separation of the judicial system and state
- Changing the criminal justice system from a retribution and incarceration model to a recompense and rehabilitation model (which is radically different).

We will also be talking about the "private production of defense" because national defense is everyone's final and ultimate rationalization for government to exist. We will challenge that notion by bringing out the scholarship of Gustav Molinari, Hans-Hermann Hoppe and others.

The Peace, Prosperity and Freedom Formula

Ludwig von Mises has explained that social cooperation requires a division of labor since no one person can do, make, refine, grow, cultivate, gather, foster, raise, process, enhance, and deliver everything that they need and want in their life. And there are several keys that are required for the division of labor, and therefore social cooperation, to work at an optimum level. Here is a brief outline of the elements that I consider the essential parts of the peace, prosperity and freedom formula:

- Private property
- Rule of law (law is king, rather than king is law)
- Sound money and competing currencies

- Free banking
- Freedoms of speech, press, association and movement/mobility
- Freely competitive certification systems
- Freely competitive risk management, conflict resolution and redress/recompense systems
- Non-centrally controlled education
- Freedom from monopoly in all of the above areas
- And most of all: abolition of any monopoly use of force

Note that all of these are intertwined. But at the individual interaction level it is the money that is the blood that moves throughout the body of mankind that makes the inter-action work – and workable.

Without money – as the interactive medium of exchange – the division of labor cannot function beyond a subsistence level. In fact it is the soundness of money that allows the division of labor – of people that want different things in life at different times (and that is all of us) – to expand and for social cooperation to have a chance. This is why I see that the real battle is to be fought on the monetary issue. The old saying is that the “Answer to 99 questions is money!”

This is why I call for the separation of money and banking from state. Don’t just change horses. Permanently stop the central controlling rider and kill dead all the weapons that the rider wields:

- Fiat money,
- Legal tender laws,
- Fractional reserve banking

All of these are the weapons of the monetary socialists who want, in one form or another, central control of money – and therefore over all of us and our future choices in life.

If I had to pick just one to kill it would be legal tender laws since that is what gives teeth to fiat money and prohibits competition in money to even get started.

This is a good time to bring up ‘the non-linearity of the progress of knowledge’. We all assume that knowledge is going to constantly expand and build and that society will simply progress. But that is not how history tells the story. Knowledge has been lost, sometimes for centuries. Indeed, we had a much better (albeit still imperfect) monetary system from 1879 to 1914 than we have had for the past 96 years. Other examples include Greek Fire (which until the 1901 invention of the flamethrower perplexed thinkers for centuries). Stradivarius violin varnish and some principles of optics that were known in the 18th century are still lost to us today (Murray Rothbard, *History of Science: Whiggism Gone Wild*, 1986/21st September 2010, <http://mises.org/daily/4713>).

Therefore I believe we must create multiple records for the future to find this peace, prosperity and freedom formula. I further believe that we must work very hard so that it can be understood at the fourth grade level (9 or 10 years old). Because if children can grow up learning and seeing the integrative quality of this knowledge then there will be that much less for them to unlearn. Unlearning the propaganda that our current education system imposes on us is truly one of the biggest challenges we all face.

How long will it take for these principles to become widespread and accepted? If we are lucky and don’t collapse backwards – which would be the worst – my guess is 100’s of years of progress dotted by surges ahead of positive macro transitions, like the American Revolution was. Now, I think, is a ripe opportunity period. By the way, it’s the only one we have.

But I think this Peace, prosperity and freedom formula has many practical applications for us individually and immediately – even before we see it being realized on a broader, more complete scale. In my view, life is like a navigation. You must see what’s coming at you and assess it correctly. This is what every parent wants for their children and tries to give to them. This is what I believe Austrian economics can give to you: better tools for a better chance at a better life.

Why this is most important to me today? Look at Tunisia, Egypt, Algiers, Bahrain and Yemen. All of these show the “We’re fed up” part of the story. They want the ‘tyrant’ out. But what will be next? If history is any guide – it’s more of the same with a different tyrant’s face on it. Why? Because they don’t know what to change *to*. They only know what to change *from!* They only know that they want to get the grip of the tyrants off of their necks – now! However, you should note that the power-holders and power-seekers simply ‘adjust their grip’ and then re-impose themselves. This has been the story century after century in Egypt and elsewhere.

This has happened over and over because people do not know and understand the principles and the importance of the peace, prosperity and freedom formula. They do not understand what to change to – and why they should.

The need is to get the freedom formula in place. But where does it need to be ‘in place’? Where is this ‘place’ I speak of? It is on the level of common sense in everyone’s mind.

You see, there is a level of our shared consciousness that we don’t question. This is the “everybody knows” part of our thinking process. We don’t question it because:

- “Everybody knows” the earth is flat and that the sun and planets revolve around the earth.
- “Everybody knows” that women should not vote or own property because they are simply not as smart as men
- “Everybody knows” that prices always go up.
- “Everybody knows” we need a central bank to set interest rates and control the money supply and to make banking work dependably.
- “Everybody knows” that we need government or we will simply eat each other.

Every one of these shared beliefs are wrong but they all were or still are operating on that level of group awareness that we all share. This is a level of our Minds that we do not – or rarely – question.

If we can make shifts in this area – if we can affect *any* shifts towards the basic principles of peace, prosperity and freedom – then I think we can make a macro shift in the world.

I hope you will learn these principles, benefit from them in your own life, and share them widely with everyone you can reach.