

Money as an Evolving Social Contract

By [James L. Caton](#)

FRIDAY, MARCH 15, 2019

CENTRAL BANKING

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Money is a [social contract](#). Control over money is a social contract. Those who use it appreciate the benefits well over the costs. Control over the monetary system. Its existence as a social contract. Authorities in this arrangement are above reproach. From [positive](#) and [normative](#) perspectives. In the evolution of this social contract. This evolution is a social contract. Interested parties.

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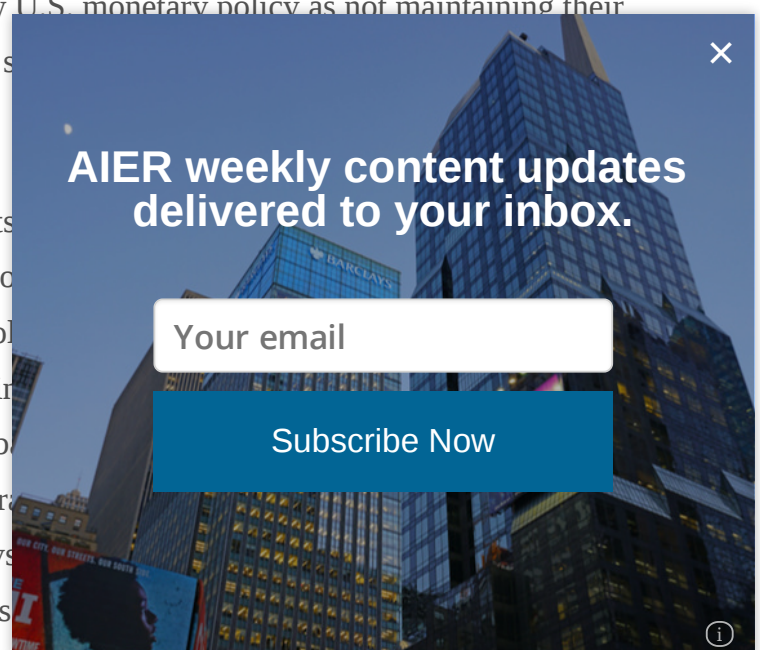
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An idealistic vision of politics sees government as responsible for carrying out the social contract. A well-developed view is presented by economist James Buchanan, whose contractarian theory also underlies his theory of economic development. [According to Buchanan](#), the social contract is a de facto outcome that naturally emerges from the interaction of purposive agents who may wield force, provide value to one another, or both. A participant forms expectations concerning the abilities and strategies of others, employing the strategies he or she believes will lead to a relatively desirable outcomes given the existing arrangement. The equilibrium that results is coordinated by this de facto social contract that, with requisite stability, may become further ingrained in social relations and even evolve into a formal institution. (In a footnote, Buchanan notes that he borrows from Henry Maine's concept of the "quasi-contract," where "there is no implication of explicit agreement, but the relationship is such as to make the contractarian framework for discourse helpful.")

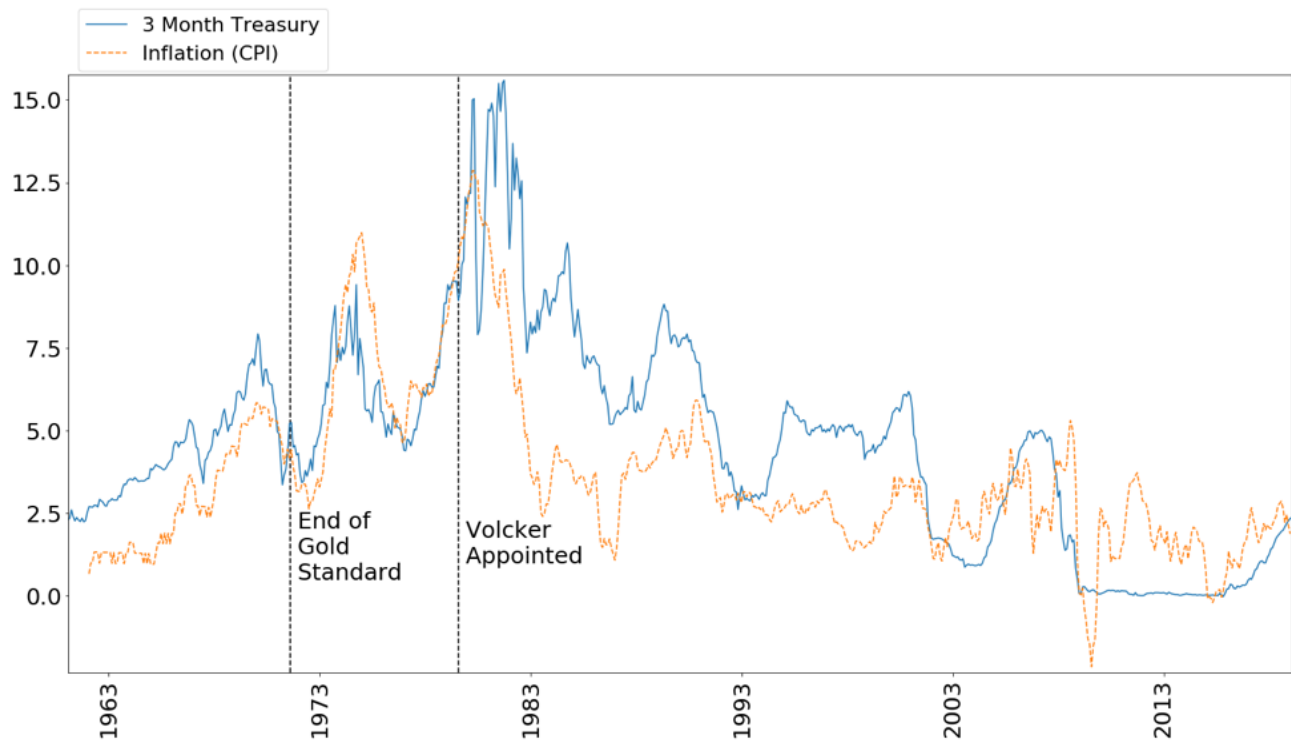
If the social contract is to have any meaning, it must be capable of absorbing the demands of participants who subject themselves to it. It is not enough that A can oppress B because of his command over a violent brigade or omnipresent administration or position atop the hierarchy. B will often cooperate with A to develop a social contract that improves the position of both parties. Even the strongest militaries learn that [cooperation with locals](#) will often achieve the goals of their organization at relatively low cost.

Authorities at the Federal Reserve have learned the same lesson concerning their duties in the social contract known as money. Much of the power that Keynesian monetary theorists thought that the state could exercise through monetary policy proved illusory once international participants in the [Bretton Woods](#) system saw U.S. monetary policy as not maintaining their interests. The old system broke, and the U.S. saw inflation rates as a result.

In an evolutionary social contract, participants in the system are constantly adjusting. If the system is out of balance. Thus, many nations left the system when they did not trust that U.S. monetary policy was maintaining their interests. Several margins during the 1970s. First, nominal interest rates. Investors may simply accept that the central bank is maintaining stability and, in turn, demand higher interest rates from the central bank. Second, investors may find ways to avoid higher interest rates from being satisfied. This is the case with the

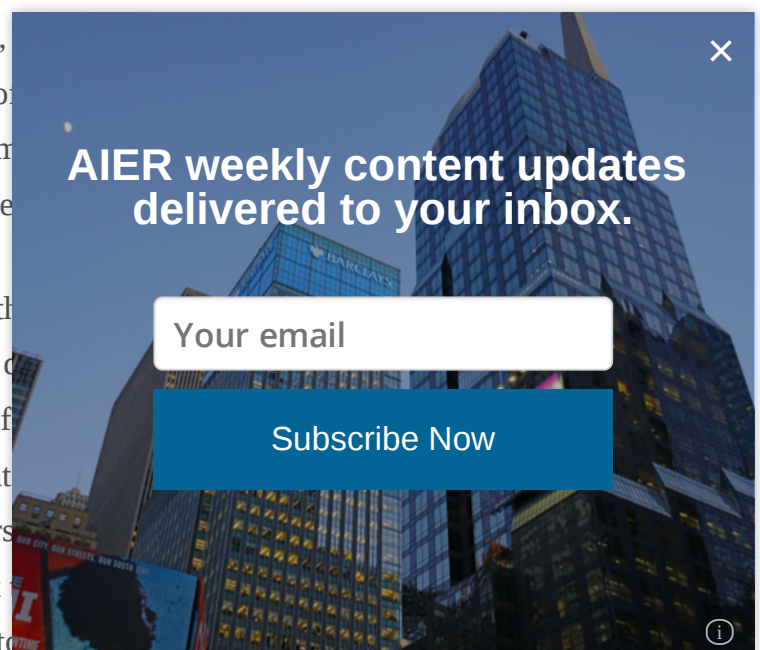


market, which enabled depositors to earn the market rate of return despite Regulation Q, which placed a ceiling on interest rates paid to depositors. If participants in a social contract are unhappy with an outcome or believe that their position has been unjustly compromised, they will seek to improve their situation by maneuvering within the game being played or by transforming the game.



In both cases, authorities came to recognize their responsibility to maintain the integrity of the social contract. [Paul Volcker](#) was appointed to the Federal Reserve in 1979. Volcker is widely credited for reducing the rate of inflation and, Even after the rate of inflation fell, the level of inflation for more than a decade. The government appear to have accounted for this in their expectations.

Similarly, Congress was forced to recognize the problem it was solving. At the close of 1980, a period of high inflation, Congress legalized NOW (negotiated order of withdrawal) accounts, which allowed investors to invest in the Euro-dollar market. These operations provided liquidity and rate of return for account holders, but they also encouraged investors to seek high rates of return to offset the inflation. The law had failed to



market. Legal recognition of the fact, as opposed to opposition, was the appropriate course of action.

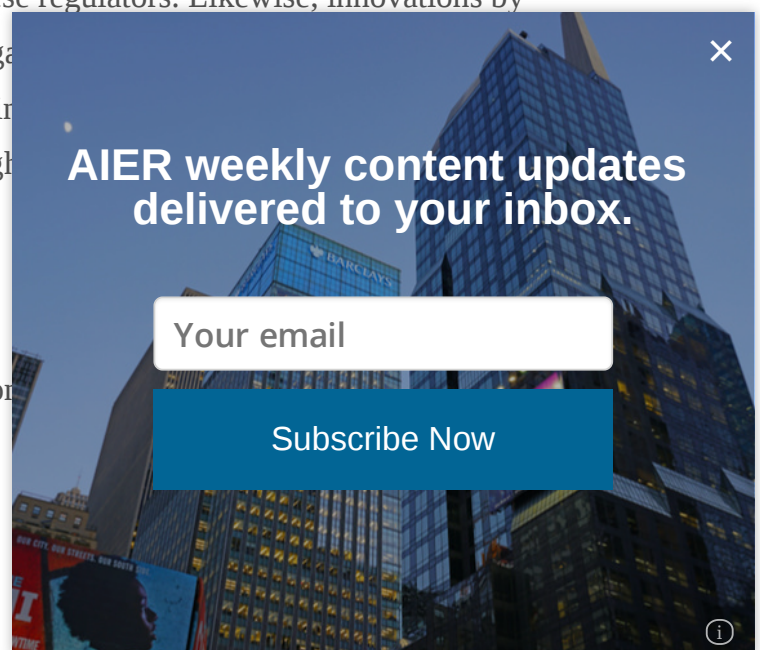
The government faces similar problems today. The Powell-led Federal Reserve has begun to [unwind](#) the central bank's balance sheet, allowing securities to mature and selling others. Powell is attempting to maintain the Federal Reserve's supposed role in maintaining a low to moderate rate of inflation. In affirming this commitment with action, he strengthens the confidence of investors that they do not need to prepare for a violation of the monetary social contract. [Recent comments from Powell](#), however, show that this resolve may waver in time of crisis.

As with Regulation Q, financial regulators are struggling to cope with the development and adoption of cryptocurrencies. These financial instruments may [provide a new source of liquidity](#) and, in some communities, operate as a commonly accepted medium of exchange. Many businesses are being developed that integrate blockchain and cryptocurrency, all while federal regulators have been unable to define a coherent regulatory framework. Innovators and entrepreneurs have made their move; now policy makers will need to adjust their frame to account for this reality.

Framing money as an evolutionary social contract provides a window into the dynamics that develop within a market and between investors and regulators. Fundamental to the healthy development of the monetary social contract, and the game of exchange more broadly, is respect for property rights and freedom to innovate. Violations of the rules of the game by regulators are, as a simple matter of fact, [integrated into the strategy of participants](#) who bear the consequences of policies implemented by these regulators. Likewise, innovations by entrepreneurs are often integrated into the legal environment, legitimating the contract through ambiguity. Both of these types of actors continue to shape the environment, legitimating the contract through their actions.

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Caton earned his Ph.D. in Economics from George Mason University, his M.A. in Economics from San Jose State University, and his B.A. in History from Humboldt State University.

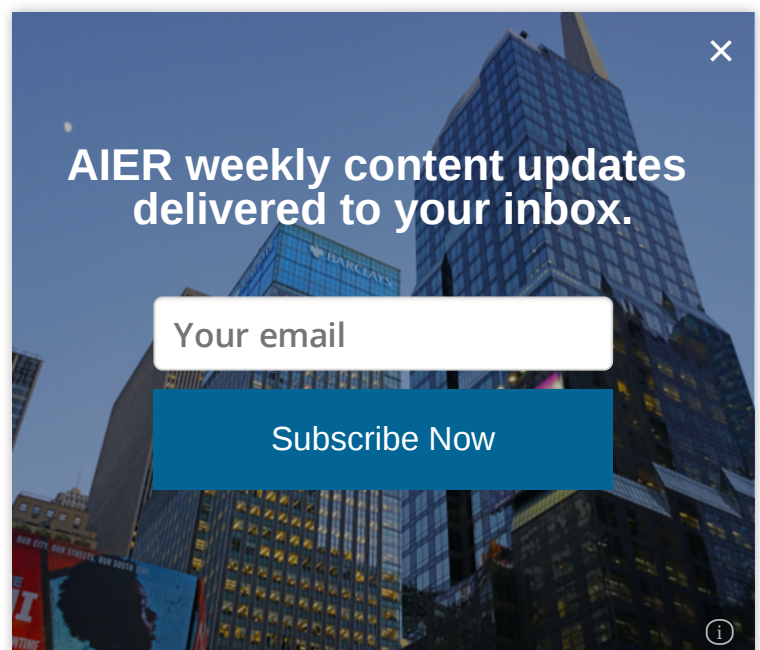
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Bourbon Exports: Casualty of the Trade War

By [Jeffrey A. Tucker](#)

WEDNESDAY, APRIL 17, 2019

[FREE TRADE](#)





It's a cornerstone of political economy that producers and traders need stable rules. In this sense, it is like sports. Imagine golf or baseball in which the commissioner or course owner could switch around what constitutes a score and a win, depending entirely on a whim. This is basically where American trade policy is today.

The costs to global economic health have been [high](#). The International Monetary Fund [slashed](#) its global growth forecast for this year, blaming trade problems resulting from US belligerence.

What's more serious is that biggest costs are in the making. As trade wars are not made, plans scrapped, and efficiency improved.

It's all taken place without a great deal of public opposition. The opposition party even seems to agree with the status quo. It is not to be a loud constituency for free trade, so what's going on.

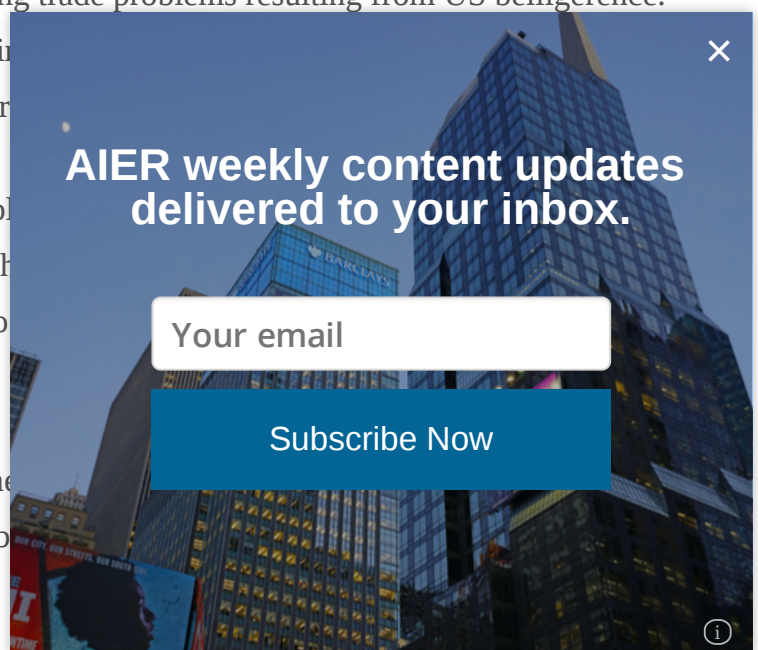
After hundreds of years proving a million times over that free trade is always good for prosperity — and its forcible restriction is bad for well-being — the lesson still hasn't sunk in.

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Loss of Foreign Markets

The carnage is everywhere but doesn't always make the headlines. Consider for example the export markets for American liquor. The impact is [reported](#) by the Distilled Spirits Council:

Globally, for the first six months of the year American Whiskey exports grew 28 percent to a total of \$595 million. Following the imposition of the retaliatory tariffs, exports during the second half of the year declined 11 percent compared to 2017, for a total of \$593 million. Typically, U.S. distilled spirits exports in the second half of the year are much higher than in the first half, underscoring the harm the tariffs have caused.

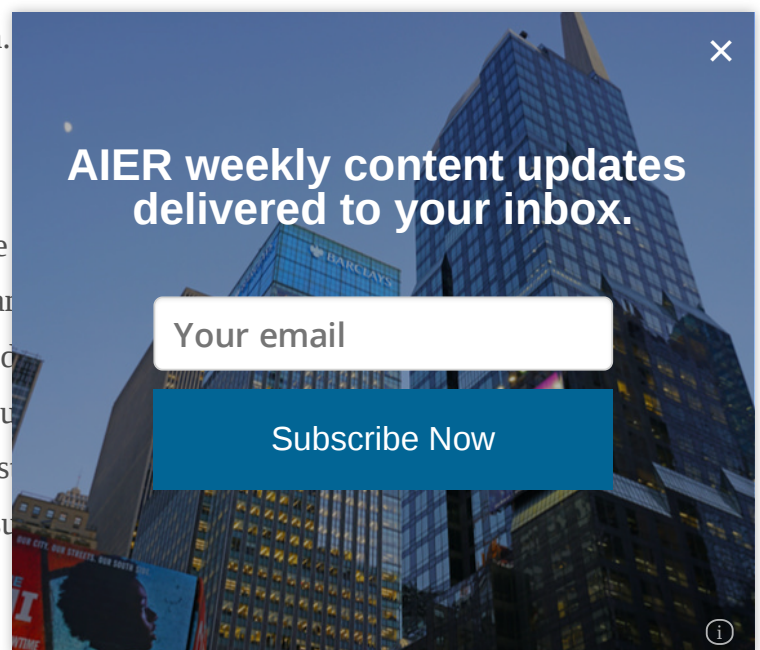
The costs are even higher looking at Europe in particular:

The EU, which accounted for nearly 60 percent of total American Whiskey exports in 2018, experienced sizzling first half growth of 33 percent but whiplashed into a 13.4 percent decline in the second half when the tariffs slammed on the brakes. That is a significant deceleration in American Whiskey exports to the EU from the 8.7 percent decrease the Council first reported in February resulting from the 25 percent import tariff. American Whiskey exports to the EU still reached a record \$704 million, up from \$667 million in 2017.

Keep in mind that this is only the export market. Internally, we've seen [factory closings](#), [price increases](#), and reduced, disrupted supply chains. Absurdly, the U.S. is [spending](#) tens of billions to bail out farmers from the effects of bad policy – a wasteful spending intervention to cover up the effects of a misguided taxing intervention.

No Rule of Law

But there is an additional problem beyond the president who doesn't keep his word. For example, the NAFTA deal with an understanding that it would not target Mexico and Canada. Instead, the Trump administration is [contingency](#): there must be fewer imports of steel and aluminum. This means robbery from U.S. producers and consumers.



The new proviso is also contrary to the understanding of the deal. The insistence — which makes U.S. policy roughly akin to what the U.S. accuses China of doing — has outraged our neighbors and trading partners.

It gets worse: a Trump tweet outright threatened to close the border with Mexico, briefly causing avocado [prices to soar higher](#) than in 10 years, as buyers absolutely freaked out. Rightly so. Prices serve as signals to producers and consumers about relative scarcities. The price system is working. Arbitrary government threats are not.

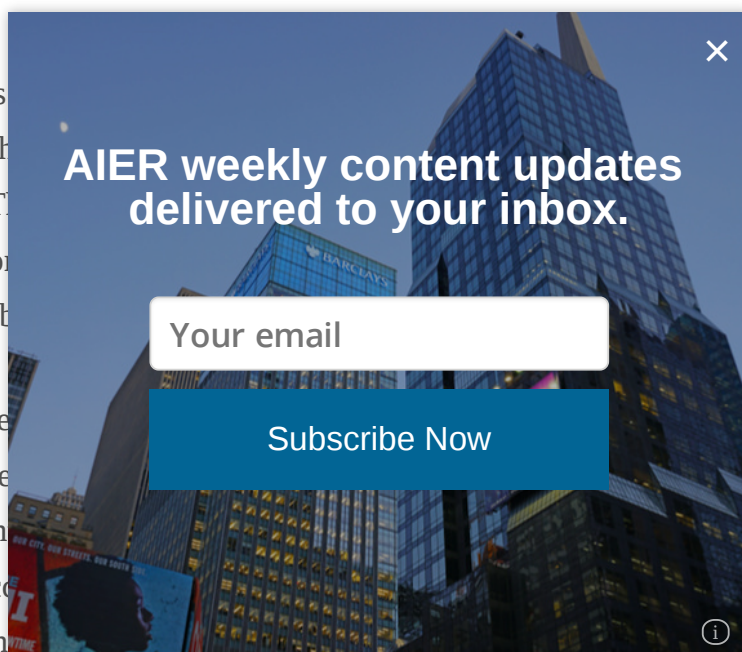
It seems like the chaos never ends: just last week, Trump [threatened](#) to impose another \$11 billion (who's counting?) on the EU for some reason or another. What 10 years ago would have been a shocking departure from a free trade consensus barely even made the news.

China, meanwhile, has become weary of the never-ending shifts in U.S. demands. There are probably a half-dozen issues that negotiators bring up, but as soon as one is addressed, another is on the table. One can fully understand that China has come to believe the unthinkable: Washington doesn't actually want a deal.

Permit me a word about this term deal. It's something that businesspeople do with their own property, seeking mutually beneficial gains from trade. The head of state, however, cannot rationally make deals between whole countries with the same eye to mutual benefit. The president is not the CEO of the country because a nation is not a business with a single end in mind. In absence of an obvious single end, it is woefully tempting to make one up. In the case of the US president, what is that goal?

Until recently, most coverage of this topic has been about a deal that results in free trade for everyone. What is free trade without trade barriers is what Trump wants. That's not the same as what you mean by free. For U.S. negotiators, it's about surpluses, as if this number means anything at all.

It's time that we think about this topic more realistically. The key to understanding the shifts, the changed terms of the threats, the overturning of rules and agreements is the following truth that few want to accept: our hearts that tariffs are a good and productive thing.



All the rest is just making noise.

That Trump believes this has been obvious to me since I first heard him give his second campaign speech in 2015. It was clear from his choice of topic that he saw all solutions to the country's troubles not in freedom but in three essential pillars: limits on immigration, trade protection, and executive power.

He has never been shy about stating that this is what he believes. His [focus](#) on protection as a solution goes back to the 1980s.

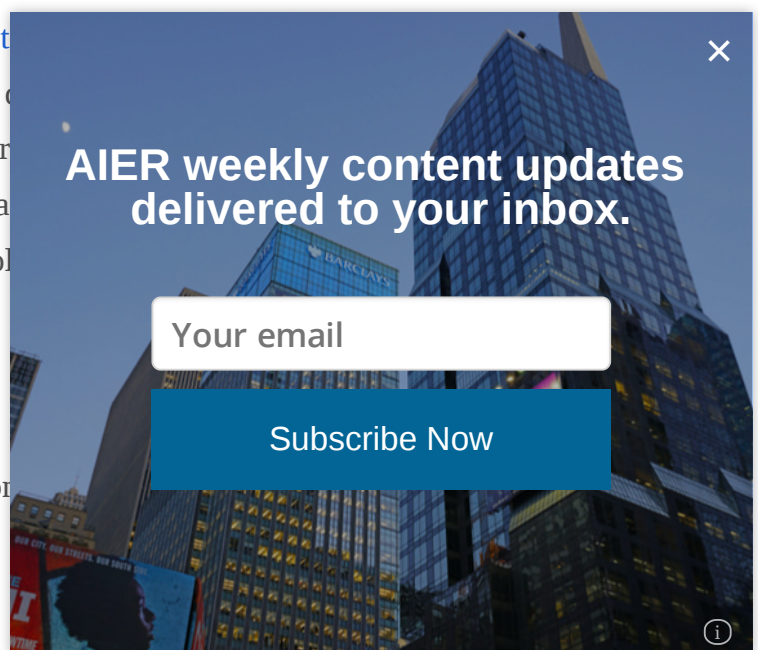
It's an ideology, and it has a name. Let's just say that this has nothing to do with conservatism historically understood, much less classical liberalism or constitutionalism. That he is a "tariff man" is one of the few points of constantly that persists throughout his public career. Not even shaken markets or obvious terrible effects have shaken his beliefs. He wants tariffs, exactly in the spirit of [Friedrich List](#). That we keep pretending this is not so is a tribute to the journalists' and the public's capacity to live in denial of a reality no one wants to face. The only real trade deals worthy of the name will happen after this administration leaves office in five years.

The casualty has been the rule of law that international trade needs to thrive. The World Trade Organization, and its predecessor with Gatt, were attempts to impose the rule of law on an international level. But both institutions rely on an underlying hope that everyone agrees that freer trade is better than trade barriers. When that presumption is gone, the institutions can no longer serve their function.

In the end, Veronique de Rugy is [exactly right](#). Free trade is through practicing it not through complicated. Let one country, let every country import and export, without hindrance or manipulation. We will turn the art of the deal to the art of the pol

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Jeffrey A. Tucker is Editorial Director for the American Institute for Economic Research. He is the author of many thousands of articles in the scholarly and popular press and eight books in 5 languages. He speaks widely on topics of economics, technology, social philosophy, and culture. He is available for speaking and interviews via his [email](#).

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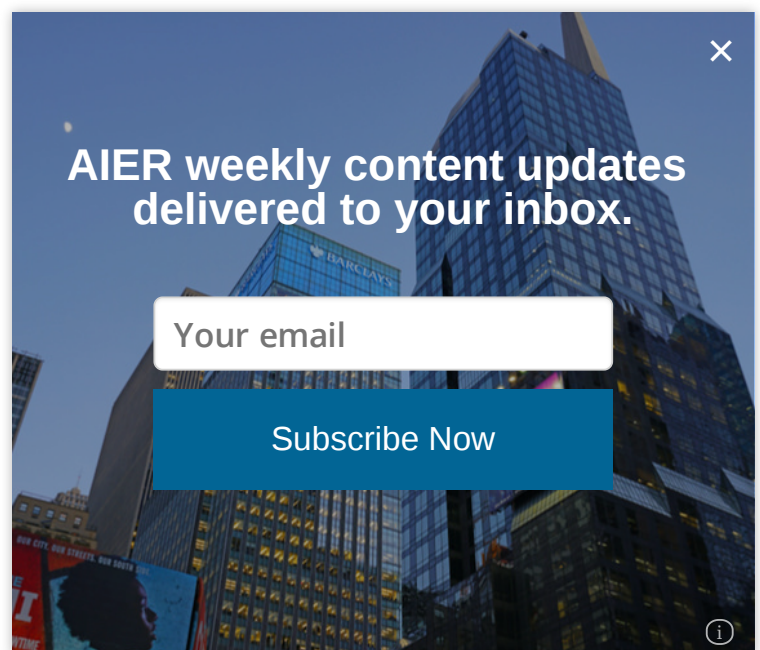
Free Market Liberalism Is Needed More Than Ever

By [Richard M. Ebeling](#)

TUESDAY, APRIL 16, 2019

[FREE MARKETS](#)

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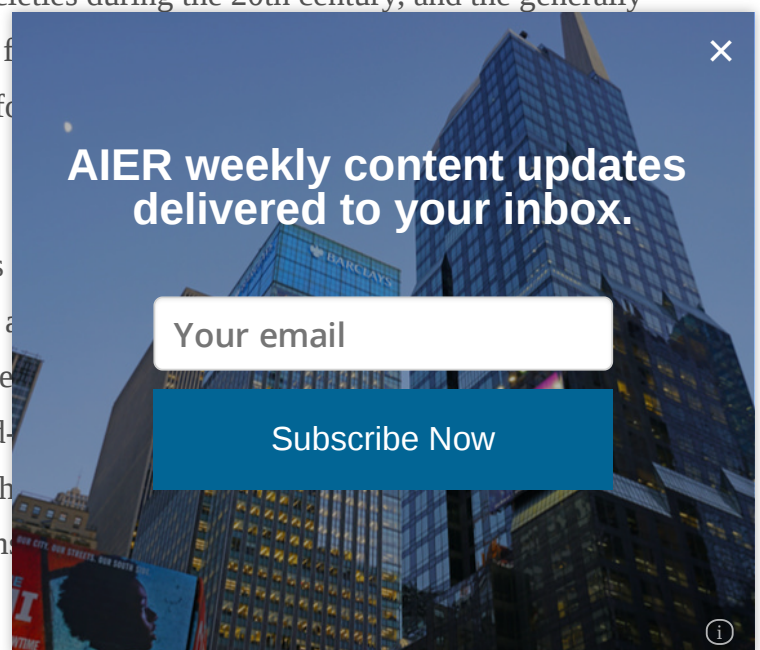




The famous New York Yankees baseball player and manager Yogi Berra is credited with the saying “It’s déjà vu all over again.” He is also credited with claiming, “I really didn’t say everything I said.” Never were both of these truer than in our era of reborn defenses of and demands for more government intervention, redistribution, and planning.

Many of us assumed, or at least certainly hoped, that after the disastrous social, economic, and human consequences of centrally planned societies during the 20th century, and the generally abysmal failures of and corruptions resulting from them, there might arise a reawakened appreciation for a free society.

Over the last several decades, humankind has seen poverty in more and more parts of the world, and technological inventions for a growing number of people instead of an appreciation of how partly freed—especially in those areas formerly known as the Third World—counterrevolution against human liberty seems



for “democratic socialism,” a Green New Deal, and massive increases in the welfare state’s “entitlement” programs and beyond.

Furthermore, friends of freedom are burdened with a highly successful propaganda campaign by those on the political “left” who have misrepresented the facts and insisted that the economic system under which we all live is one of free market capitalism. In reality, 100 years of continuing growth in and intrusiveness of government’s power and reach long ago transformed the modern economic system into something very different from what the proponents of economic liberty have historically called for and defended.

The Meaning of Free Market Liberalism

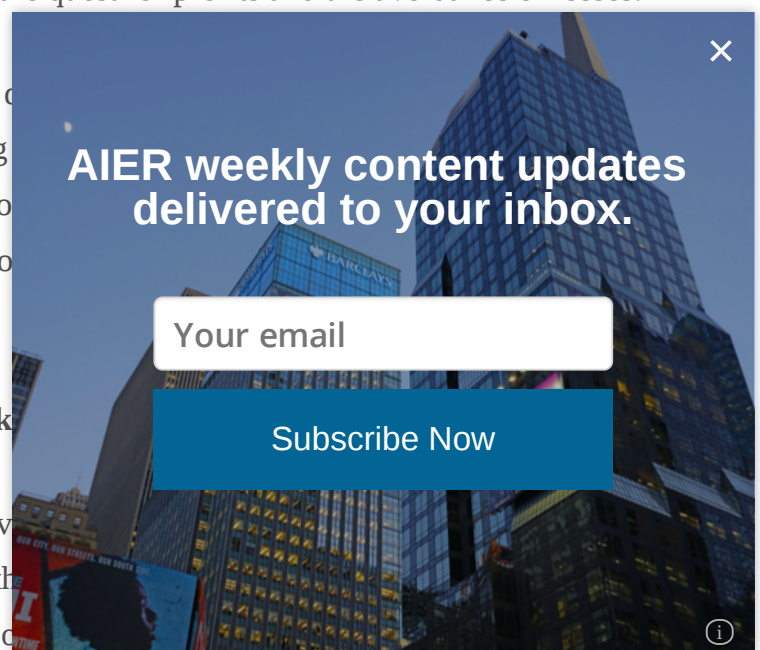
Let’s start out with some working definitions. What is a liberal or free market society? Since the time of Adam Smith in the 1770s, it has been generally understood that a free market economy is one based on the recognition of a wide latitude of individual freedom in matters of both consumer and producer choice. These free choices occur within an institutional setting of private ownership of the means of production (land, labor, capital), in which human transactions and associations are based on voluntary consent and mutually beneficial exchange.

The open and competitive interactions of all the participating demanders and suppliers generate the terms of trade for all that is bought and sold. These, in turn, provide the structure of market prices that coordinates the interactions of those multitudes of individual participants in the now-global social system of division of labor. Production is initiated by private enterprisers, by entrepreneurs, who direct their businesses in the quest for profits and the avoidance of losses.

But the only social means at their disposal to convert ownership and control into the manufacturing of goods that consumers and other demanders are willing to purchase is offered on the market by their peaceful and cooperative exchange over incurred costs as well.

The Role of Government Under Free Market Liberalism

The primary duties and responsibilities of government under free market liberalism are protecting each citizen’s individual rights to the free exercise of his or her rights along with the enforcement and adjudication of these rights.



members of society from the aggressions of domestic criminals and possible attackers from outside the country through the defensive use of police and the armed forces.

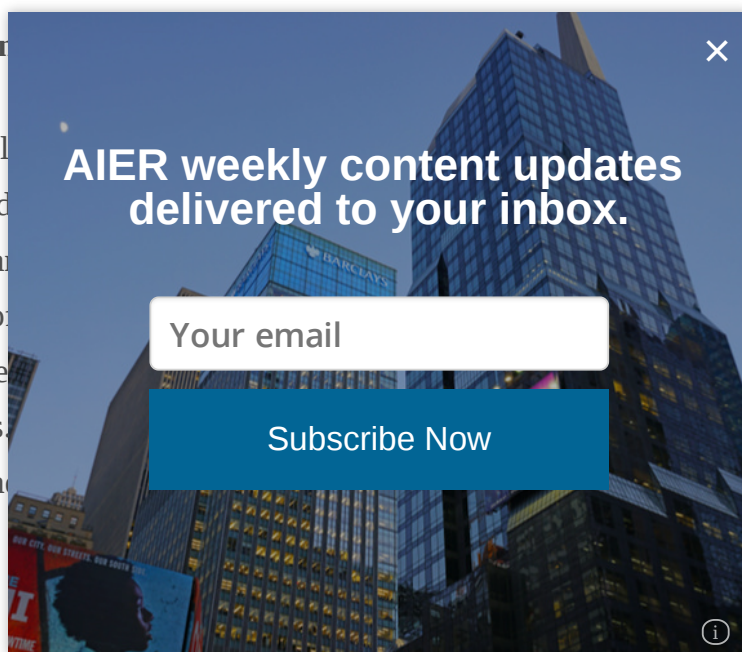
Free market liberals have debated among themselves about what other roles and duties even a government meant to primarily secure rather than violate liberty should or should not undertake. This has usually concerned government spending and involvement in education, infrastructure expenditures, specific regulatory responsibilities, and certain minimal welfare-related expenditures.

But the underlying premise in the case for the liberal free market economy is that individuals should be considered as ends in themselves and should not be compelled to be the means to others' ends through the use of coercion or threatened force. And to this end, all avenues for private initiative and voluntary association should be considered the desirable means for solving social problems before any serious consideration of government involvement is ever undertaken. Laissez-faire is the default position, unless otherwise demonstrated with strictly compelling reasons and evidence.

In support of such a “let alone” principle of no government social or economic intervention, since the time of Adam Smith it has been taken for granted that individuals are in general better informed about their own wants and desires and the surrounding circumstances in which they must make their everyday decisions than politicians and bureaucrats who not only lack the totality of all the knowledge possessed by the respective citizens, but have their own purposes and interests that may have little to do with those over whom they rule.

Socialism Means Government Power, Planning

For most of the last 200 years, a socialist or planned system under which the government owns and controls the means of production (land, resources and raw materials, factories and infrastructure) and has the responsibility for the planning and directing of the economy. Goods and services will be produced, where and when needed, in accordance with certain centrally planned quantities of outputs. Distribution is controlled by the government to the citizens of the planned economy according to its conception of social justice and equity.



Under such a planned economy, by logical extension, the government is the only employer of all those looking for work in or commanded to work in the socialist society. This also includes the government's determining the location and living conditions for all those employed, since, as the monopoly producer of all things, the government must produce and allocate housing, amenities, amusements, medical and health care, retirement funding, all sources and types of information and schooling, as these end up being incorporated within "the plan" according to some declared notion of social "fairness."

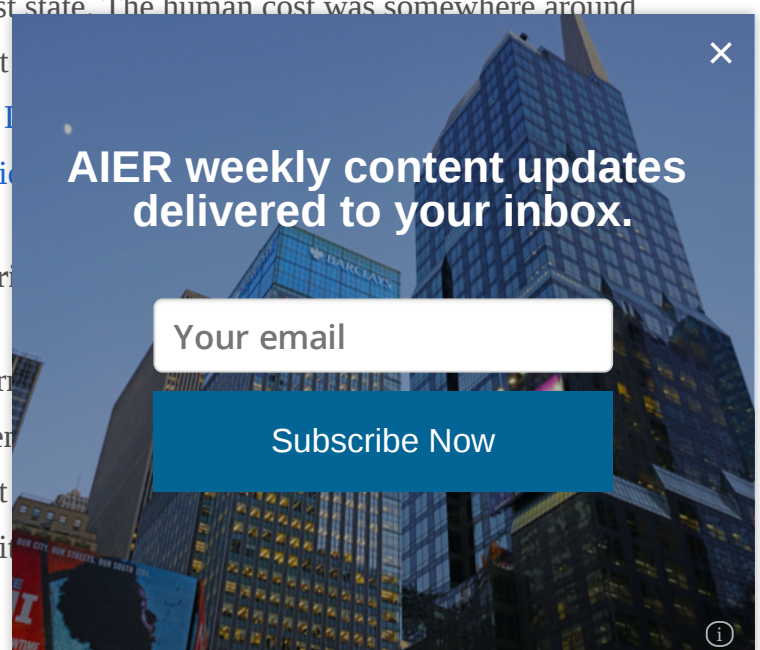
The 20th century was littered with the tragic reality of socialist centrally planned societies in practice. The real individual human beings became nothing and the mystical collective "masses" became everything. The ever-vigilant secret polices of the Marxist regimes were always on the look-out for imaginary "enemies of the people," and constantly undertaking paranoid searches for and arrests of anti-socialist "wreckers" and traitors whenever the contradictions, inconsistencies, and failures of the central plan had to be blamed on anyone other than those who were the ruling dictators and social engineers running the workers' shining utopias.

Roundups of millions of innocent men, women, and children according to central-planning targets to fulfill the needs for slave labor in the gulags that stretched from one end of the Soviet Union to the other; torture chambers and basement execution cells in Moscow and every regional office of the KGB; millions of intentionally starved peasants whose "crime" was unwillingness to give up their private farms to the state. Unending propaganda and indoctrination to make everyone believe the lies of how wonderful their socialist society was compared to the rest of the world and to be obedient and diligent worker bees to serve the needs of the ever-watching and all-planning socialist state. The human cost was somewhere around 150 million people or more killed in the quest

["Socialism: Marking a Century of Death and I](#)
[Anniversary of the Russian Socialist Revoluti](#)

The Interventionist State and Pursuit of Pro

The interventionist welfare state is often referred to as the enemy of the free market economic system and the fully centralized state. It is the enemy outside of the controlling orbit of the socialist state. It is the enemy of the innovative benefits of the self-interested profit



its effects or consequences through various types and forms of government regulations and restrictions.

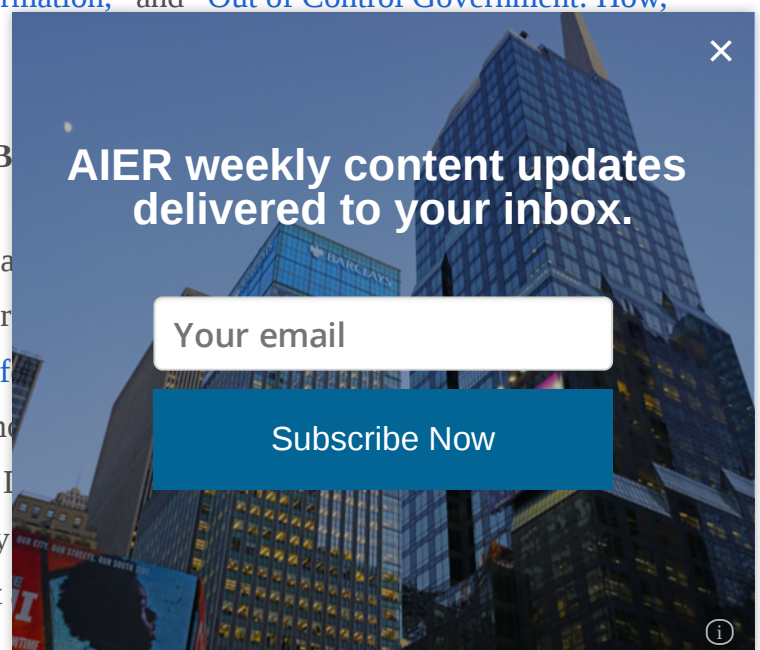
Complementing these government interventions is a redistributive network of government programs meant to supply certain “socially necessary or useful” goods and services that the market, it is said, may fail to provide or in insufficient quantities and types. It is also meant to reduce claimed ethically unacceptable inequalities of income or social positions among various designated groups in the society through use of the tax code and selected regulations.

In fact, an interventionist state is merely a halfway house to a planned economy. The very nature of various forms and types of government regulations concerning prices and wages, methods of production, rules for marketing and sales, licensing restrictions and requirements to pursue an occupation or operate a business is to take the peaceful decisions and opportunities concerning all such matters out of the hands of people themselves and transfer them to those in political power.

Such government interventionist and redistributive policies have momentous influence over the economic and social circumstances of virtually everyone who is trying to earn a living or profitably open or operate a business. It should not be too surprising that with the rise of the regulatory state has come increasing special interest politicking for favors, privileges, and protections that carry with them the sickening odor of corruption, whether the resulting influence peddling is within or outside of the legal rules of attempting to “nudge” government policies in desired directions. (See my articles [“Public Goods, National Defense, and Central Planning,”](#) [“Capitalism and Asymmetric Information,”](#) and [“Out of Control Government: How, Why, and What to Do.”](#))

Big Bucks for Political Influence, and the B

Everyone is tempted or incentivized to drink a... privileges or to resist any that may go to other... the market. That is why, according to [Center f](#)... lobbyists spent nearly \$3.5 billion trying to m... preferred respective directions. And together I... billion during the 2018 congressional primary... 2018, a total of at least \$6.2 billion was spent



elect the “right” people for special interest groups to successfully get what they wanted during the congressional session that began in January 2019.

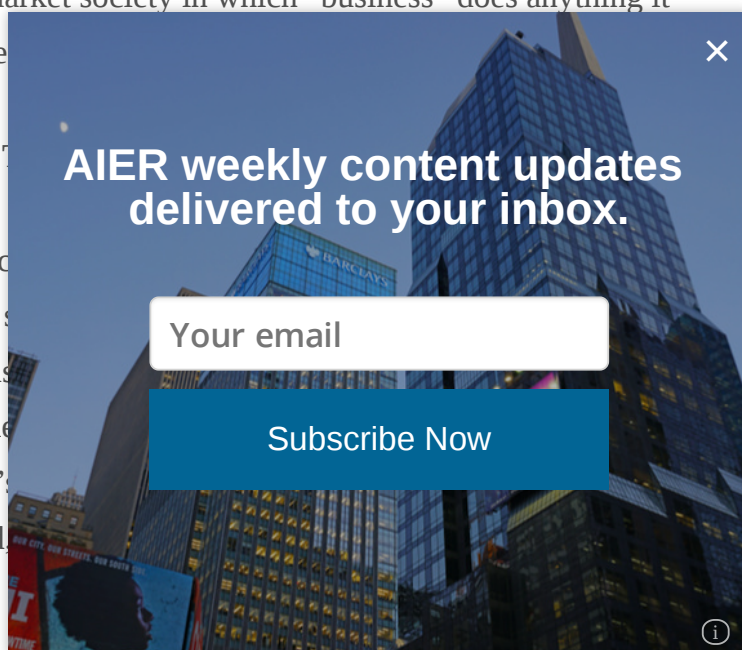
The welfare state redistributes vast sums of taxpayer money in politically determined directions. In the 2018 federal fiscal year that ended on September 30, 2018, Uncle Sam spent a total of more than \$4.1 trillion, with 50 percent of it being spent just on Social Security programs and medical and health care costs. According to the Competitive Enterprise Institute, in its [2018 report](#) on federal regulatory compliance costs imposed on private enterprise, businesses incurred \$1.9 trillion in expenses in meeting the regulations and accompanying paperwork required by Uncle Sam’s interventionist policies.

In 2018, U.S. gross domestic product (GDP) was about \$19.4 trillion. Total federal government spending of \$4.1 trillion came to more than 21 percent of GDP. State and local spending combined came to an additional \$3.6 trillion, for an extra 18.5 percent of GDP. This meant that all levels of government consumed nearly 40 percent of gross domestic product in 2018. And private-enterprise compliance costs of \$1.9 trillion represented 10.3 percent more of GDP.

For a benchmark for comparison, in 1913, the year before the start of the First World War in Europe, the combined levels of government in the United States siphoned off less than 8 percent of national income. Or, in other words, 92 percent of everything produced and earned remained in private hands to use as those people found most advantageous and profitable. In 2018, that came to less than 50 percent, free and clear, of all that government took for its expenditures and the costs of fulfilling regulatory rules and requirements. But according to the critics of “capitalism,” we are living in a liberal, free market society in which “business” does anything it wants and government is “starving” for the ne

Alas, No Apologies for Defending Socialism

In spite of all that has happened over the last century of socialism and interventionist big government socialism, the left still blames everything about greedy businessmen, selfish individualism, and corrupt officeholders only desiring to do good for other people. They are wanting power to regulate and plan everyone’s lives. He knew what he was talking about when he said,



Where are the confessions of guilt and the apologies from all those on “the left” who are old enough to have dreamed of a Soviet America, or who rationalized away the betrayal by all those who were Stalin’s spies, agents, and fellow travelers, not for money, but because for them socialism in Russia was the model society of the future that needed to be protected from capitalist Amerika? Or what about those who asserted that those who somehow had succeeded in escaping from the Soviet paradise were all liars with anti-socialist axes to grind or apologists for “business” when they told about the prison house that the Soviet Union really was?

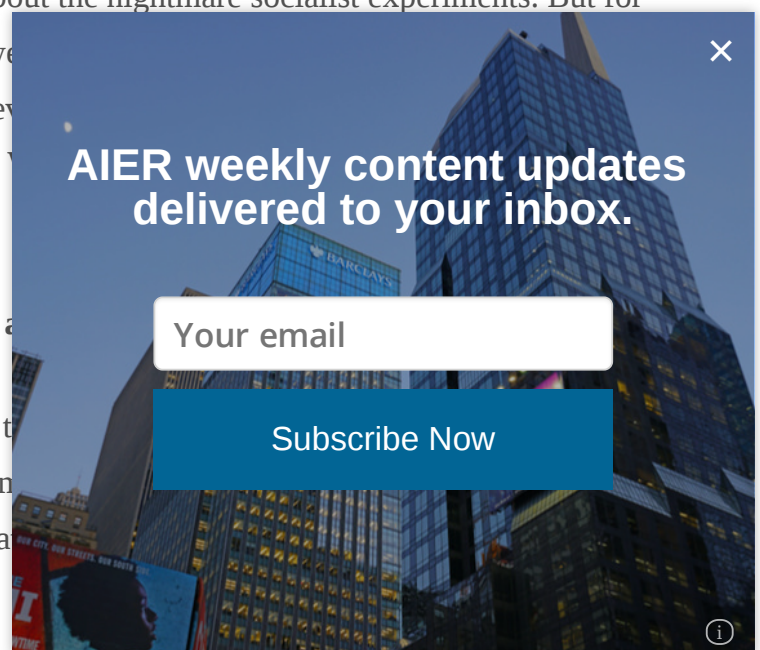
And what about all of those on the political left not old enough to remember those “happy days” when Stalin lived and was the “best friend of every Soviet child,” whose mass murders and imprisonments turned many of those children into orphans branded with the label “children of the enemies of the people”? What about those, in other words, who looked for socialist utopia in other places: Mao’s China, Castro’s Cuba, Ho Chi Minh’s Vietnam, the Sandinistas’ Nicaragua, or Hugo Chavez’s Venezuela?

Have they owned up to the flowery rhetoric, the poetic prose, and the euphoric exclamations with which they heaped praise and ideological love on the tyrants of these socialist regimes? Or the cruel policies those governments implemented with all their human costs? Or have they admitted the disasters of the socialist central-planning practices in these countries, or the systems of privilege and power that those who ruled and ran these socialist regimes unhesitatingly bestowed on themselves?

There have been a few honest souls who have confessed their ideological sins and attempted to atone for them by talking and writing truth about the nightmare socialist experiments. But for the vast majority it has all gone down an Orwellian road of denial, never fawned over, never rationalized, and never admitted. We have been experiencing a collective amnesia. “I really didn’t say everything I said.”

New Dreams for the Democratic Socialists and the Left

Instead, it’s as if it’s all just a clean slate. It’s the liberal dream of liberalism versus a beautiful, virgin-like dream of socialism. “our” version of this freshly minted “democratic



welfare statism with just that much more tax money and social and economic control, the new dawn will have arrived and a world of social justice will be in reach.

The political and economic system under which we live is not free market liberalism. It is a twisted and corrupted system of privilege, favors, plunder, and power lust through special interest politicking for economic or ideological purposes. It is what is sometimes called crony capitalism, but should be better called political cronyism, which is the essence of the interventionist welfare state. (See my articles [“Free Market Capitalism vs. Crony Capitalism”](#) and [“Crony Capitalism the Cause of Society’s Problems.”](#))

What we need, and I would say even desperately, is a reawakened understanding of and desire for the free and prosperous society that, in fact, can only come with free market liberalism and grounded in a social philosophy of individualism and voluntarism. Otherwise, history, in a slightly different form of the same collectivist theme, will repeat itself here in America and many other places around the world, as whatever remains of degrees of individual freedom and free enterprise is swallowed up in a new Leviathan state.

That is the case if the new democratic socialists and the collectivist race and gender warriors have their way. But they need not. Various political and ideological trends have often seemed inevitable and irreversible — until they have changed! And it can happen again — if only friends of freedom at least try.

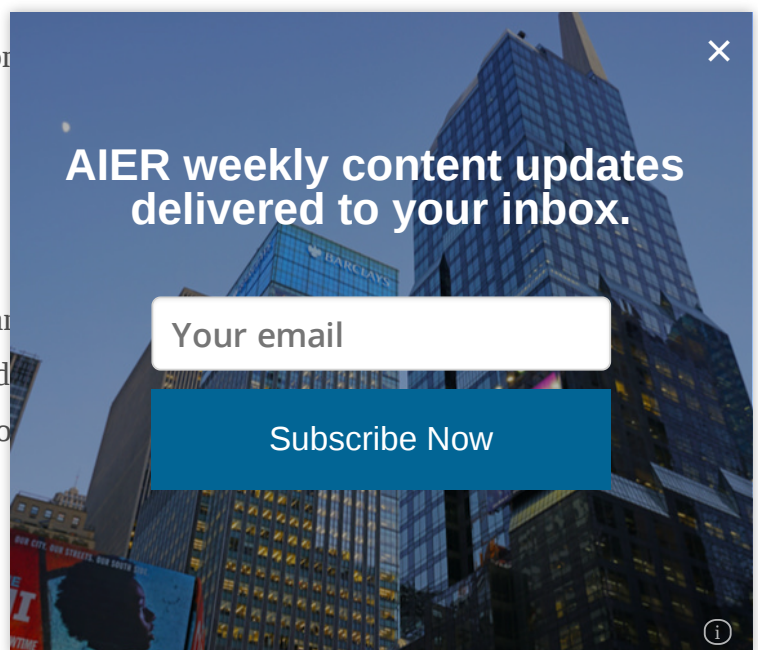
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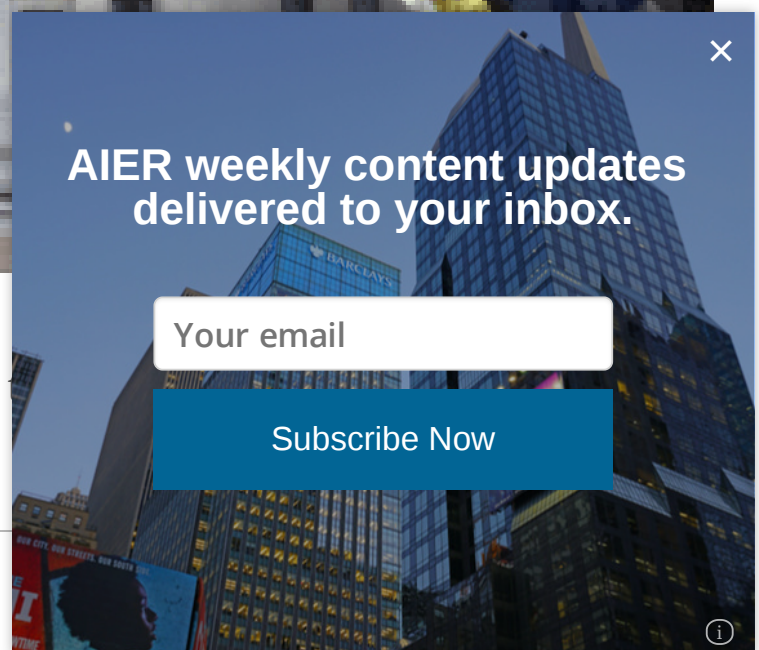
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